TSB BANK PLC
(incorporated with limited liability in Scotland with registered number SC095237)

£5 billion
Global Covered Bond Programme

unconditionally and irrevocably guaranteed as to payments of interest and principal by
TSB COVERED BONDS LLP
(a limited liability partnership incorporated in England and Wales with registered number OC411834)

Under this £5 billion global covered bond programme (the **Programme**), 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).

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

Covered Bonds may be issued in bearer or registered form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed £5 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

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

This Prospectus constitutes a base prospectus for the purposes of the Prospectus Directive - Directive 2003/71/EC, as amended, which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a Relevant Member State (the **Prospectus Directive**). Application has been made to the Financial Conduct Authority (the **FCA**) which is the United Kingdom (**UK**) competent authority under Part VI of the Financial Services and Markets Act 2000 (the **FSMA**) for the purposes of the Prospectus Directive and relevant implementing measures in the UK (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 UK for the purpose of giving information with regard to the issue of Covered Bonds issued under the Programme to be admitted to the official list of the 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 2014/65/EU (the **MiFID II**) (the **regulated market of the London Stock Exchange**) during the period of 12 months from the date of this Prospectus.

As at the date of this Prospectus: (i) long-term senior obligations of the Issuer are rated "Baa2" by Moody's Investors Service Limited (**Moody's**); and (ii) short-term obligations of the Issuer are rated "P-2" by Moody's; (iii) the long term counterparty risk assessment of the Issuer by Moody's is "A3(cr)"; and (iv) the short term counterparty risk assessment of the Issuer by Moody's is "P-2(cr)". Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009

(as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. As such it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

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

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds and the issue price of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (each, a **Final Terms**) which, with respect to Covered Bonds to be listed on the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

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

The UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with any N Covered Bonds.

On 24 February 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the Regulated Covered Bonds Regulations (SI 2008/346) as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714), the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) and the Regulated Covered Bonds (Amendment) Regulations 2012 (SI 2012/2977) (the **RCB Regulations**).

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

Prospective investors in Covered Bonds should ensure that they understand the nature of the relevant Covered Bonds and the extent of their exposure to risks and that they consider the suitability of the relevant Covered Bonds as an investment in the light of their own circumstances and financial condition.

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

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

The Covered Bonds issued under the Programme are expected on issue to be assigned an "Aaa" rating by Moody's Investors Service Limited. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Whether or not each credit rating applied for in relation to a relevant Series of Covered

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

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

Arranger for the Programme

Lloyds Bank Corporate Markets plc

Dealers

Banco de Sabadell, S.A.

Lloyds Bank Corporate Markets plc

The date of this Prospectus is 1 November 2018

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

The Issuer and the LLP (the **Responsible Persons**) each accept responsibility for the information contained in this prospectus (the **Prospectus**) and the Final Terms of each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge and belief of each of the Responsible Persons (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the importance of such information. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as each of the Issuer and the LLP are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

On 24 February 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations.

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

This Prospectus is to be read in conjunction with any supplementary prospectus hereto, the financial statements of TSB Bank plc which form part of this Prospectus and are included herein (see the section entitled "*Documents Incorporated by Reference*" below) and any Final Terms. This Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

The information contained in this Prospectus was obtained from the Issuer, the Seller, the LLP and other sources, but no assurance can be given by the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee as to the accuracy or completeness of this information. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained 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.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Seller, the LLP, the relevant Dealer, the Bond Trustee and the Security Trustee do not represent that this Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Seller, the LLP, the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Covered Bonds in the U.S., the European Economic Area (including the UK, The Netherlands, the Republic of Italy, Germany and the Republic of France) 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, one or more relevant Dealer(s) acting as the stabilising manager(s) (the **Stabilising Manager(s)**) or any person acting for it or them may

over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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

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

None of the relevant Dealer(s), the Arranger, the Issuer, the Seller, the LLP, the Security Trustee or the Bond Trustee makes any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

General legal investment considerations

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

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

Halifax House Price Index

The Halifax House Price Index (the **Index**) referenced herein is the property of Markit Economics Limited (**Index Owner**) and has been licensed for use in connection with the Programme. Each Party to the Programme acknowledges and agrees that the Programme is not sponsored, endorsed or promoted by the Index Owner. The Index Owner makes no representation whatsoever, whether express or implied, and hereby expressly disclaims all warranties (including, without limitation, those of merchantability or fitness for a particular purpose or use), with respect to the Index or any data included therein or relating thereto, and in particular disclaims any warranty either as to the quality, accuracy and/or completeness of the Index or any data included therein, the results obtained from the use of the Index and/or the composition of the Index at any particular time on any particular date or otherwise and/or the creditworthiness of any entity, or the likelihood of the occurrence of a credit event or similar event (however defined) with respect to an obligation, in the Index at any particular time on any particular date or otherwise. The Index Owner shall not be liable (whether in negligence or otherwise) to the parties or any other person for any error in the Index, and the Index Owner is under no obligation to advise the parties or any person of any error therein.

The Index Owner makes no representation whatsoever, whether express or implied, as to the advisability of purchasing or selling the Covered Bonds, the ability of the Index to track relevant markets' performances, or otherwise relating to the Index or any transaction or product with respect thereto, or of assuming any risks in connection therewith. The Index Owner has no obligation to take the needs of any party into consideration in determining, composing or calculating the Index. No party purchasing or selling Covered Bonds, nor the Index Owner, shall have any liability to any party for any act or failure to act by the Index Owner in connection with the determination, adjustment, calculation or maintenance of the Index.

The Index is the property of Markit Economics Limited and is used under license. The Programme is not sponsored, endorsed, or promoted by Markit Economics Limited or any of its affiliates.

MIFID II Product Governance/Target Market

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

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

Prohibition of sales to EEA Retail Investors

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

FORWARD LOOKING STATEMENTS

Certain statements included herein may constitute forward looking statements with respect to the business, strategy and plans of the Issuer and/or its subsidiaries and associated undertakings (the **Group**) and their current goals and expectations relating to their future financial condition and performance. Statements that are not historical facts, including statements about the 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 circumstances that will or may occur in the future.

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

Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on the Group's behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; terrorist acts, geopolitical events and other acts of war or hostility; geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution or the UK leaving the EU; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities in the UK, the European Union (the **EU**), the U.S. or elsewhere including the implementation of key legislation and regulation; the ability to attract and retain senior management and other employees; actions or omissions by the Group's directors, management or employees including industrial action; the extent of any future impairment charges or write-downs; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies.

The Group may also make or disclose written and/or oral forward looking statements in its annual reviews, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of the Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this Prospectus are made as of the date hereof, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Prospectus to reflect any change in the Group's

expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

CERTAIN DEFINITIONS

In this Prospectus, reference to:

TSB Banking Group is to TSB Banking Group plc;

EEA is to European Economic Area;

EU is to European Union;

FCA is to the United Kingdom Financial Conduct Authority;

FSA is to the United Kingdom Financial Services Authority;

FSMA is to the Financial Services and Markets Act 2000, as amended;

Group is to the Issuer and its subsidiaries and/or associated undertakings;

Issuer is to TSB Bank plc;

Member State is to a member state of the European Union;

PRA is to the United Kingdom Prudential Regulation Authority;

Sabadell is Banco de Sabadell, S.A.;

Sabadell Group is to Banco de Sabadell, S.A. and its associated and subsidiary undertakings;

TSB Bank is to TSB Bank plc;

UK is to the United Kingdom; and

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

PRESENTATION OF FINANCIAL AND OPERATING INFORMATION

In this Prospectus, references to the **financial statements** are to the Issuer's financial statements included in the Issuer's 2017 Annual Report and Accounts unless indicated otherwise.

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

In this Prospectus, references to **sterling**, **GBP** or **£** are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland, references to **pence** and **p** are to one-hundredth of one pound sterling; references to **U.S. Dollars**, **U.S.$** or **$** are to the lawful currency of the U.S.; references to **cent** or **c** are to one-hundredth of one U.S. Dollar; references to **Euro**, **euro** or **€** are to the lawful currency of the Member States of the European Union that have adopted a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty of European Union; references to **euro cent** are to one-hundredth of one euro; and references to **Japanese yen**, **Japanese ¥** or **¥** are to the lawful currency of Japan.

TABLE OF CONTENTS

Principal Characteristics of the Programme 13
Documents Incorporated by Reference 14
Structure Overview 16
Overview of the Programme 23
Risk Factors 31
Form of the Covered Bonds 97
Form of Final Terms 101
Terms and Conditions of the Covered Bonds 109
Use of Proceeds 155
TSB Bank plc 156
The LLP 166
Summary of the Principal Documents 169
Credit Structure 208
Cashflows 213
The Portfolio 228
Description of the UK Regulated Covered Bond Regime 237
Description of Limited Liability Partnerships 239
Book-Entry Clearance Systems 240
Taxation 242
Subscription and Sale and Transfer and Selling Restrictions 244
General Information 251
Glossary 254

PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

Issuer:	TSB Bank plc was incorporated on 24 September 1985 (Registration number SC095237). The Issuer's registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, Scotland, telephone number +44 (0) 1452 841 380. The Issuer is a wholly-owned subsidiary of TSB Banking Group plc which in turn is wholly owned by Banco de Sabadell, S.A.
Guarantor:	TSB Covered Bonds LLP
Regulated Covered Bonds:	On 24 February 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations.
Nature of eligible property:	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
Compliant with the Banking Consolidation Directive (Directive 2006/48/EC):	Yes, the Programme is intended to be compliant with the Banking Consolidation Directive
Location of eligible residential property underlying Loans:	England, Wales or Scotland
Maximum Current Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:	75.0 per cent.
Maximum Asset Percentage:	94.0 per cent.
Asset Coverage Test:	Yes, see further "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*"
Statutory minimum overcollateralisation:	The eligible property (as defined in the RCB Regulations) in the Asset Pool must be more than 108 per cent. of the Principal Amount Outstanding of the Covered Bonds
Statutory interest cover test:	The interest received on the eligible property must be equal to or greater than interest due on the Covered Bonds over a twelve month period
Amortisation Test:	Yes, see further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*"
Reserve Fund:	Yes, see further "*Credit Structure – Reserve Fund*"
Extended Maturities:	Available
Hard Bullet Option:	Available
Asset Monitor:	PricewaterhouseCoopers LLP
Asset Segregation:	Yes
Namensschuldverschreibungen option:	Yes
Single/multi asset pool designation:	Single asset pool, consisting of residential mortgage loans and liquid assets
Substitution Assets:	Asset backed securities are not eligible property and cannot form part of the Asset Pool

DOCUMENTS INCORPORATED BY REFERENCE

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

TSB Bank plc financial statements:

(i) The Issuer's Annual Report and Accounts 2017 including the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2017, together with the audit report thereon, as set out on pages 16 to 68 and 69 to 74, respectively (the **Issuer's 2017 Annual Report and Accounts**); and

(ii) The Issuer's Annual Report and Accounts 2016 including the audited annual financial statements of the Issuer for the financial year ended 31 December 2016, together with the audit report thereon, as set out in the Appendix to the Prospectus dated 24 February 2017 and prepared by the Issuer and the Guarantor in connection with the Programme (the **Issuer's 2016 Annual Report and Accounts**).

Other documents incorporated by reference:

(i) The Member's Report and audited Financial Statements of the LLP for the financial period ended 31 December 2016, together with the audit report thereon (the **LLP's 2016 Annual Financial Statements**);

(ii) The Member's Report and audited Financial Statements of the LLP for the financial period ended 31 December 2017, together with the audit report thereon (the **LLP's 2017 Annual Financial Statements**);

(iii) The terms and conditions of the Covered Bonds set out on pages 101 to 154 (inclusive) of the Prospectus dated 24 February 2017 and prepared by the Issuer and the Guarantor in connection with the Programme,

all of which have been previously published and filed with the FCA and which shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any documents or information themselves incorporated by reference in, or cross-referred to in, the documents incorporated by reference in this Prospectus shall not form part of this Prospectus unless also separately incorporated by reference above. In each case, where only certain sections of a document referred to above are incorporated by reference in this Prospectus, the parts of the document which are not incorporated by reference are either not relevant to prospective investors in the Covered Bonds or are covered elsewhere in this Prospectus.

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

Copies of the documents incorporated by reference in this Prospectus will be available for viewing (i) at the registered office of the Issuer at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH or (ii) via the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html. Copies will also be filed at the National Storage Mechanism (www.Hemscott.com/nsm.do). Please note that websites and urls referred to herein do not form part of this Prospectus.

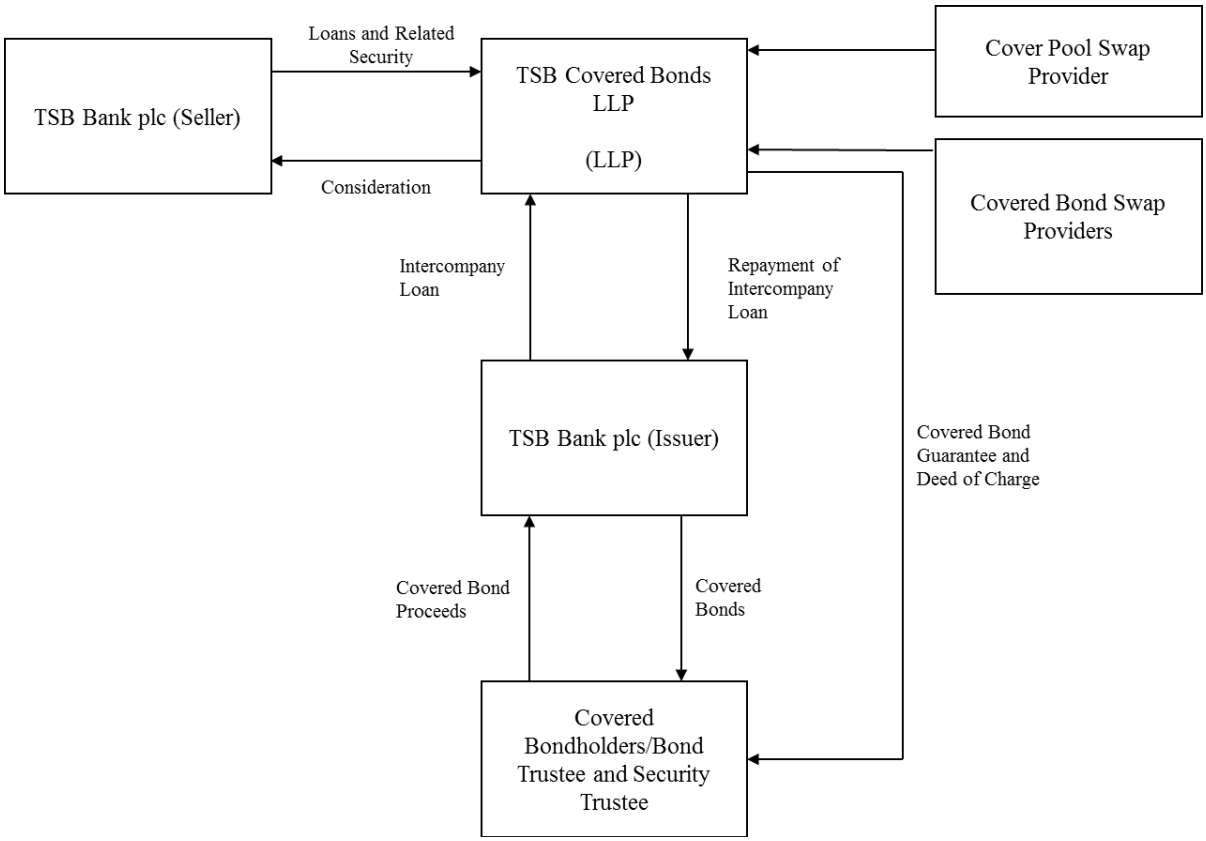
The Issuer and the LLP will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any

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 in *Subscription and Sale and Transfer and Selling Restrictions* in this Prospectus) 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 the nominal value of each Series, or as applicable, 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, irrevocable 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 and the Security will be enforceable. 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 Covered Bond Swap) 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 Substitution Assets (in an amount up to but not exceeding the prescribed limit) so far as necessary for the purpose of complying with arrangements made pursuant to Regulation 23 and 24(i)(a) of the RCB Regulations and the Asset Coverage Test, and such proceeds may thereafter be applied by the LLP:

(a) to purchase Loans and their Related Security from the Seller in accordance with the Mortgage Sale Agreement; and/or

(b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or

(c) (subject to complying with the Asset Coverage Test, as described below) to make a Capital Distribution to a Member; and/or

(d) if an existing Series or Tranche or part of an existing Series or Tranche of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or

(e) to make a deposit of all or part of the proceeds in the Transaction 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 below) 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) the LLP paying to the Seller a cash payment made by the LLP to the Seller from the Sterling Equivalent of the proceeds of the relevant Term Advance and/or from Available Principal Receipts;

(b) the Seller being treated as having made a Capital Contribution in Kind to the LLP (in an amount up to the difference between the aggregate Current Balance of the Loans sold by the Seller as at the relevant Sale Date and the aggregate cash payment (if any) made by the LLP); and/or

(c) Deferred Consideration (including any Postponed Deferred Consideration) which shall be paid by the LLP on each LLP Payment Date (provided there are available

funds and after the making of any provisions in accordance with normal accounting practice) in accordance with the relevant Priorities of Payments.

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

- *Cashflows:* Provided no Asset Coverage Test Breach Notice is outstanding, prior to service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:

  (a) apply Available Revenue Receipts to pay any amounts due (excluding principal amounts) on the Term Advances to the Issuer, to pay certain expenses and amounts due to the Covered Bond Swap Provider and to pay Deferred Consideration (including any Postponed Deferred Consideration) to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, without limitation, certain expenses and amounts due to the Cover Pool Swap Provider and amounts required to be credited to the Transaction Account with a corresponding credit to the Pre-Maturity Liquidity Ledger). For further details of the Pre-Acceleration Revenue Priority of Payments, see "*Cashflows*" below; and

  (b) apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, without limitation, funding any liquidity reserves that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Liquidity Test, acquiring New Loans and their Related Security offered by the Seller to the LLP and making repayments of corresponding Term Advances). For further details of the Pre-Acceleration Principal Priority of Payments, see "*Cashflows*" below.

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

  (a) in respect of Available Revenue Receipts, no further amounts will be paid to the Issuer under the Intercompany Loan Agreement, towards any indemnity amount due to the Members pursuant to the LLP Deed or any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, towards any Deferred Consideration or towards any profit for the Members' respective interests in the LLP (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements); and

  (b) in respect of Available Principal Receipts, no payments will be made to acquire New Loans and their Related Security, other than after sufficient amounts have been credited to the Transaction 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 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.

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

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

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

  (a) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in "*Cashflows - Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts 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;

  (b) the LLP will be required to sell Selected Loans; and

  (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

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

- *Amortisation Test:* Following the service of a Notice to Pay (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each following Calculation Date, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding of the Covered Bonds on such Calculation Date. The Amortisation Test will be carried out by the Cash Manager on each Calculation Date following service of a Notice to Pay. A breach of the Amortisation Test will constitute an LLP Event of Default. Following the occurrence of an LLP Event of Default, the Bond Trustee may by service of an LLP Acceleration Notice accelerate the obligations of the Issuer under the Covered Bonds and require all amounts under the Covered Bond Guarantee to become immediately due and repayable. Thereafter, the Security Trustee may enforce the Security over the Charged Property.

- *Extendable obligations under the Covered Bond Guarantee:* An Extended Due for Payment Date may be specified as applicable in relation to a Series of Covered Bonds in the applicable Final Terms. This means that if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the Final Maturity Date (subject to the applicable grace period), a Notice to Pay is served and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following service of a Notice to Pay, the LLP has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds), then payment of the unpaid portion of the Final Redemption Amount pursuant to the Covered Bond Guarantee shall be automatically deferred (without an LLP Event of Default occurring as a result of such non-payment). The unpaid portion of the Final Redemption Amount shall be due and repayable one year later on the Extended Due for Payment Date (subject to the applicable grace period and provided that the LLP shall, to the extent it has the funds available to it, pay such unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date). The LLP will pay the Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and on the Extended Due for Payment Date.

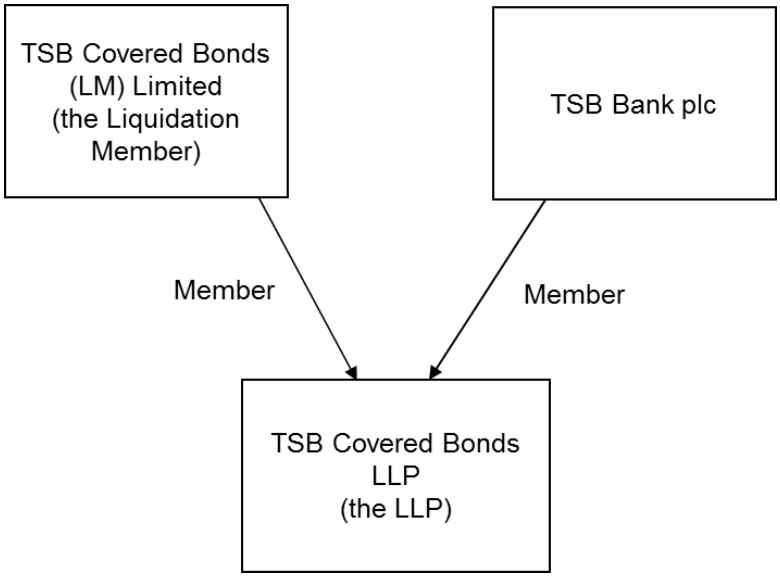
- *Pre-Maturity Liquidity Test*: Hard Bullet Covered Bonds will be subject to a Pre-Maturity Liquidity Test. This provides liquidity for Hard Bullet Covered Bonds if the Issuer's credit ratings fall to or below the specified levels. On each Pre-Maturity Liquidity Test Date of any Series of Hard Bullet 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, the LLP and the Bond Trustee are notified of the breach of the Pre-Maturity Liquidity Test and (ii) the Final Maturity Date of

that Series of Hard Bullet Covered Bonds such that by the end of such period, there shall be an amount equal to the Required Redemption Amount of that Series of Hard Bullet Covered Bonds standing to the credit of the Pre-Maturity Liquidity Ledger (after taking into account the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds).

- *Servicing:* On the Programme Date, TSB Bank plc was appointed by the LLP as servicer of the Loans in the Portfolio pursuant to the terms of the Servicing Agreement to administer the Loans and their Related Security in the Portfolio. In its capacity as Servicer, TSB Bank plc has agreed to provide or procure the provision of certain services in respect of the Loans and their Related Security sold by the Seller to the LLP.
- *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.

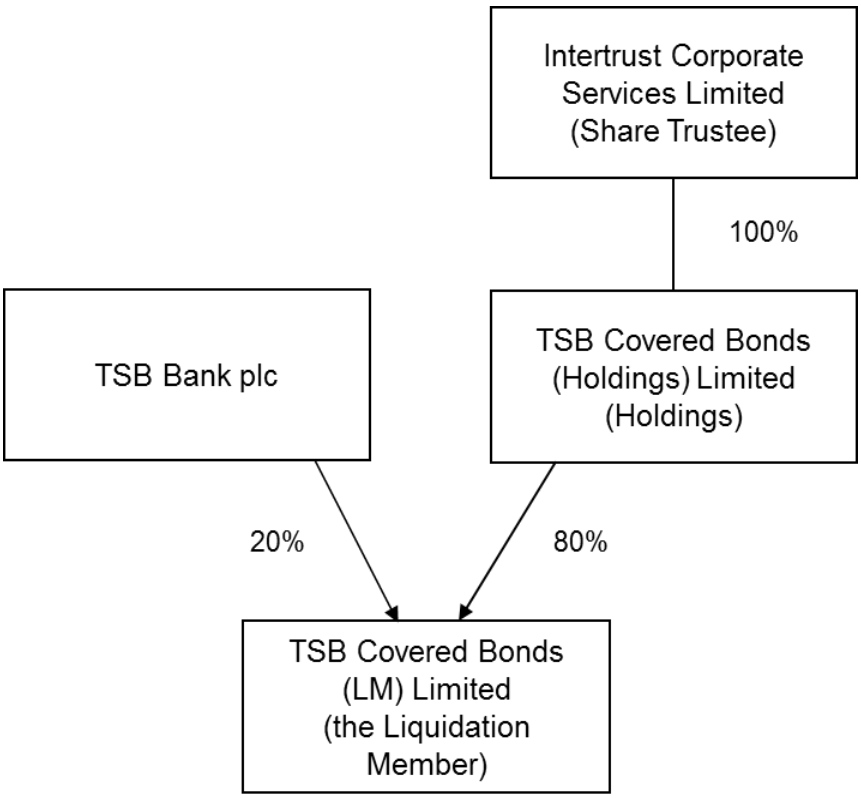
Ownership Structure of TSB Covered Bonds LLP

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



OVERVIEW OF THE PROGRAMME

This overview must be read as an introduction to this Prospectus and any decision to invest in the Covered Bonds should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference and the relevant Final Terms.

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

Issuer:	TSB Bank plc TSB Bank plc (the **Issuer**) was incorporated in Scotland on 24 September 1985 (Registration number SC095237). The Issuer's registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH. The Issuer is a wholly-owned subsidiary of TSB Banking Group plc, which in turn is wholly owned by Banco de Sabadell, S.A.
Issuer Legal Entity Identifier (LEI):	549300XP222MV7P3CC54
LLP:	TSB Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC411834). The LLP is a subsidiary of TSB Bank plc and its Members on the Programme Date are 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:	TSB Bank plc acting through its office at 20 Gresham Street, London EC2V 7JE, which is in the business of originating residential mortgage loans and other banking activities, and the expression "Seller" shall be deemed to include where applicable TSB Bank plc as the originator of the Loans transferred to TSB Bank plc under the Lloyds 2013 Part VII Transfer. For a more detailed description of the Seller, see *TSB Bank plc* below.
Servicer:	TSB Bank plc has been appointed as servicer under the Servicing Agreement, 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.
Back-Up Servicer Facilitator	Intertrust Management Limited has been appointed to act as back-up servicer facilitator under the Servicing Agreement.
Cash Manager:	TSB Bank plc has 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.
Back-Up Cash Manager Facilitator	Intertrust Management Limited has been appointed to act as back-up cash manager facilitator under the Cash Management Agreement.
Principal Paying Agent, Transfer Agent and Registrar	Citibank N.A., London Branch acting through its office at Citigroup Centre, 25 Canada Square, Canary Wharf, London E14 5LB, has been appointed pursuant to the Agency Agreement as Principal Paying Agent, Transfer Agent and Registrar.
Bond Trustee:	Citicorp Trustee Company Limited, acting through its office at Citigroup Centre, 25 Canada Square, Canary Wharf, London E14 5LB, 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, *inter alia*, the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the Trust Deed.
Security Trustee:	Citicorp Trustee Company Limited, acting through its office at Citigroup Centre, 25 Canada Square, Canary Wharf, London E14 5LB, 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:	Each Swap Provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate and/or currency risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Cover Pool Swaps and 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 in respect of the Covered Bonds by entering into Covered Bond Swaps with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider may be required to post collateral for its obligations, transfer its obligations to an appropriately rated entity, obtain a guarantee of its obligations from an appropriately rated guarantor and/or, if applicable, put in place some other arrangements in order to maintain the then current ratings of the Covered Bonds. The Covered Bond Swap Provider shall satisfy the rating requirements set out in the relevant Covered Bond Swap Agreement, as to which see "*Summary of the Principal Documents – Covered Bond Swap Agreements*

	" below.
Cover Pool Swap Provider:	TSB Bank plc has agreed to act as Cover Pool 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 Sterling LIBOR by entering into Cover Pool Swaps with the LLP and the Security Trustee under the Cover Pool Swap Agreement. In each case the Cover Pool Swap Provider will be required to post collateral for its obligations, transfer its obligations to an appropriately rated entity, obtain a guarantee of its obligations from an appropriately rated guarantor and/or, if applicable, 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.
Account Bank:	HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ, has agreed to act as an Account Bank to the LLP pursuant to the Bank Account Agreement. Further Account Banks may be appointed in respect of any other bank accounts (including additional Transaction Accounts and any swap collateral and custody accounts) under account bank agreements entered into from time to time between the LLP, the relevant Account Bank(s), the Cash Manager and the Security Trustee.
Swap Collateral Account Bank:	As at the Programme Date, HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ, has agreed to act as Swap Collateral Account Bank to the LLP pursuant to the Swap Collateral Bank Account Agreement. Further Swap Collateral Account Banks may be appointed in respect of any other swap collateral bank accounts under swap collateral account bank agreements entered into from time to time between the LLP, the relevant Swap Collateral Account Bank(s), the Cash Manager and the Security Trustee.
Liquidation Member:	TSB Covered Bonds (LM) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 10181264). The Liquidation Member is 80 per cent. owned by Holdings and 20 per cent. owned by TSB Bank plc.
Holdings:	TSB Covered Bonds (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 10181392). All of the shares of Holdings are held by the Share Trustee on trust for the benefit of certain discretionary objects.
Share Trustee:	Intertrust Corporate Services Limited, 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:	Intertrust 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 Bank Corporate Markets plc acting through its office at 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 Dealers are Banco de Sabadell, S.A. and Lloyds Bank Corporate Markets plc (each referred to throughout this Prospectus as the **Dealer** and together the **Dealers**).
Certain restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. See *Subscription and Sale and Transfer and Selling Restrictions* below.
Programme size:	Up to £5 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 *Subscription and Sale and Transfer and Selling Restrictions* 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).
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 basis.
Form of Covered Bonds:	The Covered Bonds may be issued in bearer or registered form as described in *Form of the Covered Bonds.* Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and *vice versa.*
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:	Floating Rate Covered Bonds will bear interest at a rate determined: (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

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(c) on such other basis as may be agreed between the Issuer and the relevant Dealer,

as set out in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms.

Other provisions in relation to Floating Rate Covered Bonds: Floating Rate Covered Bonds may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer.

Zero Coupon Covered Bonds: Zero Coupon Covered Bonds, bearing no interest, may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.

Instalment Covered Bonds: Covered Bonds may be issued on an instalment basis in which case such Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.

Hard Bullet Covered Bonds: The applicable Final Terms may provide that certain Series of Covered Bonds may be scheduled to be redeemed in full on the Final Maturity Date therefore without any provision for an Extended Due for Payment Date under the Covered Bond Guarantee (the **Hard Bullet Covered Bonds**). In such a case, on each Pre-Maturity Liquidity Test Date prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Liquidity Test has been breached and, if so, it shall immediately notify the Members and the Security Trustee thereof.

Redemption: The applicable Final Terms relating to each Tranche of Covered Bonds will indicate either that such Covered Bonds cannot be redeemed prior to their stated maturity (other than for taxation reasons or if it becomes unlawful for any Term Advance to remain outstanding or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable or, following purchase of such Covered Bonds by the Issuer or any of its subsidiaries (including the LLP), any holding company of the Issuer or any subsidiary of any such holding company, cancellable at the option of the Issuer and/or the Covered Bondholders upon appropriate notice in accordance with the Terms and Conditions to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of the Registered Covered Bonds) and the Covered Bondholders or to

	the Issuer (as the case may be), on one or more specified dates prior to their stated maturity and at a price or prices as may be agreed between the Issuer and the relevant Dealer.
Extendable obligations under the Covered Bond Guarantee:	The applicable Final Terms may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts equal to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date may be deferred until the Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (in each case subject to the applicable grace period), a Notice to Pay has been served and the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Extension Determination Date (for example, because the LLP has insufficient moneys to pay in full the Guaranteed Amounts equal to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay by the time specified in Condition 6.1 (*Final redemption*) and has sufficient moneys under the Guarantee Priority of Payments to pay in part the Final Redemption Amount, partial payment of the Final Redemption Amount shall be made as described in Condition 6.1 (*Final redemption*). The LLP shall to the extent it has the funds available to it make payments in respect of the unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date. Interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount up to the Extended Due for Payment Date in accordance with Condition 4 (*Interest and other Calculations*) and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date.
Denomination of Covered Bonds:	The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and set out in the applicable Final Terms save that the minimum denomination of each Covered Bond admitted to trading on an EEA exchange and/or offered to the public in an EEA state in circumstances which require the publication of a prospectus under the Prospectus Directive will be at least €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount as may be required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.
Taxation:	All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of UK taxes, unless such deduction or withholding is required by law. If any such deduction or withholding is made, the Issuer will, save as provided in Condition 7 (*Taxation*), be required to pay additional amounts in respect of the amounts so deducted or withheld.

	Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 7 (*Taxation*).
Cross Default for Covered Bonds:	If an LLP Acceleration Notice is served in respect of any 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 *pari passu* 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 are expected, at the time of issue, unless otherwise specified in the applicable Final Terms, be rated "Aaa" by Moody's. The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended (the **CRA Regulation**) will be disclosed in the Final Terms. For more information see *Risk Factors—Ratings of the Covered Bonds* in this Prospectus.
Listing and admission to trading:	Application has been made to admit the Covered Bonds issued under the Programme and pursuant to the Prospectus to the Official List and to admit the Covered Bonds to trading on the regulated market of the London Stock Exchange.
Clearing:	The Covered Bonds will be eligible to clear through any of the Clearing Systems as indicated in the relevant Final Terms. It is anticipated that Registered Covered Bonds will clear through Euroclear and/or Clearstream, Luxembourg. Covered Bonds may be cleared through a Clearing System or, particularly in the case of Definitive Covered Bonds, may not be cleared through any Clearing System. Covered Bonds may also be cleared through a clearing system other than the Clearing Systems, as may be agreed between the Issuer, the Bond Trustee and the Principal Paying Agent in relation to each issue. The

	Final Terms relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be cleared and, if so, in which clearing system.
The RCB Regulations:	On 24 February 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations.
Governing law:	The Covered Bonds issued pursuant to this Prospectus will 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 U.S., the European Economic Area (including the UK, 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 and confirm that the risks that are stated to apply to "the Group" below apply to the Issuer and/or its subsidiary and associated undertakings. All these factors are contingencies which may or may not occur, and neither the Issuer nor the LLP is in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer and the LLP believe may be material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme in relation to the Group are also described below. In addition, risk factors which are specific to the Covered Bonds are also described below.

The Issuer and the LLP believe that the factors described below represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the inability of the Issuer or the LLP to pay interest, principal or other amounts on or in connection with any Covered Bonds may occur for other reasons and neither the Issuer nor the LLP represents that the statements below regarding the risks of holding any Covered Bonds are exhaustive. If any of the following risks actually materialise, the business, financial condition and results of operations of the Group and the Issuer's ability to fulfil its obligations under the Covered Bonds, could be materially and adversely affected. 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.

Prospective investors should consider carefully the risks and uncertainties described below, together with all other information contained in this Prospectus and the information incorporated by reference herein before making any investment decision.

Unless otherwise defined herein, terms used in this section shall have the same meaning as in the Conditions.

RISK FACTORS RELATING TO THE ISSUER AND THE GROUP

1 Risks relating to the macroeconomic environment in which the Group operates

1.1 *The Group is subject to inherent risks arising from general macro-economic conditions in the UK and globally*

The Group's business is subject to inherent risks arising from general macro-economic conditions in the UK and the state of the global financial markets both generally and as they specifically affect financial institutions. During the global financial crisis that started in mid-2008, the UK economy experienced a significant degree of turbulence and a deep recession, adversely affecting, among other things, the state of the housing market, market interest rates, levels of unemployment, the cost and availability of credit and the liquidity of the financial markets.

As the Group's customer revenue is derived almost entirely from customers based in the UK, the Group is particularly exposed to the condition of the UK economy, including house prices, interest rates, levels of unemployment and consequential fluctuations in consumers' disposable income. If these economic indicators and UK economic conditions weaken, or if financial markets exhibit uncertainty and/or volatility, the Group's impairment losses may increase and its ability to grow its business could be materially adversely impacted.

1.2 *The Group faces risks related to volatility in UK house prices*

The value of the Group's residential mortgage portfolio is influenced by UK house prices. A significant portion of the Group's revenue is derived from interest and fees paid on its mortgage portfolio.

A significant decline in house prices in the UK would lead to a reduction in the recovery value of the Group's assets in the event of a customer default, and could lead to higher

impairment charges and lower profitability. Higher impairment provisions could reduce the Group's capital and its ability to engage in lending and other income-generating activities.

As a result, a decline in house prices could have a material adverse effect on the Group's business and potentially on its ability to implement its strategy. A significant increase in house prices over a short period of time could also have a negative impact on the Group by reducing customer affordability, which could lead to higher impairments or, if it resulted in a decrease in the number of customers that can afford a house, a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting the Group's ability to grow its mortgage portfolio.

Volatility in the UK housing market occurring for these, or other reasons could have an adverse impact on the Group's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

1.3 *The Group faces risks associated with interest rate levels and volatility*

Interest rates, which are impacted by factors outside of the Group's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect the Group's results, profitability and consequential return on capital in three principal areas: cost and availability of funding, margins and revenues and impairment levels.

First, interest rates affect the cost and availability of the principal sources of the Group's funding, which is largely provided by customer deposits. A sustained low interest rate environment keeps the Group's costs of funding low by reducing the interest payable on customer deposits, but also reduces incentives for consumers to save and, therefore, constrains the Group's ability to earn revenue through the interest rates it receives by lending these funds to customers.

Secondly, interest rates affect the Group's net interest margin and revenue. The low interest rate environment seen in the UK since early 2009 has put some pressure on deposit net interest margins throughout the industry. Consequently, a sustained period of low interest rates can result in smaller margins realised between the rate the Group pays on customer deposits and that received on its loans and the structural hedges that the Group enters into with respect to its non-dated, rate insensitive liabilities, reducing the Group's revenue and overall net interest margin.

Thirdly, interest rates impact the Group's mortgage impairment levels and customer affordability, as well as its unsecured financial products. A rise in interest rates, without sufficient improvement in customer earnings or employment levels, could, for example, lead to an increase in default rates among customers with variable rate mortgages who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for the Group. A high interest rate environment also reduces demand for mortgages and unsecured financial products generally, as individuals are less likely or less able to borrow when interest rates are high, thereby reducing the Group's revenue.

Given current market conditions, the Group expects that any interest rate volatility could pose challenges. If the Group is unable to manage its exposure to interest rate volatility, whether through hedging, product pricing and maintenance of borrower credit quality or other means, its business, financial condition and results of operations may be adversely affected. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

An additional risk has come to the fore recently: the possibility of negative interest rates. Several central banks have adopted such a policy, including the European Central Bank and the Bank of Japan. The effect on profitability would depend on what effect such a policy had on funding rates and on retail lending/deposit rates. If it led to large-scale deposit flight, there would be a risk to the Group's funding plan. There would also be various technical and legal

issues to contend with, which might require the Group to make changes to its IT system and redraft legal contracts.

1.4 *The Group is exposed to risks relating to high levels of unemployment*

As a retail bank, the Group's business performance is impacted by the economic status and wellbeing of its customers, a principal driver of which is overall employment levels. Unemployment in the UK has fallen recently, and is no longer "high" by historical standards. However, an increasing trend in the UK workforce towards part-time, less secure employment adds to the risks faced by the Group from the labour market, and unemployment would be expected to rise again in the event of an economic downturn. Higher levels of unemployment have historically resulted, for example, in a decrease in new mortgage borrowing, lower deposit levels and reduced or deferred levels of spending, which adversely impact upon fees and commissions received on credit and debit card transactions and demand for unsecured lending. Higher unemployment rates and the resultant decrease in customer income can also have a negative impact on the Group's results, including through an increase in arrears, forbearance, impairment provisions and defaults. Consequently, sustained high levels of unemployment could have a material adverse impact on the Group's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligation under the Covered Bonds.

2 Risks relating to the operation of the Group's business

2.1 *The Group faces risks associated with its operations' compliance with a wide range of laws and regulations*

The Group's operations must comply with numerous laws and regulations and, consequently, it faces risks, including but not limited to:

- the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians may continue; the FCA in particular continues to focus on retail conduct risk issues, as well as conduct of business activities through its supervision activity;
- the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale or servicing of such products by or attributed to an employee of the Group may result in disciplinary action or requirements to amend sales or servicing processes, withdraw products or provide restitution to affected customers, all of which may require additional provisions;
- certain aspects of the Group's business may be determined by the relevant authorities, the Financial Ombudsman's Service (**FOS**) or the courts not to have been conducted in accordance with applicable local or, potentially, overseas laws or regulations or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;
- a potential failure of processes, systems or security may expose the Group to heightened financial crime and/or fraud risk;
- contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- the intellectual property of the Group (including trade marks) may not be adequately protected or enforceable, and the conduct of the Group's business may infringe the intellectual property of third parties;
- the Group may be liable for damages to third parties harmed by the conduct of its business; and
- regulatory proceedings and private litigation may arise out of regulatory investigations, enforcement actions or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions.

Regulatory actions pose a number of risks to the Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, the Group may be subject to customer redress obligations, other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the Group's business. All of these issues could have a negative effect on the Group's reputation and the confidence of its customers in the Group, as well as taking a significant amount of management time and resources away from the implementation of the Group's strategy. While certain economic protection against losses arising out of certain historical conduct issues in relation to the portfolio of mortgages held by TSB Bank excluding ex-Northern Rock residential mortgages (and linked unsecured loans) acquired from Cerberus Capital Management (the **Whistletree Portfolio**) (the **TSB Franchise**) is provided by the Conduct Indemnity (as defined below) given to TSB Bank and TSB Banking Group by Lloyds Bank plc (**Lloyds Bank**) in the Separation Agreement (as defined below), this indemnity may not cover all impacts of such historical conduct issues.

The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Group believes that it has no liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Group may, for similar reasons, reimburse counterparties for their losses even in situations where the Group does not believe that it is legally compelled to do so. Failure to manage these risks adequately could materially affect the Group, both financially and in terms of its reputation.

Any of these risks, should they materialise, could have an adverse impact on the Group's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

The Group is exposed to the risks inherent in dealing with intermediaries. For example, the Group has limited oversight of the intermediaries' interactions with prospective customers and, consequently, the Group faces certain risks related to the conduct of the mortgage intermediaries with which it does business. The intermediaries' incentives may not always align with the Group's, which could lead to a deterioration in the quality and performance of the Group's mortgage book. If mortgage intermediaries are found to have violated applicable conduct regulations or standards in the sale of the Group's mortgage products, the Group's brand and/or reputation could be harmed as a result. Any of these factors could have a negative impact on the Group's ability to meet its strategic objectives for its asset base and, consequently, its business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

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

2.2 *The TSB Franchise business is subject to risks relating to the cost and availability of liquidity and funding*

Liquidity and funding is a key area of focus for the TSB Franchise business and the UK financial services industry as a whole. While the Group's current funding is primarily obtained through personal current account (**PCA**) and retail savings deposits, its funding needs are likely to increase and/or its funding structure may not continue to be efficient,

giving rise, in both cases, to a requirement to raise wholesale funding (although PCA and retail savings deposits are expected to remain the primary source of the Group's funding for the foreseeable future).

The Group aims to maintain a prudent loan-to-deposit ratio, which means that the majority of its retail lending is funded by retail deposits. Medium-term growth in the Group's retail lending activities will therefore depend, in part, on the availability of retail deposit funding on acceptable terms, for which there may be increased competition and which is dependent on a variety of factors outside the Group's control. These factors include general macro-economic conditions and market volatility, the confidence of retail depositors in the economy, the financial services industry and in the Group, as well as the availability and extent of deposit guarantees. Availability of retail deposit funding may also be impacted by increased competition from other deposit takers as a result of their strategies or factors that constrain the volume of liquidity in the market, including, but not limited to, the end of the UK Government's "Funding for Lending" and/or "Term Funding Scheme". Increases in the cost of retail deposit funding will impact the Group's margins and affect profit, and a lack of availability of retail deposit funding could have a material adverse effect on the Group's future growth.

Any loss in consumer confidence in the Group could significantly increase the amount of retail deposit withdrawals in a short space of time. In such a situation, the Group may be more exposed to customer withdrawals as a significant proportion of its liabilities are in instant access products. Should the Group experience an unusually high and/or unforeseen level of withdrawals, the Group may require greater non-retail sources of funding in the future, which it may be unable to access, which could in turn have a material adverse effect on the Group's financial condition and profitability.

While the Group does not currently rely heavily on wholesale funding, it may need to access wholesale markets where there is a residual funding requirement over and above funds held from, among other sources, PCAs and other customer deposits. If the wholesale funding markets were to be fully or partially closed, it is likely that wholesale funding would prove more difficult to obtain on commercial terms. Under such circumstances, the Group may be unlikely to be able to successfully deliver its growth strategy. Profound curtailments of central bank liquidity to the financial markets in connection with other market stresses, though unlikely, might have a material adverse impact on the Group's financial position and results of operations depending on the Group's funding position at that time.

Failure to manage these or any other risks relating to the cost and availability of liquidity and funding may compromise the Group's ability to deliver its growth strategy and, consequently, have a material adverse impact on the Group's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.3 *Ratings downgrade of the sector, the Issuer or Sabadell may have an adverse effect on the marketability and liquidity of the Covered Bonds*

If sentiment towards the financial institutions operating in the United Kingdom's residential mortgage market (including the Issuer) were to deteriorate, or if the ratings of the Issuer and/or Sabadell (whose rating downgrade is likely to affect the Issuer's rating) and/or the ratings of the sector were to be adversely affected, this may have a materially adverse impact on the market value of covered bond securities and result in a reduction in liquidity in the secondary market for such securities. In addition, such change in sentiment or further reduction in ratings could result in an increase in the costs and reduction in the availability of wholesale market funding across the financial services sector, which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, including the Issuer.

2.4 *The Group is exposed to risks related to any political and economic changes as a result of the outcome of the referendum on the UK's membership of the European Union*

On 23 June 2016 the UK held a referendum on whether the UK should remain a member state of the European Union. The UK voted to leave the European Union and the UK Government invoked article 50 of the Lisbon Treaty on 29 March 2017 notifying the EU of its decision to leave the EU. Under article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances. This decision may have an adverse impact on the UK economy. It is likely that the UK economy will experience slower growth and higher unemployment, with downward pressure on house price inflation. The severity of any downturn will be determined by a number of factors, including prevailing conditions in financial markets and the global economy. It is conceivable that the Bank of England may loosen monetary policy in response; this may entail even lower interest rates.

The long term effect on the UK economy is uncertain. Important issues to consider are whether, in deciding to leave the European Union, the UK will leave the single market and/or the customs union, and the likelihood of another referendum on Scottish independence.

2.5 *The Group is subject to regulatory capital requirements*

A perceived or actual shortage of capital could have a material adverse effect on the Group's business, which could, in turn, affect the Group's capacity to implement its business strategy, impacting future growth potential.

The Group sets its internal target amount of capital by taking account of its own assessment of the risk profile of the business, market expectations and regulatory requirements. If market expectations as to capital levels increase, driven by, for example, the capital levels or targets amongst peer banks or if new regulatory requirements are introduced, then the Group may experience pressure to increase its capital ratios. If it is unable to do so, its business, financial condition and results of operations may be adversely impacted. This in turn could affect the Issuer's ability to fulfil its obligation under the Covered Bonds.

2.6 *Changes to accounting policies or in accounting standards could materially affect the Group's capital ratios, how it reports its financial condition and results of operations.*

From time to time, the International Accounting Standards Board (the **IASB**) and/or the European Union change the international financial reporting standards issued by the IASB, as adopted by the European Commission for use in the European Union, (**IFRS**) that govern the preparation of financial statements. These changes can be difficult to predict and could materially impact recording and reporting of financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

For example, IFRS 9: "Financial Instruments" is the new standard to replace IAS 39: "Financial Instruments: Recognition and Measurement". It changes the classification and measurement of some certain financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 is required to be implemented in the Group's financial statements for the financial year ending 31 December 2018.

Amongst other changes, IFRS 9 replaces the incurred loss approach to impairment of IAS 39 with one based on expected credit losses (**ECL**), which will result in earlier recognition of credit losses. This introduces a number of new concepts and changes to the approach to provisioning compared with the methodology under IAS 39.

The European authorities have recognised the risk that application of IFRS 9 may lead to a sudden significant increase in ECL provisions and consequently a sudden decrease in the capital ratios of institutions.

Accordingly, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (the **Capital Requirements Regulation**) was amended by Regulation (EU) No 2017/2395 of the European Parliament and of the Council of 12 December 2017 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9. Where an institution's opening balance sheet after adoption of IFRS 9 reflects a decrease in common equity tier 1 (**CET1**) capital as a result of increased ECL provisions (net of tax effect) compared to the previous closing balance sheet, the institution should be allowed to include in its CET1 capital a portion of the increased provisions during a transitional period. This transitional period should have a maximum duration of five years as from the opening balance sheet date and the portion of ECL provisions that can be included in CET1 capital should decrease over time down to zero to deliver full implementation by the end of the five year period. As provisions incurred after implementation could rise significantly and unexpectedly due to a worsening macroeconomic outlook, the draft regulations also provide that institutions should be given additional relief in such cases through the transitional arrangements.

The financial reporting impact of IFRS 9 has been quantified in the Issuer's 2017 Annual Report and Accounts.

The IASB may make other changes to financial accounting and reporting standards that govern the preparation of the Group's financial statements, which the Group may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Group. Any such change in the Group's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

The Group's accounting policies and methods are critical to how it reports its financial condition and results of operations. They require the Group to make estimates about matters that are uncertain.

Accounting policies and methods are fundamental to how the Group records and reports its financial condition and results of operations. The Group must exercise judgement in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

2.7 *The Group faces risks from the highly competitive environment in which it operates*

The market for financial services in the UK is highly competitive and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services markets in which the Group operates are mature, such that growth by any bank typically requires winning market share from competitors.

The Group faces competition from established providers of financial services, including banks and building societies, some of which have greater scale and financial resources, broader product offerings and more extensive distribution networks than the Group. The Group also faces potential competition from new entrants to the market and an increasing risk of disintermediation from smaller challenger banks and FinTech companies, all of whom threaten to disrupt the value chain.

The Current Account Switch Service was launched in September 2013 with the aim of increasing competition in the market place. Awareness of and confidence in the service has not reached the targets set by H.M. Treasury. Although the proliferation of switching incentives in the market place has moved customers around to some degree the main impact has been an increase in the cost of acquisition for providers. There is no expectation that this will change in the short to medium term.

The regulators are increasingly focused on innovation and competition and are applying pressure on the industry to adopt open banking platforms which will generate a new competitive landscape for providers of financial services.

Margins continue to come under pressure from economic uncertainty and low interest rates meaning traditional commercial models for PCA are at greater risk. Customers are turning more and more to digital to buy and service their financial products meaning that innovation is often started in the mobile channel first.

Any failure to manage the competitive dynamics to which it is exposed could have a material adverse impact on the Group's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.8 *The Group is subject to risks concerning customer and counterparty credit quality*

The Group has exposures to many different products, counterparties and obligors whose credit quality can have a significant adverse impact on the Group's earnings and the value of assets on the Group's balance sheet. As part of the ordinary course of its operations, the Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. The Group may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could adversely affect the Group's business, financial position and results of operations.

Further, there is a risk that, despite the Group's belief that it conducts an accurate assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macro-economic disruptions or other external factors. The failure of customers to meet such commitments may result in higher impairment charges or a negative impact on fair value in the Group's lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments would have a material adverse impact on the Group's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.9 *Concentration of credit risk could increase the Group's potential for significant losses*

Substantially all of the TSB Franchise business related to customers in the UK. In the event of a disruption to the credit markets in the UK generally or economic conditions, including interest rates in the UK and levels of unemployment in Scotland, where the Group has significant presence, this concentration of retail credit risk could cause the Group to experience greater losses than its less concentrated competitors.

In addition, the Group faces concentration risks relating to its interest-only mortgage portfolio, which amounts to approximately 19 per cent of the Group's TSB Franchise residential mortgage stock as at 31 December 2017. As these mortgages near maturity, the Group may face greater repayment and asset quality risks than competitors with a lower proportion of interest-only mortgages, although the TSB concentration has reduced (from 25 per cent. as at 31 December 2016). The ex-UKAR assets primarily comprise lender variable rate mortgages and tracker mortgages. While the Group regularly monitors its credit portfolios to assess potential concentration risk, efforts to divest, diversify or manage the Group's credit portfolio against concentration risks may not be successful and could result in an adverse impact on its business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.10 *The Group is exposed to operational risks related to systems and processes*

The Group’s business is exposed to operational risks related to systems and processes, whether people related or external events, including the risk of fraud and other criminal acts carried out against the Group, including in relation to the banking operations services provided by both Sabadell Information Systems S.A.U. and Sabadell Information Systems Limited (together **SABIS**) under an Outsourced Services Agreement dated 19 April 2017 (the **OSA**) entered into with TSB.

The SABIS Services performed under the OSA include infrastructure services (including data centres, management and maintenance), enterprise services (including desktop, printing, help desk), business services (including payments functionality, telephony, branch and digital),

together with maintenance services for the underlying software and account management services. There will be an ongoing reliance on SABIS (and its subcontractors) to continue to provide these critical services to TSB.

The Group's business is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services. Any weakness in these systems or processes could have an adverse effect on the Group's results and on its ability to deliver appropriate customer outcomes during the affected period. In addition, any breach in security of the Group's systems (or systems provided by or on behalf of SABIS that support the services to the Group under the OSA), for example from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, result in the disclosure of confidential information and create significant financial and/or legal exposure and the possibility of damage to the Group's reputation and/or brand. Moreover, the services, as well as the agreements under which they are provided, are highly complex. As a result, the Group faces the risk that the systems and processes that underpin the OSA may not function in the manner anticipated and necessary to deliver the required outcomes for customers.

The occurrence of serious performance issues resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems could have a material adverse impact on the Group's financial condition and results of operations.

Any such actual or perceived inadequacies, weaknesses or failures in the Group's systems or processes could have a material adverse effect on the Group's business. In addition, as SABIS is a fully owned subsidiary of Sabadell, the financial performance of SABIS may be impacted by any financial performance issues of Sabadell. However, TSB Bank's resolution plans do include a number of solutions, should Sabadell's financial performance impact on its subsidiaries, including provisions in the OSA including granting TSB Bank control over SABIS.

Any of the issues described above, could affect the Issuer's ability to fulfil its obligation under the Covered Bonds.

2.11 *TSB Bank IT system issues and related risks*

TSB Bank has experienced issues with its IT system, including availability and functionality issues following the data migration to the SABIS platform at the end of April 2018. Customers have experienced difficulties, including accessing their bank accounts through the available channels, leading to a significant number of complaints from customers.

In order to better understand the causes of the issues, TSB Bank engaged IBM United Kingdom Limited to look at certain technical aspects of the system issues.

Further, the Board of Directors of TSB Bank has asked Slaughter & May to carry out an independent review. The review is still on-going and findings are expected in due course.

The issues with TSB Bank's IT systems and their remediation have caused TSB Bank to recognise additional costs of £251.3 million as at 30 September 2018 (as noted in a press release issued by Sabadell on 26 October 2018 including details of the migration related financial impact on the Issuer). The remediation of the IT system issues is not yet complete. TSB Bank has incurred costs by hiring and training additional staff to restore service levels and to operate a redress scheme for its customers.

The Group was informed on 5 June 2018 that a formal FCA investigation would be commenced (jointly with the PRA) in connection with the Group's handling of the recent migration of data and IT systems to SABIS Services. This investigation is on-going and it is currently not possible to make a reliable assessment of the consequences and/or potential liabilities, if any, that may result from the investigation or the impact that the findings may have on TSB Bank's reputation.

There has been considerable negative press coverage on the system issues and heightened political and regulatory interest, which may have an impact on TSB Bank's reputation and customer confidence in TSB. To the extent that there is an adverse impact on TSB Bank's reputation or customer confidence in TSB Bank, this may have a negative impact on the TSB brand and may affect or delay the ability of TSB Bank to grow its customer base in line with its strategic objectives.

Significant delays to remediation of, or any recurring issues in respect of, the IT system may result in additional costs, further negative press coverage and/or additional political and regulatory interest which in turn may have further implications for TSB Bank's reputation and/or customer confidence and/or the TSB brand. This could result in increased costs for completing remediation and as a consequence may additionally affect or delay the ability of TSB Bank to grow its customer base in line with its strategic objectives or implementation by TSB Bank of its future strategies (including planned initiatives and structural reform work).

Any of these risks, should they materialise, could have an adverse impact on the Group's business, financial condition, results of operations and relations with customers. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.12 *The Group is subject to risks associated with its hedging and treasury operations, including potential negative fair value adjustments*

The Group faces risks related to its customer-driven hedging operations. The Group engages in hedging activities, for example in relation to interest rate risk, in an attempt to limit the potential adverse effect of interest rate fluctuations on its results of operations. The Group's treasury operation has responsibility for managing the interest rate risk that arises through its customer facing business, management of its liquid asset buffer and investment of free reserves and interest rate insensitive deposit balances. Interest rate hedges for customer assets and liabilities are calculated using behavioural models. However, the Group does not hedge all of its risk exposure and cannot guarantee that its hedging strategies will be successful because of factors such as behavioural risk, unforeseen volatility in interest rates or the decreasing credit quality of hedge counterparties in times of market dislocation. If its hedging strategies are not effective, the Group may be required to record negative fair value adjustments. Material losses from the fair value of financial assets would also have an adverse impact on the Group's capital ratios.

Through its treasury operations, the Group will hold liquid assets portfolios for its own account, exposing the Group to interest rate risk, basis risk and credit spread risk. To the extent that volatile market conditions occur, the fair value of the Group's liquid asset portfolios could fall more than estimated and cause the Group to record mark to market losses. In a distressed economic or market environment, the fair value of certain of the Group's exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then prevailing market conditions, may result in significant negative changes in the fair value of the Group's exposures, which could have a material adverse impact on the Group's business, financial condition and results of operations.

Interest-rate insensitive PCA balances form a significant part of the Group's funding. The Group makes the assumption that these balances will have a maturity in excess of five years and they are currently invested, along with free reserves, in a rolling series of five-year interest rate swaps. A portion of free reserves are considered to have a maturity of at least 10 years and have been invested in 10-year interest rate swaps. The Group believes that the current, relatively low, level of five-year swap interest rates, coupled with the probability of their rising in advance of any increase in the Bank of England Base Rate, means that these balances are expected in future to generate a higher level of revenue than they do currently. However, if customer behaviour were to change significantly, PCA balances may become more volatile and may no longer be suitable for swaps of the current duration, which could have an adverse impact on the revenue generated by these balances. This could have a

material adverse impact on the Group's business, financial condition and results of operations, which could in turn affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.13 *The Conduct Indemnity may not cover all potential losses arising as a result of conduct-related issues*

Pursuant to a separation agreement entered into on 9 June 2014 between Lloyds Bank plc, TSB Bank and TSB Banking Group plc (the **Separation Agreement**), TSB Bank and TSB Banking Group benefit from an indemnity in respect of losses arising from pre-Admission acts or omissions relating to TSB Franchise customer agreements or related loan guarantees/securities entered into pre-Admission constituting breaches of applicable laws and regulations (the **Conduct Indemnity**). While the Conduct Indemnity is broad and, save in certain limited circumstances, uncapped, there are and will be limits to its coverage. For example, credit losses arising as a result of matters that are covered by the Conduct Indemnity will only be recoverable in certain circumstances.

In addition, while the terms of the Conduct Indemnity provided for a "grace period" after Admission during which, subject to certain conditions, losses arising as a result of the continued use by the Group of practices, policies and procedures inherited from Lloyds Banking Group would be recoverable, the "grace period" has expired and, therefore any acts and omissions of the Group following its expiry, including those taken in reliance on such practices, policies and procedures inherited from Lloyds Banking Group, will fall outside the scope of the Conduct Indemnity.

Claims made by TSB Bank pursuant to the Conduct Indemnity may be disputed and there can be no guarantee that the Conduct Indemnity will be found to be applicable in all cases. Claims on the Conduct Indemnity are subject to the continuing solvency of Lloyds Bank. In addition, TSB Bank may be exposed to conduct-related risks and losses that fall outside the scope of the Conduct Indemnity that could have a material adverse impact on its reputation, business, results of operations and financial position, which could in turn affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.14 *The Systems and Procedures Indemnity may not cover all potential losses arising as a result of systems and procedures-related issues*

Under the Separation Agreement, TSB Bank and TSB Banking Group also benefit from an indemnity in respect of losses arising from pre-Admission (as defined below):

(i) acts or omissions that, taken together, constitute a persistent or systematic material breach of or material failure to comply with the terms and conditions applicable to any TSB Franchise customer agreements or related loan guarantees/securities entered into pre-Admission; or

(ii) persistent or systemic failure of or inaccuracy in the systems and procedures inherited by TSB Bank and TSB Banking Group that causes or has caused them to incorrectly calculate, identify, collect, pay, receive or communicate any material amount owed or to be paid under or in respect of a TSB Franchise customer agreement or related loan guarantee/security entered into pre-Admission (the **Systems and Procedures Indemnity**).

While the Systems and Procedures Indemnity is broad and, save in certain limited circumstances, uncapped, it will not apply unless the losses relating to an indemnity claim (or series of claims arising from substantially identical facts or circumstances) exceed £1 million. There are and will also be other limits to its coverage, claims made may be disputed and there can be no guarantee that the indemnity will be found to be applicable in all cases. Claims are also subject to the continuing solvency of Lloyds Bank. In addition, TSB Bank may be exposed to systems and procedures-related risks and losses that fall outside the scope of the Systems and Procedures Indemnity that could have a material adverse impact on its

reputation, business, results of operations and financial position, which could in turn affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

3 Risks relating to the regulatory environment in which the Group operates

3.1 *The Group is subject to substantial and changing prudential regulation*

The Group faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. The Group's borrowing costs and regulatory capital requirements could be affected by these prudential regulatory developments, which include (i) the legislative package (**CRD IV**) implementing the proposals of the Basel Committee on Banking Supervision (known as **Basel III**) in the European Union and amending and supplementing the existing Capital Requirements Directive (as defined below) and other regulatory developments impacting capital, leverage and liquidity positions and (ii) the Bank Recovery and Resolution Directive (the **BRRD**), as implemented in the UK, which established an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Any future unfavourable regulatory developments could have a material adverse effect on the Group's business, results of operations and financial condition. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

Capital requirements under the CRD IV

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks with effect from 1 January 2014, including: increased minimum levels of capital and additional minimum capital buffers; enhanced quality standards for qualifying capital; increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and the introduction of a minimum leverage ratio. Although CRD IV provides for some of these measures to be phased in over a transitional period to 2018, the PRA's supervisory expectation is for the Group to meet certain of these targets in expedited timeframes.

CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards continue to be developed by the European Banking Authority (the **EBA**), changes to the way in which the PRA continues to interpret and apply these requirements to UK banks (including as regards individual model approvals granted under Directive 2009/111/EC (**CRD II**) and Directive 2010/76/EU (**CRD III**)) or otherwise. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Group's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

A market perception or actual shortage of capital issued by the Group could result in governmental actions, including requiring the Group to issue additional Common Equity Tier 1 securities, requiring the Group to retain earnings or suspend dividends or issuing a public censure or the imposition of sanctions. This may affect the Group's capacity to continue its business operations, generate a return on capital, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. If the Group is unable to raise this capital, this could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

MREL requirements under the Bank Recovery and Resolution Directive

In addition to the capital requirements under CRD IV, the BRRD requires that all institutions must meet an individual minimum requirement for own funds and eligible liabilities (**MREL**) set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities". In November 2016, the Bank of England published a Statement of Policy entitled "*The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL) – Responses to*

Consultation and Statement of Policy". The paper sets out the Bank of England's policy for exercising its power to direct institutions to maintain a minimum requirement for MREL under section 3A(4) of the Banking Act. Although the provisions of the BRRD transposed into UK law relating to MREL took effect from the 1 January 2016, the Bank of England has confirmed that it intends to make use of the transition period allowed by the BRRD and the EBA regulatory technical standards on the criteria for determining MREL and proposes in most cases that an institution's MREL requirement will be set equal to the applicable minimum capital requirement until 1 January 2020. The Bank of England set out in its November 2016 Statement of Policy what their prospective MREL requirements might be. The Bank of England has stated that from 1 January 2020 "other bail-in/transfer institutions" will be required to meet an MREL of 18% of their RWAs and, from 1 January 2022 (subject to a review by the Bank of England by the end of 2020) would be required to meet an MREL equivalent to the higher of:

- two times the sum of the Pillar 1 and Pillar 2A; or
- if subject to a leverage ratio requirement, two times the applicable requirement.

In a related statement, the PRA has confirmed that capital cannot be 'double-counted' towards capital and leverage buffers and MREL.

In October 2017, the Bank of England published a further consultation entitled "Internal MREL — the Bank of England's approach to setting MREL within groups, and further issues". The consultation states that for internal MREL (a category the Group may fall in), the above requirement will be multiplied with a scalar (75%–90% scaling adjustment to the MREL requirement that would otherwise apply). For ring-fenced banks, the scale is likely to be 90% as a starting point unless the Bank of England is satisfied that the bank has sufficient readily-deployable resources to justify moving to a lower calibration in the 75% to 90% range.

Until these measures are finally applied to the Group, it is not possible to determine the ultimate scope and nature of any resulting obligations for the Group, nor the impact that they will have on the Group once implemented. It is likely that the Issuer will need to issue MREL eligible liabilities in order to meet the new requirements within the required timeframes and/or alter the quantity and type of internal capital and funding arrangements within TSB Banking Group and/or the Group. During periods of market dislocation, or when there is significant competition for the type of funding that the Group needs, a requirement to increase the Issuer's MREL eligible liabilities in order to meet MREL targets may prove more difficult and/or costly.

More generally, these requirements could increase the Group's costs and may lead to asset sales and/or other balance sheet reductions. The effects of these proposals could all adversely impact the results of operations, financial condition and prospects of the Group and, in turn, adversely affect the value of the Covered Bonds.

Banking Act 2009

The Banking Act 2009 (the **Banking Act**) includes provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of certain UK incorporated entities, including authorised deposit-taking institutions and investment firms, and powers to take certain resolution actions in respect of third country institutions. In addition, powers may be used in certain circumstances in respect of UK established banking group companies, where such companies are in the same group as a relevant UK or third country institution or in the same group as an EEA credit institution or investment firm. Relevant transaction parties for these purposes include TSB Bank plc and HSBC Bank plc.

The tools available under the Banking Act include share and property transfer powers (including powers for partial property transfers), bail-in powers, certain ancillary powers

(including powers to modify contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made and, in certain circumstances, the UK authorities may exercise broad pre-resolution powers in respect of relevant entities with a view to removing impediments to the exercise of the stabilisation tools.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the United Kingdom. The Banking Act includes provisions related to compensation in respect of instruments and orders made under it. In general, there is considerable uncertainty about the scope of the powers afforded to UK authorities under the Banking Act and how the authorities may choose to exercise them.

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of the Issuer, such action may (amongst other things) affect its ability to satisfy its obligations under the Transaction Documents (including limiting its capacity to meet its repayment obligations) and/or result in (i) the transfer of the Covered Bonds, (ii) the cancellation, modification or conversion to equity or other instruments of ownership of certain unsecured liabilities of such entity under the Transaction Documents, including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time, (iii) the de-listing, conversion and/or replacement of the Covered Bonds and/or (iv) modifications to the Terms and Conditions of the Covered Bonds and/or the Transaction Documents (including variation of provisions relating to the interest payable, the maturity date or any other dates on which payments may be due). In particular, modifications may be made pursuant to powers permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool (including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time), the reduction of the relevant liability (including to zero) and/or the discharge of a relevant entity from further performance of its obligations under a contract. In addition, subject to certain conditions, powers would apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined "default events" have occurred (which events may include trigger events included in the Transaction Documents in respect of Covered Bonds, including trigger events in respect of perfection of legal title to the Loans and the Issuer Events of Default). If an instrument or order were to be made under the Banking Act in respect of a relevant entity as described above (other than the Issuer), such action may have an impact on various other aspects of the transaction, including resulting in modifications to any unsecured liability of such entity under the Transaction Documents and, more generally, affecting the ability of such entities to perform their obligations under the Transaction Documents. As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or otherwise adversely affect the rights and interests of the Covered Bondholders.

As noted above, the stabilisation tools may be used in respect of certain banking group companies provided certain conditions are met. If the LLP was regarded to be a banking group company and no exclusion applied, then it would be possible in certain scenarios for the relevant authority to exercise one or more relevant stabilisation tools (including the property transfer powers and/or the bail-in powers) in respect of it, which could result in reduced amounts being available to make payments under the Covered Bond Guarantee

and/or in the modification, cancellation or conversion of any unsecured portion of the liability of the LLP under the Covered Bond Guarantee at the relevant time. In this regard, it should be noted that the UK authorities have provided an exclusion for covered bond vehicles, which exclusion is expected to extend to the LLP, although aspects of the relevant provisions are not entirely clear.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the entities referred to above and there has been no indication that any such instrument or order will be made, but there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such instrument or order if made. While there is provision for compensation in certain circumstances under the Act, there can be no assurance that Covered Bondholders would recover compensation promptly and equal to any loss actually incurred. It should also be noted that any extraordinary public financial support provided to a relevant institution through any stabilisation action (such as temporary public ownership) is likely to be used by the UK authorities as a last resort only after having assessed and exploited, to the maximum extent practicable, the resolution tools and powers described above.

Lastly, as a result of the BRRD providing for the establishment of an EEA-wide framework for the recovery and resolution of credit institutions and investment firms and any relevant national implementing measures, it is possible that an institution with its head office in an EEA state other than the UK and/or certain group companies (such as a relevant Covered Bond Swap Provider) could be subject to certain resolution actions in that other state. Once again, any such action may affect the ability of any relevant entity to satisfy its obligations under the Transaction Documents and there can be no assurance that Covered Bondholders will not be adversely affected as a result.

3.2 *The Group is subject to substantial and changing conduct regulations*

The Group is exposed to many forms of conduct risk, which may arise in a number of ways. In particular:

- certain aspects of the Group's business may be determined by its regulators, including the FCA, the PRA, H.M. Treasury, the FOS, the Competition and Markets Authority (the **CMA**) or the courts, as not being conducted in accordance with applicable local or, potentially, overseas laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion. If the Group fails to comply with any relevant regulations, there is a risk of an adverse impact on its business and reputation due to sanctions, fines or other actions imposed by the regulatory authorities;
- the Group may be subject to allegations of mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate, which may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the Group's financial statements and could adversely impact future revenues from affected products; and
- the Group may be liable for damages to third parties harmed by the manner in which the Group has conducted one or more aspects of its business.

The Group is also exposed to specific forms of conduct risk which arise specifically in relation to its residential mortgage lending business.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage and damage to the Group's brand, which could have a material adverse effect on its

business, financial condition, results of operations and relations with customers. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

3.3 *The Group is subject to the potential impacts of UK and European banking reform initiatives*

In recent years, the relevant regulatory authorities in the UK and Europe have proposed (and in some cases have commenced implementation of) dramatic reforms to many aspects of the banking sector, including, among others, institutional structure, resolution procedures and deposit guarantees. While the impact of these regulatory developments remains uncertain, the Group expects that the evolution of these and future initiatives could have an impact on its business.

The Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**) has enacted a number of reforms primarily related to the UK banking sector, including the ring-fencing of certain activities. The secondary legislation setting out the detail of the ring-fencing regime exempts from ring-fencing those banks whose 'core deposits' (as defined in the secondary legislation and assessed on a group wide basis) do not exceed £25 billion as a rolling average over a three-year period. The Group is within the scope of application of the ring-fencing obligations.

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

In April 2014, the EU Deposit Guarantee Schemes Directive (the **DGSD**) was adopted and EU Member States had until 3 July 2015 to implement it into national law. The DGSD requires EU Member States to ensure that by 3 July 2024 the available financial means of the deposit guarantee schemes regulated by it reach a minimum target level of 0.8 per cent. of the covered deposits of credit institutions and national schemes are to be funded through regular contributions before the event (*ex-ante*) to the deposit guarantee schemes. This requirement differs from the previous FSCS regime which required ex-post financing where fees are required after a payment to depositors has occurred. Under the DGSD, in case of insufficient ex-ante funds, the deposit guarantee scheme will collect immediate after the event (*ex-post*) contributions from the banking sector and as a last resort it will have access to alternative funding arrangements such as loans from public or private third parties. The FSCS provides for a temporary high balance deposit protection, up to £1 million, for up to six months for certain limited types of deposits. The standard depositor protection limit is £85,000 per person per firm for claims against firms declared in default from 30 January 2017. It is possible, as a result of the DGSD and requirements, that future FSCS levies on the Group may differ from those at present, and such reforms could result in the Group incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

3.4 *The Group is subject to substantial and increasing industry-wide regulatory and governmental oversight*

In addition to the promulgation of new legislation and regulation, the UK Government, the PRA, the FCA and other regulators in the UK, the European Union and overseas have in recent years become substantially more interventionist in their application and monitoring of certain regulations and they may intervene further in relation to areas of industry risk already identified, or in new areas, which could affect the Group.

Areas where regulatory changes could have an adverse effect on the Group include, but are not limited to:

- general changes in government, central bank or regulatory policy, or changes in regulatory regimes, including changes that apply retroactively, that may influence investor decisions in particular markets in which the Group operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- external bodies applying or interpreting standards or laws differently to those applied by the Group;
- one or more of the Group's regulators intervening to mandate the pricing of certain of the Group's products as a consumer protection measure;
- one or more of the Group's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- changes in competitive and pricing environments, including changes to interchange fees receivable on debit and credit card transactions;
- further requirements relating to financial reporting, corporate governance, conduct of business and employee remuneration;
- changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;
- CMA market studies or investigations, FCA market studies on payment systems regulator market studies potentially resulting in a range of measures, including behavioural and/or structural remedies;
- changes in business strategy, particularly impacting the rate of growth of the business; and
- changes to conditions imposed on the sales and servicing of products, which have the effect of making such products unprofitable or unattractive to sell.

The Group, in common with much of the UK and European financial services industry, continues to be the focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations and enhanced regulatory requirements. As a result, regulatory risk will continue to require senior management attention and consume significant levels of business resources. Furthermore, as enhanced supervisory standards are developed and implemented, this more intensive approach and the enhanced regulatory requirements, along with uncertainty and the extent of international regulatory co-ordination, may adversely affect the Group's business, capital and risk management strategies and/or may result in the Group deciding to modify its legal entity structure, capital and funding structures and business mix or to exit certain business activities altogether or to determine not to expand in areas despite their otherwise attractive potential.

The Group continually assesses the impacts of legal and regulatory developments which could have an effect on it and will participate in relevant consultation and calibration processes undertaken by the various regulatory and other bodies. Implementation of the foregoing regulatory developments could result in additional costs or limit or restrict the way that the Group conducts business, although uncertainty remains about the details, impact and timing of these reforms. Enhanced supervisory standards and a more intensive approach to supervision and oversight, as well as the Group's failure to comply with enhanced regulatory requirements, may adversely affect the Group's business, capital and risk management strategies. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

3.5 *The Group must comply with anti-money laundering, anti-bribery and sanctions regulations*

The Group is subject to laws that are in place to prevent money laundering and the financing of terrorism, as well as laws that prohibit the Group, its employees or intermediaries from

making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has become more aggressive, resulting in several landmark fines against UK financial institutions. In addition, the Group cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted. Although the Group believes that its current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that such policies completely prevent situations of money laundering or bribery, including actions by the Group's employees, for which the Group might be held responsible. Any of such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's financial condition and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

4 Risks relating to the Group's relationship with SABIS

The Group's reliance on services arrangements with SABIS exposes the Group to a range of potential operational and regulatory risks

On 22 April 2018 a migration of data and IT systems was effected to the SABIS Services provided by SABIS under the OSA entered into with TSB. See 2.11 "*TSB Bank IT system issues and related risks*" for details about issues arising from this migration.

Events impacting SABIS' ability to honour its contractual commitments to TSB Bank under the OSA, such as human errors, events of force majeure, insolvency or other triggers for its recovery or resolution or any failure of the underlying systems or infrastructure used by SABIS or its subcontractors, could result in significant disruptions (including in the delivery of services to the Group) and costs that adversely affect the overall operational performance, financial performance, financial position or prospects of the Group's business, as well as harm the Group's reputation or brand and/or attract increased regulatory scrutiny.

Any interruption to the SABIS Services provided under the OSA could cause material damage to the Group's business and reputation, and could cause the Group to incur higher administrative and other costs both for the processing of business and the potential remediation of disputes. While the financial performance of SABIS does not have a direct impact on the performance of the Group, any catastrophic deterioration in SABIS' business, financial condition or results of operations, such that it required recovery or resolution or other government intervention, could jeopardise the Group's ability to continue to operate and ultimately meet its regulatory threshold conditions. The provision of the SABIS Services by SABIS is vital to the Group's ability to operate its business. If SABIS were unable to continue to meet its obligations under the OSA or any other relevant arrangements, either due to an industry-wide dislocation or to circumstances particular to SABIS, the consequences to the Group would be severe.

Any of the events described above could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

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

1 Risks related to the Covered Bond Guarantee

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

Subsequent to a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds, the Bond Trustee may serve an Issuer Acceleration Notice, but is not obliged to, unless and until requested or directed by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single Series or if so directed by an Extraordinary Resolution of all the Covered Bondholders in accordance with Condition 9.1 (*Issuer Events of Default*). Following service of an Issuer Acceleration Notice on the Issuer, a Notice to Pay will be served by the Bond Trustee on the LLP. Following service of a Notice to Pay on the LLP, under the terms of the Covered Bond Guarantee the LLP will be obliged to pay Guaranteed Amounts as and when the same are Due for Payment. In these circumstances, the LLP will not be obliged to pay any other amounts which become payable for any other reason other than in accordance with the Guarantee Priority of Payments.

Payments by the LLP under the Covered Bond Guarantee will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. Prior to service on the LLP of an LLP Acceleration Notice, the LLP will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or interest on interest which may accrue on or in respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 7 (*Taxation*).

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

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

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

If, following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Security created by or pursuant to the Deed of Charge is enforced, the Charged

Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

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

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

For so long as the Covered Bonds are rated by Moody's, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and 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.

1.3 *Maintenance of Portfolio*

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

Alternatively, 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 prior to maturity of Hard Bullet Covered Bonds where the Pre-Maturity Liquidity Test is breached*. 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 TSB Bank plc if it does not make Cash Capital Contributions to the LLP.

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

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

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

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.

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

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

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

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

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

1.6 *Sale of Selected Loans and their Related Security if a Supplemental Liquidity Event has occurred*

If a Supplemental Liquidity Event has occurred which is continuing, then the LLP is permitted (but not required) to sell Selected Loans with the aim to fund or replenish the Supplemental Liquidity Reserve Ledger, provided that the aggregate Current Balance of Selected Loans so sold shall not exceed the Supplemental Liquidity Reserve Amount.

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 the replenishment of the Supplemental Liquidity Reserve and payments under the Covered Bond Guarantee.

1.7 *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

rates and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Although interest rates are currently at a historical low, this may change in the future and an increase in interest rates may adversely affect Borrowers' ability to pay interest or repay principal on their Loans. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Unemployment, loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

The Portfolio may contain interest-only loans. It is the responsibility of the relevant Borrower to have an investment plan in place to assist that Borrower to ensure that funds will be available to repay the principal at the end of the term. The Seller has not always verified that an investment plan is in place and does not take security over these investment plans.

The ability of a Borrower to repay the principal on an interest-only loan at maturity depends on the Borrower ensuring that sufficient funds are available from an investment plan or another source, such as pension policies or endowment policies, as well as the financial condition of the Borrower, tax laws and general economic conditions at the time. The proceeds from an investment plan or other investment may be insufficient to cover the repayment of principal of the loan which may result in either delayed repayment of the loan or enforcement action against the Borrower.

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

1.8 *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 of 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.

1.9 *Changes to the Lending Criteria of the Seller*

Each of the Loans originated by the Seller or acquired by the Seller from Lloyds Bank plc pursuant to a transfer under Part VII of the Financial Services and Markets Act 2000 (the **Lloyds 2013 Part VII Transfer**) will have been originated in accordance with their Lending Criteria at the time of origination, subject only to exceptions properly approved on a case-by-case basis. The relevant Lending Criteria will generally consider (amongst other things) type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicant and credit history. In the event of the assignment or assignation of any Loans and

their Related Security to the LLP, the Seller will warrant only that such Loans and Related Security were originated in accordance with the Lending Criteria applicable at the time of origination, subject only to exceptions properly approved on a case-by-case basis. The 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.

1.10 *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 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, subject to a rating trigger, to take account of the potential set-off risk associated with Borrowers holding deposits with the Seller. However, there is no assurance that these steps will prevent set-off risks from adversely affecting the realisable value of the Loans. Further, for so long as the LLP does not have legal title, the 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.

1.11 *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.

For instance, 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 relevant originator.

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

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

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

2 Risks relating to the LLP

2.1 *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 Transaction 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 Transaction 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.

2.2 *Limited recourse to the Seller*

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

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

If the Seller fails to remedy the breach of a Representation and Warranty within such 20 London Business Day period (or any longer period permitted), then the Seller will be required to repurchase before the next following LLP Payment 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.

If the Servicer determines on a Calculation Date that there is a breach of any of the Representations and Warranties with respect to any Further Advance or a Flexible Loan Drawing, as applicable, as at the relevant Advance Date purchased by the LLP in the preceding calendar month, the Seller shall offer to repurchase the relevant Loan and its Related Security subject to such Further Advance or a Flexible Loan Drawing, as applicable, from the LLP, on any London Business Day prior to the LLP Payment Date immediately following such Calculation Date, at a repurchase price equal to the then Current Balance of the relevant Loan as at the date of such repurchase. The LLP (or the Servicer on behalf of the LLP) may at its absolute discretion accept such offer by delivering a Loan Repurchase Notice duly signed on behalf of the LLP in accordance with the provisions of the Mortgage Sale Agreement. The repurchase price for a Loan and its Related Security subject to a Further Advance or a Flexible Loan Drawing, as applicable, and repurchased by the Seller will not include the amount of the relevant Further Advance or a Flexible Loan Drawing, as applicable (unless the Seller has already made a Capital Contribution in Kind in relation to such Further Advance or a Flexible Loan Drawing, as applicable, in accordance with the LLP Deed), which will be returned by the Seller.

If the Servicer determines on a Calculation Date that there is a breach of any of the Representations and Warranties with respect to any Product Switch made in the preceding calendar month, the Seller shall offer to repurchase the relevant Loan and its Related Security subject to such Product Switch from the LLP, on any London Business Day prior to the LLP Payment Date immediately following such Calculation Date, at a repurchase price equal to the then Current Balance of the relevant Loan as at the date of such repurchase. The LLP (or the Servicer on behalf of the LLP) may at its absolute discretion accept such offer by delivering a Loan Repurchase Notice duly signed on behalf of the LLP in accordance with the provisions of the Mortgage Sale Agreement.

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 and Warranty.

2.3 *Reliance of the LLP on third parties*

The LLP has entered into agreements with a number of third parties, which have agreed to perform services for the LLP. In particular, but without limitation, the Servicer has been appointed to service Loans in the Portfolio, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and other programme tests and to provide cash management services to the LLP and the Account Bank has been appointed to provide banking services and to receive and hold moneys on behalf of the LLP. In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if the Servicer has failed to adequately manage the Loans, this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement (if applicable) and the Covered Bond Guarantee, as described in the following two risk factors. In addition, following an Issuer Event of Default and the subsequent sale of Loans by the LLP in accordance with the LLP Deed, such sale proceeds will be deposited in the Transaction Account for application in accordance with the provisions of the LLP Deed when amounts are Due for Payment.

Although the Account Bank is subject to rating downgrade triggers in the Bank Account Agreement, should the Account Bank fail to pay the required amounts in accordance with the instructions of the LLP or the Cash Manager, there may not be sufficient funds available to the LLP to make payments on the Covered Bonds when the same shall become Due for Payment.

If a Servicer Termination Event occurs pursuant to the terms of the Servicing Agreement, then the LLP and/or the Security Trustee will be entitled to terminate the appointment of the Servicer and appoint (with the assistance of the Back-Up Servicer Facilitator) a new servicer in its place. There can be no assurance that a substitute servicer with sufficient experience of managing mortgages of residential properties would be found who would be willing and able to service the Loans in the Portfolio on the terms of the Servicing Agreement. In addition, any substitute servicer would be required to be authorised under the FSMA 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 ceases to be assigned a long-term Counterparty Risk Assessment by Moody's of at least "Baa3(cr)" the LLP will (with the assistance of the Back-Up Servicer Facilitator) use best endeavours to identify and appoint a suitable third party to act as a back-up or stand-by servicer (the **Back-Up Servicer**) to the Servicer within 60 days of such Back-Up Servicer Event.

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. If a Cash Manager Termination Event occurs pursuant to the terms of the Cash Management Agreement, then the LLP and/or the Security Trustee will be entitled to terminate the appointment of the Cash Manager and appoint (with the assistance of the Back-Up Cash Manager Facilitator) a substitute cash manager in its place. There can be no assurance that a substitute cash manager with sufficient experience of providing cash management servicer would be found who would be willing and able to act on the terms of the Cash Management Agreement. Any delay or

inability to appoint a substitute cash manager may affect the ability of the LLP to make payments.

However, if a Cash Manager Termination Event occurs pursuant to the terms of the Cash Management Agreement, then the Cash Manager and the LLP will use best endeavours (with, in the case of the LLP, the assistance of the Back-Up Cash Manager Facilitator) to identify and appoint a suitable third party to act as back-up or stand-by cash manager to the Cash Manager (the **Back-Up Cash Manager**) and to undertake back-up cash management services to the LLP within 30 days of such Back-Up Cash Manager Event.

The Cash Manager has no obligation itself to advance payments that the LLP fails to make in a timely fashion. The Cash Manager will not be required to seek the consent or approval of the Covered Bondholders before taking any action under the Cash Management Agreement.

Neither the Security Trustee nor the Bond Trustee is obliged in any circumstances to act as a cash manager or to monitor the performance by the Cash Manager 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 the Bank of England Base Rate) and Sterling LIBOR, the LLP will enter into Cover Pool Swaps with the Cover Pool Swap Provider under the Cover Pool Swap Agreement. In addition, to provide a hedge against interest rate and/or currency (if applicable) risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Cover Pool 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 enter into a 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.

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 Agency.

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 Cover Pool 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.

2.4 *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 Covered Bond Swaps, the LLP will, periodically, pay or provide for payment of an amount to each corresponding Covered Bond Swap Provider based on Sterling LIBOR for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a 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. If a Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap Agreement or such Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP under the Covered Bond Swap Agreement, the LLP may have a larger shortfall in funds with which to make payments under the Intercompany Loan Agreement or under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with the LLP's payment obligations under the Covered Bond Swap. Hence, the difference in timing between the obligations of the LLP and the obligations of the Covered Bond Swap Providers under the Covered Bond Swaps may affect the LLP's ability to make payments under the outstanding Term Advances and, following service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, under the Covered Bond Guarantee with respect to the Covered Bonds. A Covered Bond Swap Provider may be required, following a downgrade of its ratings below the ratings specified in the relevant Covered Bond Swap Agreement and pursuant to the terms of the relevant Covered Bond Swap Agreement, to post collateral with the LLP if the LLP's net exposure to the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement exceeds a certain threshold level.

2.5 *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 under the FSMA and requirements in relation to the short-term, unguaranteed and unsecured ratings or counterparty risk assessment ratings ascribed to such party by Moody's. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive moneys on behalf of the LLP) may be required to be transferred to another entity which does satisfy the applicable criteria. However, it may not be possible to find a suitably rated counterparty to replace the original counterparty. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document.

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

2.6 *Limited Liability Partnerships*

The LLP is a limited liability partnership. Limited liability partnerships, created by statute pursuant to the Limited Liability Partnership Act 2000 (the **LLPA**), are bodies corporate and have unlimited capacity. A general description of limited liability partnerships is set out under "*Description of Limited Liability Partnerships*" below. This area of the law in the UK is relatively undeveloped. Accordingly, there is a risk that as the law develops, new case law

or new regulations made under or affecting the LLPA or relating to limited liability partnerships could adversely affect the ability of the LLP to perform its obligations under the Transaction Documents which could, in turn, adversely affect the interests of the Covered Bondholders.

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

Following (i) a breach of the Pre-Maturity Liquidity Test; and/or (ii) service of an Asset Coverage Test Breach Notice which remains outstanding or (iii) service of a Notice to Pay (but in each case prior to the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption in favour of the Seller 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.

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

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

- delinquencies or default by Borrowers in payment of amounts due on their Loans;
- the Loans of New Sellers being included in the Portfolio;
- changes to the lending criteria of the Seller;
- the LLP not having legal title to the Loans in the Portfolio;
- set-off risks in relation to some types of Loans in the Portfolio;
- no representations or warranties being given by the LLP or the Seller;
- limited recourse to the Seller or any New Seller;
- reliance of the LLP on third parties;
- possible regulatory changes by the FCA, the PRA and other regulatory authorities (see "*General risk factors*");

- regulations in the UK that could lead to some of the Loans or their Related Security being unenforceable, cancellable or subject to set-off, or some of their terms being unenforceable (see "*General risk factors*"); and/or
- geographic risks, as geographic regions within the UK have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the UK.

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

3 Risk factors relating to the Covered Bonds

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

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

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until (A) service of a Notice to Pay on the LLP subsequent to (i) an Asset Coverage Test Breach Notice being served and not revoked within the requisite time period and/or a breach of the Pre-Maturity Liquidity 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 Liquidity 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.

3.2 *Covered Bonds and the Covered Bond Guarantee are obligations of the Issuer and the LLP only*

The Covered Bonds and the Covered Bond Guarantee are obligations of the Issuer and the LLP, respectively, as described above, and the Covered Bonds are not guaranteed by any other entity of the Group and accordingly the holders of Covered Bonds have recourse in respect thereof only to the Issuer and, to the extent described above, the LLP.

3.3 *Extendable obligations under the Covered Bond Guarantee*

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (subject to the applicable grace period) and if, following service of a Notice to Pay on the LLP (by no later than the date which falls one Business Day prior to the Extension Determination Date), payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds is not made in full by the Extension Determination Date, then the payment of such Guaranteed Amounts may be automatically deferred. This will occur (subject to no LLP Acceleration Notice having been served) only if the Final Terms for a relevant Series of

Covered Bonds (the **relevant Series of Covered Bonds**) provides that such Covered Bonds are subject to an Extended Due for Payment Date.

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

3.4 *Limited description of the Portfolio*

Covered Bondholders will receive only limited detailed statistics or information in relation to the Loans in the Portfolio. This information will be set out in the relevant investor report and will relate to the Asset Pool at the end of the immediately preceding month and will not reflect any subsequent changes to the Portfolio since such date. It is expected that the constitution of the Portfolio will frequently change due to, for instance:

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

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

will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

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

While, over the last few years, interest rates have remained at relatively low levels historically there has been a cycle of rising and falling mortgage interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, may ultimately result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses on the Portfolio, which in turn may affect the ability of the Issuer to make payments of interest and principal on the Covered Bonds.

3.6 *EU financial transaction tax*

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

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

The FTT may give rise to tax liabilities for the LLP with respect to certain transactions (including concluding swap transactions and/or purchases or sales of securities (such as authorised investments)) if it is adopted based on the Commission's proposal. Any such tax liabilities may reduce amounts available to the LLP to meet its obligations under the Covered Bond Guarantee and may result in investors receiving less interest or principal than expected. To the extent that such liabilities may arise at a time when winding up proceedings have been commenced in respect of the Issuer, such liabilities may be regarded as an expense of the liquidation and, as such, be payable out of the floating charge assets of the LLP (and its general estate) in priority to the claims of Covered Bondholders and other secured creditors. It should also be noted that the FTT could be payable in relation to relevant transactions by investors in respect of the Covered Bonds (including secondary market transactions) if the conditions for a charge to arise are satisfied and the FTT is adopted based on the Commission's proposal. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

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

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

3.7 *Ratings of the Covered Bonds*

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

- the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date;
- the likelihood of timely payment of principal in relation to the Hard Bullet Covered Bonds on the Final Maturity Date; and
- the likelihood of ultimate payment of principal in relation to Covered Bonds on (a) the Final Maturity Date thereof, or (b) if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee in accordance with the applicable Final Terms, the Extended Due for Payment Date thereof.

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. The Rating Agency may lower its rating or withdraw its rating if, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A credit rating may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds. In addition, at any time the Rating Agency may revise its relevant rating methodology with the result that, amongst other things, a rating assigned to the Covered Bonds may, in the absence of any mitigating action being taken such as the modification of the Transaction Documents, be lowered. Additionally, a reduction in the credit ratings of the Issuer (which may be caused by a reduction in the rating of Sabadell) may negatively impact the ratings of the Programme and any Covered Bonds. **A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension or withdrawal (or, as noted above, revision) at any time. A credit rating may not reflect the potential impact of all of the risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds.**

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings referred to in this Prospectus, is set out in *Overview of the Programme – Ratings* of this Prospectus. The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

3.8 *Rating Agency Confirmation in respect of Covered Bonds*

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

By acquiring the Covered Bonds, investors will be deemed to have acknowledged and agreed that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a Rating Agency Confirmation, whether any action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not prejudicial to, some or all of the Covered Bondholders. In being entitled to have regard to the fact that the Rating Agency has 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 Agency 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 Agency 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 the 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 the 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.

3.9 *Covered Bonds issued under the Programme*

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

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

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

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

3.10 *Further Issues*

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

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds 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 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 Transaction Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit);
- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Rating Agency that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

3.11 *Obligations under the Covered Bonds*

The Covered Bonds will not represent an obligation or be the responsibility of any of the Arranger, the relevant Dealer, the Bond Trustee, the Security Trustee or any other party to the

Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer and the LLP. The Issuer and the LLP will be liable solely in their corporate capacity for their obligations in respect of the Covered Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

3.12 *Bond Trustee's powers may affect the interests of the Covered Bondholders*

In the exercise of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the general interests of the Covered Bondholders of each Series as a class.

The Bond Trustee 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 or give any notice pursuant to Conditions 9.1 (Issuer Events of Default) or 9.2 (LLP Events of Default) unless (i) directed to do so by an Extraordinary Resolution (with the Covered Bonds of all Series taken together as a single Series) or (ii) requested to do so in writing by the holders of at least 20 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding and (iii) it is indemnified and/or secured and/or prefunded to its satisfaction.

The Bond Trustee shall not be bound to take any other action or step under any Transaction Document unless (i) directed to do so by an Extraordinary Resolution of the Covered Bondholders of the relevant one or more Series or (ii) requested to do so in writing by the holders of in the aggregate at least 20 per cent. of the Principal Amount Outstanding of the Covered Bonds of the relevant one or more Series and (iii) it is indemnified and/or secured and/or prefunded to its satisfaction.

The Bond Trustee shall be bound to (A) waive or authorise any breach or proposed breach by the Issuer, the LLP or any other person of any of the covenants or provisions contained in the Transaction Documents or (B) 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 (i) so directed by an Extraordinary Resolution of the Covered Bondholders of all Series, in the case of (B) above or by an Extraordinary Resolution or Extraordinary Resolutions of the Covered Bondholders of the relevant one or more Series, in any other case or (ii) requested to do so in writing by the holders of in the aggregate at least 20 per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding, in the case of (B) above or of the Covered Bonds of the relevant one or more Series in any other case and (iii) it is indemnified and/or secured and/or prefunded to its satisfaction. Any such waiver or determination will be binding on all Covered Bondholders.

Subject to the terms of the Terms and Conditions of the Covered Bonds, the Trust Deed and the Deed of Charge, the Bond 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. Any such modification may be made on such terms and subject to such conditions (if any) as the Bond Trustee may determine, and shall be binding upon the Covered Bondholders, the related Receiptholders and/or the Couponholders.

3.13 *Conflicts of Interest*

Conflicts of interest may arise during the life of the Programme as a result of various factors involving certain transaction parties. For example, such potential conflicts may arise because members of the Group act in several capacities (such as Cover Pool Swap Provider, Covered Bond Swap Provider, Issuer, Cash Manager, Servicer) under the Transaction Documents although the relevant rights and obligations under the Transaction Documents are not

contractually conflicting and are independent from one another. Also, during the course of their business activities, the transaction parties and/or any respective affiliates may operate, service, acquire or sell properties, or finance loans secured by properties, which are in the same markets as the Loans. In such cases, the interest of any of those parties or their affiliates or the interest of other parties for whom they perform servicing functions may differ from, and compete with, the interests of the Issuer or of the holders of the Covered Bonds.

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

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

Pursuant to the terms of the Trust Deed and the Deed of Charge, the Bond Trustee and the Security Trustee may, with respect to the modifications described in the first and second bullet points below and shall, in respect to the modifications described in the rest of the bullet points below, 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 provided that any such modification does not relate to a Series Reserved Matter, 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:

- 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; or
- in the case of modification only, such modification is in the opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature, is to correct a manifest error or is to comply with mandatory provisions of law;
- the Bond Trustee and the Security Trustee receive a certificate of the Issuer or the LLP certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer or the LLP to satisfy the relevant requirements which apply to it under Regulation (EU) 648/2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from supervisory regulation) (the **European Market Infrastructures Regulation** or **EMIR**);
- the Bond Trustee and the Security Trustee receive certification from the Issuer and the LLP in writing that the requested modifications are required solely and have been drafted solely for the purpose of allowing the Issuer to maintain compliance with the RCB Regulations in respect of the Programme and the Covered Bonds;
- the Security Trustee and the Bond Trustee receive (i) a certificate signed by two authorised signatories of the Issuer and a certificate of a Designated Member of the LLP certifying to the Bond Trustee that the requested amendments are to be made solely for the purpose of enabling the Covered Bonds to qualify as Covered Bonds under the RCB Regulations and (ii) the Rating Agency Confirmation in respect of the relevant modifications;
- in relation to the partial termination of a Covered Bond Swap following a partial redemption of the related Series of Covered Bonds, the Issuer and the LLP certify to the Bond Trustee and the Security Trustee that following such partial termination of

any Covered Bond Swap, the LLP remains adequately hedged in relation to such Series of Covered Bonds, the Issuer and the LLP have certified to the Bond Trustee and the Security Trustee that such partial termination will not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Series of Covered Bonds by the Rating Agency or (y) the Rating Agency placing any Covered Bonds on rating watch negative (or equivalent);

- in relation to any modifications to a Cover Pool Swap Agreement or (if the relevant Covered Bond Swap Agreement so provides) a Covered Bond Swap Agreement requested by the LLP or the relevant Cover Pool Swap Provider or Covered Bond Swap Provider, as applicable, for the purpose of complying with or implementing or reflecting updated criteria of one or more of the Rating Agencies which may be published after the date of this Prospectus, provided that the conditions precedent to making of such amendments as set out in the relevant Cover Pool Swap Agreement or a (if the relevant Covered Bond Swap Agreement so provides) Covered Bond Swap Agreement have been satisfied immediately prior to the date on which it is proposed that the amendments are effected and provided that the Issuer and the LLP certify in writing to the Bond Trustee and the Security Trustee that such modification is necessary to comply with, implement or reflect such ratings criteria;
- in relation to any modifications to the Transaction Documents and/or the Conditions that are requested by the Issuer and the LLP to comply with any criteria of the Rating Agency which may be published after the date of this Prospectus and which the Issuer and the LLP certify to the Bond Trustee and the Security Trustee in writing are required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by the Rating Agency to any Series of Covered Bonds;
- such modification is for the purpose of allowing one or more additional rating agencies to be appointed in respect to one or all Series of Covered Bonds;
- such modification is for the purpose of enabling the Covered Bonds to be (or to remain) listed on the Stock Exchange;
- such modification is for the purposes of enabling the Issuer or any of the other transaction parties to comply with FATCA;
- such modification is for the purpose of allowing any additional Account Banks or Swap Collateral Account Banks to be appointed and/or additional Transaction Accounts and/or Swap Collateral Accounts to be opened, including any custody accounts under the relevant Bank Account Agreement or Swap Collateral Bank Account Agreement, as applicable;
- such modification is for the purpose of allowing a Collateralised GIC Account Provider to be appointed and/or any Collateralised GIC Accounts to be opened, under the relevant Collateralised GIC Account Agreement;
- such modification is to allow the accession of any New Seller to the Programme provided that the relevant conditions precedent in the Transaction Documents are satisfied at the time of the intended accession; and
- in relation to any modifications to the Cover Pool Swap Agreement for the purpose of enabling the Cover Pool Swap in relation to the Variable Rate Loans to be extinguished at the option of the Cover Pool Swap Provider following a downgrade in the relevant rating of the Cover Pool Swap Provider or any guarantor of the Cover Pool Swap Provider's obligations by the Rating Agency, provided that the Issuer and the LLP certify in writing to the Bond Trustee that (a) such modification is required solely for such purpose and has been drafted solely to such effect and (b) the Rating Agency has confirmed that such a downgrade in the relevant rating of the Cover Pool Swap Provider or any guarantor of the Cover Pool Swap Provider's obligations will

not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Series of Covered Bonds by the Rating Agency or (y) the Rating Agency placing any Covered Bonds on rating watch negative (or equivalent),

PROVIDED that (1) the Bond Trustee and the Security Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and the Security Trustee, as applicable, would have the effect of (a) exposing the Bond Trustee and the Security Trustee, as applicable, to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (b) increasing the obligations or duties, or decreasing the rights or protections, of the Bond Trustee and the Security Trustee, as applicable in the Transaction Documents and/or the Conditions, (2) at least 14 days' prior written notice of any such proposed modification has been given to the Bond Trustee and the Security Trustee and (3) the consent of each Secured Creditor (other than the Bond Trustee, the Security Trustee and the Covered Bondholders) which is a party to the relevant Transaction Document has been obtained and provided further that, in respect of any proposed modification, waiver, authorisation or determination, prior to the Bond Trustee or the Security Trustee (as the case may be) agreeing to any such modification, waiver, authorisation or determination, the Issuer must send written confirmation to the Bond Trustee:

(i) that such modification, waiver, authorisation or determination, as applicable, would not result in (1) a breach of the RCB Regulations or (2) the Issuer and/or the Programme ceasing to be registered under the RCB Regulations; and

(ii) that either: (a) such modification, waiver, authorisation or determination would not require notification in accordance with Regulation 20 of the RCB Regulations; or (b) if such modification, waiver or authorisation would require notification in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the Authorities and the Authorities have given their consent to such proposed modification, waiver, authorisation or determination.

Notwithstanding the above, the Issuer and the LLP 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 manifest error or to comply with any mandatory provisions of law.

3.15 *Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents so long as at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have not contacted the Issuer in writing notifying it that such Covered Bondholders object to the proposed modifications*

In respect of any Covered Bonds issued on or after 1 November 2018, and in addition to the right of the Bond Trustee and the Security Trustee to make certain modifications to the Transaction Documents without the consent of Covered Bondholders described under "*The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent*", the Bond Trustee and the Security Trustee shall, without any consent or sanction of the Covered Bondholders or any of the other Secured Creditors (other than those Secured Creditors (i) party to the relevant Transaction Document(s) or (ii) whose ranking in any Priorities of Payment is affected), concur with the Issuer in making any modification to the Trust Deed, the Conditions or any other Transaction Document to which it is a party or in relation to which it holds security for the purpose of changing the Reference Rate to an Alternative Base Rate as further described in Condition 14.3 (*Additional Right of Modification and Waiver*) on the relevant Series of Covered Bonds outstanding, to an Alternative Base Rate (and such other amendments as are necessary or advisable in the reasonable judgment of the Issuer to facilitate such change) to the extent there has been or there is reasonably expected to be a material disruption or cessation to LIBOR, EURIBOR or

any other Reference Rate, in each case subject to the satisfaction of certain requirements, including receipt by the Bond Trustee of a Base Rate Modification Certificate, certifying, among other things, that the modification is required for such stated purpose.

The Issuer must provide at least 30 days' notice to the Covered Bondholders of the proposed modification in accordance with Condition 13 (Notices) and by publication on Bloomberg on the "Company News" screen relating to the Covered Bonds. If, within 30 days from the giving of such notice, Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have not contacted the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Covered Bonds may be held) within such notification period notifying the Issuer that such Covered Bondholders do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the of the relevant Series then outstanding is passed in favour of the Base Rate Modification in accordance with Condition 14.3 (*Additional Right of Modification and Waiver*). However, in the absence of such a notification, all Covered Bondholders will be deemed to have consented to such modification and the Bond Trustee shall, subject to the requirements of Condition 14.3 (*Additional Right of Modification and Waiver*), without seeking further consent or sanction of any of the Covered Bondholders and irrespective of whether such modification is or may be materially prejudicial to the interest of the Covered Bondholders, concur with the Issuer in making the proposed modification.

Therefore, it is possible that a modification could be made without the vote of any Covered Bondholders or even if holders holding less than 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding objected to it.

In addition, Covered Bondholders should be aware that, unless they have made arrangements to promptly receive notices sent to Covered Bondholders from any custodians or other intermediaries through which they hold their Covered Bonds and give the same their prompt attention, Meetings may be convened or resolutions (including Extraordinary Resolutions) may be proposed and considered and passed or rejected or deemed to be passed or rejected without their involvement even if, were they to have been promptly informed, they would have voted in a different way from the Covered Bondholders which passed or rejected the relevant proposal or resolution.

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

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

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

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

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

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

3.18 *Absence of secondary market*

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

3.19 *Eurosystem Eligibility*

Any potential investor in the Covered Bonds should make their own conclusions and seek their own advice with respect to whether or not such Covered Bonds constitute Eurosystem eligible collateral.

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

The secondary market for mortgage-backed securities has experienced disruptions as a result of the prevailing and widely reported global credit market conditions. 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.

3.21 *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. 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 or Clearstream, Luxembourg 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.

4 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:

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

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

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

4.2 *Covered Bonds subject to Redemption for Taxation reasons*

Unless in the case of any particular Tranche or Series of Covered Bonds the relevant Final Terms specify otherwise, in the event that the Issuer 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 UK 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.

4.3 *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.

4.4 *Fixed Rate Covered Bonds*

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

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

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

4.6 *The yield to maturity of the Covered Bonds may be adversely affected by redemptions by the Issuer*

The yield to maturity of each class of Covered Bonds will depend mostly on: (i) the amount and timing of the repayment of principal on the Covered Bonds, and (ii) the price paid by the Covered Bondholders of each class. The yield to maturity of the Covered Bonds may be adversely affected by a higher or lower than anticipated rate of redemption on the Covered Bonds.

5 General risk factors

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

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

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

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

5.2 *Liquidation expenses*

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

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

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

In the United Kingdom, regulation of residential mortgage business by the FCA (previously the Financial Services Authority (the **FSA**) under the FSMA came into force on 31 October 2004 (the **Mortgage Regulation Date**)). Subject to certain exemptions, entering into as a

lender, arranging or advising in respect of or administering Regulated Mortgage Contracts (or agreeing to do any of these things) is a regulated activity under the FSMA and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (the **RAO**) requiring authorisation and permission from the FCA.

If a mortgage contract was entered into or varied, such that a new contract was entered into on or after the Mortgage Regulation Date but before 21 March 2016 it will be a "Regulated Mortgage Contract" under the RAO if, at the time it is entered into (a) the borrower was 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 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 the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person. There have been incremental changes to the definition of Regulated Mortgage Contract over time, including the removal of the requirement for the security to be first ranking and the extension of the territorial scope to cover property in the EEA rather than just the UK. If the mortgage contract was entered into on or after 21 March 2016, it will be a Regulated Mortgage Contract (**Regulated Mortgage Contract**) if it meets the following conditions (but subject to certain relevant exclusions such as the relevant exclusions for buy-to-let loans) (a) the borrower is an individual or trustee; and (b) the obligation of the borrower to repay is secured by a mortgage on land in the EEA, at least 40% of which is used, or is intended to be used, (i) in the case of credit provided to an individual, as or in connection with a dwelling; or (ii) in the case of credit provided to a trustee which is not an individual, as or in connection with a dwelling by an individual who is a beneficiary of the trust, or by a related person. A related person (in relation to a Borrower, or in the case of credit provided to trustees, a beneficiary of the trust) is broadly the person's spouse or civil partner, near relative or a person with whom the borrower (or in the case of credit provided to trustees, a beneficiary of the trust) has a relationship which is characteristic of a spouse.

Credit agreements which were originated before 21 March 2016, which were regulated by the CCA, and that would have been Regulated Mortgage Contracts had they been entered into on or after 21 March 2016 are consumer credit back book mortgage contracts and are also therefore Regulated Mortgage Contracts (see Risk Factors - "*Regulation of residential secured lending (other than Regulated Mortgage Contracts)*"). On and from the Mortgage Regulation Date, subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised under the FSMA. The specified activities currently are: (a) entering into a Regulated Mortgage Contract as lender; (b) administering a Regulated Mortgage Contract (administering in this context broadly means notifying borrowers of changes in mortgage payments and/or collecting payments due under the mortgage loan); (c) advising in respect of Regulated Mortgage Contracts; and (d) arranging Regulated Mortgage Contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to the authorisation of lenders and brokers are not complied with, a Regulated Mortgage Contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a Regulated Mortgage Contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower. The regime under the FSMA regulating financial promotions covers the content and manner of the promotion of agreements relating to qualifying credit and by whom such promotions can be issued or approved. In this respect, the FSMA regime not only covers financial promotions of Regulated Mortgage Contracts but also promotions of certain other types of secured credit agreements under which the lender is a person (such as an Originator) who carries on the regulated activity of entering into a Regulated Mortgage Contract. Failure to comply with the financial promotion regime (as regards who can issue or approve financial promotions) is a criminal offence and will render the Regulated Mortgage Contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

The Seller holds authorisation and permission to enter into and to administer and (where applicable) to advise in respect of Regulated Mortgage Contracts. Subject to certain exemptions, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts. The Seller is also registered by the FCA as a consumer buy-to-let business (for lending and administration) (see "*Mortgage Credit Directive*"). The LLP is not and does not propose to be an authorised person under the FSMA nor is it nor does it propose to be registered as a consumer buy-to-let mortgage business. The LLP does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. As a result of having the Regulated Mortgage Contracts administered pursuant to a servicing agreement by an entity having the required FCA authorisation and permission, the LLP does not carry on the regulated activity of administering Regulated Mortgage Contracts. If such a servicing agreement terminates, however, the LLP will be required to arrange for mortgage administration to be carried out by a replacement servicer having the required FCA authorisation and permission, and will have a period of not more than one month in which to do so. The same analysis applies in respect of consumer buy-to-let mortgages.

The LLP will not itself be an authorised person under the FSMA. However, in the event that a mortgage is varied, such that a new contract is entered into and that contract constitutes a Regulated Mortgage Contract, then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. In addition no variation has been or will be made to the Mortgage Loans and no Further Advance or Product Switch has been or will be made in relation to a Mortgage 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. The FCA's Mortgages and Home Finance: Conduct of Business Sourcebook (**MCOB**), which sets out the FCA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, inter alia, 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.

If requirements as to authorisation and permission of lenders and brokers or as to issue and approval of financial promotions are not complied with, a Regulated Mortgage Contract will be unenforceable against the borrower except with the approval of a court. In addition, a borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FCA rule, 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 claim or set-off may reduce the amounts available to meet the payments due in respect of the Covered Bonds and may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

Any regulated activities carried on by an entity which is not authorised under the FSMA would be in breach of the general prohibition on conducting unauthorised regulated activities in Section 19 FSMA and would be a criminal offence. In addition to criminal offences the FCA may take civil action against a firm which breaches Section 19 FSMA with, potentially, the imposition of unlimited fines. Therefore, to the extent that the LLP or Servicer does not ensure that it acts with the necessary authorisation under the FSMA, there is a risk that such action will result in criminal or civil sanctions against the LLP or Servicer. However, this will not render the contract unenforceable against the borrower.

5.4 *Expansion of MCOB regulation*

In October 2009 the FSA (which is now known as the FCA) launched a wide-ranging mortgage market review (**MMR**). The FSA published final rules implementing the MMR in

October 2012 with the majority of these new rules having come into effect on 26 April 2014 through amendments to MCOB.

Key changes include a requirement for lenders to undertake affordability assessments at origination (including verifying income in all cases) and undertake stress tests to ensure mortgages remain affordable when interest rates increase. For interest-only mortgages, lenders must check that borrowers have a credible plan to repay the capital at the end of the loan. There are also changes to disclosure requirements (the initial disclosure document is replaced with a requirement for firms to disclose key messages to customers), arrears management and the sales process.

The rules apply to a Mortgage Loan that (i) is entered into on or after 26 April 2014; or (ii) is varied so as to increase the principal amount outstanding under it (e.g. by way of further advance) on or after 26 April 2014 and MCOB applies to the Mortgage Loan generally as a Regulated Mortgage Contract. To the extent that further advances are made which constitute new Mortgage Loans, or a Mortgage Loan is varied and in so doing a new Mortgage Loan is created under the new terms and such Mortgage Loan are Regulated Mortgage Contracts, then these new rules would apply.

5.5 *Mortgage Credit Directive*

The European Mortgage Credit Directive (2014/17/EU) (**MCD**) was published in the Official Journal of the European Union on 28 February 2014, and entered into force on 21 March 2014. The MCD had to be transposed into the national law of each member state of the European Union (a **Member State**) by 21 March 2016 and the UK achieved this.

The MCD aims to create an EU-wide mortgage credit market with a high level of consumer protection and it applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a Member State on residential immovable property, or secured by a right relating to residential immovable property and (b) credit agreements the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building, and also extends the Consumer Credit Directive (2008/48/EC) to unsecured credit agreements the purpose of which is to renovate residential immovable property involving a maximum total amount of credit of EUR 75,000. The MCD does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

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

On 25 March 2015, the Mortgage Credit Directive Order 2015 (the **MCD Order**) was passed in order to make the necessary legislative changes to implement the MCD. In outline, the MCD Order: (i) puts in place a new regulatory regime for consumer buy-to-let mortgages; (ii) widens the definition of a Regulated Mortgage Contract to include second charge mortgages; and (iii) transfers the regulation of some existing agreements (e.g. second charge mortgages) from the FCA's consumer credit regime to the FCA's mortgage regime (see "*Regulation of residential secured lending (other than Regulated Mortgage Contracts)*"). Whilst certain provisions of the MCD Order came into force before 21 March 2016, the MCD Order took effect for most purposes on 21 March 2016.

Since the MCD was only implemented fully into UK law through the MCD Order on 21 March 2016, it remains to be seen what effect the MCD and the implementation of the directive into UK law will have on the Mortgage Loans, the Issuer and/or the Servicer and their respective businesses and operations. However, the UK's approach to implementation

has been to minimise the impact of the MCD on the UK mortgage market by building on the existing UK regulatory regime (rather than copy out the directive into UK legislation).

5.6 *Regulation of residential secured lending (other than Regulated Mortgage Contracts)*

The UK government had a policy commitment to move second charge lending into the regulatory regime for mortgage lending rather than the regime for consumer credit under which second charge lending fell. The UK government thought that there was a strong case for regulating lending secured on a borrower's home consistently, regardless of whether it is a first or subsequent charge. The MCD also follows this principle and makes no distinction between requirements for first charge and second (and subsequent) charge mortgage lending. The UK government concluded that it made sense to implement the changes to second (and subsequent) charge lending alongside the implementation of the MCD. The UK government also proposed to move the regulation of second (and subsequent) charge loans already in existence before 21 March 2016 to the Regulated Mortgage Contract regime rather than keeping them within the consumer credit regime. The policy of regulating lending secured on a borrower's home consistently also meant that the UK government decided to change the regulatory regime of pre-2004 first charge loans regulated by the CCA. Mortgage regulation under FSMA began on 31 October 2004. Mortgages entered into before that date were regulated by the CCA, provided they did not exceed the financial threshold in place when they were entered into and were not otherwise exempt. In November 2015, the UK government made legislation which meant that the administration of and other activities relating to those pre-October 2004 first charge mortgages which were regulated by the CCA became regulated mortgage activities from 21 March 2017. The move of CCA regulated mortgages to the FSMA regime was implemented by the MCD Order. The government has put in place transitional provisions for existing loans so that some of the CCA protections in place when the loans were originally taken out are not removed retrospectively.

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

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

liable to repurchase the relevant Mortgage Loan(s) and their Related Security from the LLP in accordance with the Mortgage Sale Agreement.

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

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

5.7 *Unfair relationships*

The CCA contains an "unfair relationship" test, which applies to all existing and new credit agreements, except Regulated Mortgage Contracts under the FSMA and also applies to (as described above) "consumer credit back book mortgage contracts". Where there is an unfair relationship, the CCA explicitly permits the court to require amounts received from a borrower to be repaid by the originator and any assignee such as the LLP. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct (or anyone acting on behalf of the creditor) before and after making the agreement or in relation to any related agreement. There is no statutory definition of the word "unfair" in the CCA as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in UK legislation as it has been given meaning under UK unfair contract terms legislation (discussed below) and associated case law and regulatory guidance. The principle of "treating customers fairly" under the FSMA, and guidance published by the PRA and the FCA (and, prior to 1 April 2013, the FSA) on that principle and by the FCA (and, prior to 1 April 2014), the OFT on the unfair relationship test, may also be relevant. Once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

Plevin v Paragon [2014] UKSC 61, a Supreme Court judgment, has clarified that compliance with the relevant regulatory rules by the creditor (or a person acting on behalf of the creditor) does not preclude a finding of unfairness, as a wider range of considerations may be relevant to the fairness of the relationship than those which would be relevant to the application of the rules.

In March 2017, the FCA published final rules and guidance with respect to payment protection insurance complaints in light of Plevin. The rules do not apply to borrowers with Regulated Mortgage Contracts. The FCA rules came into force on 29 August 2017 and required that firms that sold PPI to write to previously rejected mis-selling complainants who are eligible to complain again in light of Plevin in order to explain this to them by 29 November 2017. The FCA rules state that if the anticipated profit share and commission or the likely range of profit share and commission on a PPI Contract were not disclosed to the borrower before the PPI Contract was entered into, the firm should consider whether it can satisfy itself on reasonable grounds that an unfair relationship did not arise. A firm should make a rebuttable presumption that failure to disclose commission gave rise to an unfair relationship if the anticipated combined profit share plus the commission known or reasonably foreseeable at the time of sale was in relation to a single premium payment protection contract, more than 50% of the total amount paid in relation to the PPI Contract or in the case of a regular premium PPI Contract, at any time in the relevant period or period more than 50% of the total amount paid in relation to the PPI Contract in respect of the relevant period or periods. The FCA cites, amongst others, an example of such presumption being rebutted by the lender not having known and not being reasonably expected to have

known or foreseen the level of commission and anticipated profit share. Where the firm concludes that the non-disclosure of commission on a PPI Contract has given rise to an unfair relationship, the FCA states that the firm should remedy the unfairness by paying the complainant a sum equal to the total commission paid by the complainant for PPI plus an amount representing any profit share payment, minus 50% of the total amount paid by the complainant for the PPI (**Compensation Sum**). The firm should also pay historic interest in relation to the Compensation Sum (which is the interest the complainant paid as a result of the Compensation Sum being included in the loan) where relevant and also pay simple interest on the whole amount.

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

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

5.8 *Regulation of buy-to-let mortgages*

The MCD requires EU member states to develop a 'national framework' for buy-to-let lending if they choose to exercise discretion afforded by the MCD not to apply the Mortgage Credit Directive to their buy-to-let mortgage markets. The UK government announced that it would use the option to have a national framework for buy-to-let lending to consumers called "Consumer buy-to-let"(**CBTL**) in order to put in place the minimum requirements to meet the UK's legal obligations, as it has stated it is not persuaded of the case for full conduct regulation of buy-to-let mortgage lending. The CBTL framework was implemented on 21 March 2016 and is only applicable to consumer borrowers, the majority of buy-to-let lending in the UK being to non-consumers.

The legislative framework is set out in the MCD Order. The MCD Order defines a CBTL mortgage contract as: "a buy-to-let mortgage contract which is not entered into by the borrower wholly or predominantly for the purposes of business carried on, or intended to be carried on, by the borrower". It provides that a firm that advises on, arranges, lends or administers CBTL mortgages must be registered to do so. The Servicer is a consumer buy-to-let mortgage firm registered as a lender and administrator in respect of consumer buy-to-let mortgages. In a HM Treasury consultation published in January 2015, the treasury gave a central estimate that CBTL would affect 11% of the buy-to-let mortgage market.

Certain buy-to-let mortgages are regulated by the CCA because buy-to-let loans only became exempt from CCA regulation on 31 October 2008. Buy-to-let loans originated prior to 31 October 2008, could be regulated by the CCA if the amount of credit was less than the relevant financial limit in place at the time and no other relevant CCA exemption applied. The financial limit for CCA regulation was abolished on 6 April 2008 in respect of all loans except buy-to-let loans. The financial limit of £25,000 in place at the time for CCA regulated loans was not removed for buy-to-let loans until 31 October 2008. As described above (see "*Regulation of residential secured lending (other than Regulated Mortgage Contracts)*"), those buy-to-let mortgages are not caught by the definition of a "consumer credit back book mortgage contract" and so any buy-to-let loans regulated by the CCA will continue to be regulated by the CCA notwithstanding the implementation of the MCDO.

If a buy-to-let mortgage is secured on a property occupied by a related person to the borrower (broadly the borrower's spouse, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse) then it will be a Regulated Mortgage Contract. Otherwise, as described above, buy-to-let mortgages will either be regulated by either the CBTL regime or the CCA or will be unregulated.

The Servicer has debt collection and debt administration permissions. The LLP is excluded as lender from the regulated activities of debt administration and debt collection in respect of any unregulated, CBTL loans or CCA regulated loans. The Servicer is authorised to exercise or have the right to exercise a lender's rights and duties under a regulated credit agreement which is a necessary permission in respect of a CCA regulated agreement. The LLP is exempt from the regulated activity of exercising or having the right to exercise a lender's rights and duties under a regulated credit agreement because it has arranged administration by an authorised person pursuant to article 60I of the RAO.

5.9 *Distance Marketing*

In the UK, the Financial Services (Distance Marketing) Regulations 2004 apply to 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 originator and the borrower). A Regulated Mortgage Contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive prescribed information at the prescribed time, or in any event for certain unsecured lending. 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 the credit agreement under these regulations then:

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

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

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

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **UTCCR**), applies to agreements made between 1 October 1999 and 30 September 2015 by a "consumer" within the meaning of the UTCCR, where the term has not been individually negotiated. Regulation 2 of the UTCCR revoked the Unfair Terms in Consumer Contracts Regulations 1994, which applied to agreements entered into between 1 July 1995 and 30 September 1999 and were replaced by the UTCCR. The Consumer Rights Act 2015 (the "Consumer Rights Act" has revoked the UTCCR as from 1 October 2015 (see "*– Certain Regulatory Considerations – Consumer Rights Act 2015*" below).

The UTCCR provide that a consumer (which would include a Borrower under all or almost all of the Mortgage Loans) 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 rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

Under each of the UTCCR and the CRA, it is possible for a consumer to challenge a term in a contract of the basis that it is unfair or for the regulator to take enforcement action to stop the use of terms which are considered to be unfair (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

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

For example, if a term permitting the lender to vary the interest rate (as the 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. Any such non-recovery, claim or set-off in respect of the Mortgage Loans entered into between 1 July 1995 and 30 September 2015 may reduce the amounts available to meet the payments due in respect of the Covered Bonds.

In July 2012, the Law Commission launched a consultation in order to review and update the recommendations set out in their 2005 Report on Unfair Terms in Contracts. In March 2013, the Law Commission published its advice, in a paper entitled "Unfair Terms in Consumer Contracts: Advice to the Department for Business, Innovation and Skills". This advice paper repeats the recommendation from the 2005 Report on Unfair Terms in Contracts that the Unfair Contract Terms Act 1977 and the UTCCR should be consolidated, as well as providing new recommendations, including extending the protections of unfair terms legislation to notices and some additions to the "grey list" of terms which are indicatively unfair. The Law Commission also recommends that the UTCCR should expressly provide that, in proceedings brought by consumers, the court is required to consider the fairness of the term, even if the consumer has not raised the issue, where the court has available to it the legal and factual elements necessary for that task.

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

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

The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Mortgage Loans which have been made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Mortgage Loans entered into between 1 October 1999 and 30 September 2015 is found to be

unfair for the purpose of the UTCCR, this may reduce the amounts available to meet the payments due in respect of the Covered Bonds.

5.11 *Consumer Rights Act 2015*

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

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

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

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

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

On 17 May 2018, the FCA launched a consultation on new guidance: "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (GC18/2), outlining factors firms should consider under the Consumer Rights Act when drafting and reviewing variation terms in their consumer contracts. This follows developments in case law, including at the Court of Justice of the EU. The draft guidance relates to all financial services consumer contracts entered into since 1 July 1995. The consultation closed on 7 September 2018 with finalised guidance due to be published in December 2018. The FCA have stated that the guidance when finalised should be read with the material already in the unfair contract terms library on the FCA website and will apply to FCA authorised persons and their appointed representative in relation to any consumer contracts they issue which contain variation terms.

The provisions in the Consumer Rights Act governing unfair contractual terms came into force on 1 October 2015. The Unfair Contract Terms Regulatory Guide (UNFCOG in the FCA handbook) explains the FCA's policy on how it uses its formal powers under the Consumer Rights Act and the Competition and Markets Authority (the **CMA**) published guidance on the unfair terms provisions in the Consumer Rights Act on 31 July 2015. This new regime does not seem to be significantly different from the regime under the UTCCR. However, this area of law is rapidly developing and we can expect new regulator guidance and case law as a result of this new legislation. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Seller, the LLP, the Servicer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Mortgage Loans.

5.12 *Unfair Commercial Practices Directive 2005*

On 11 May 2005, the European Parliament and 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. The Unfair Practices Directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The Unfair Practices Directive is implemented in the UK by the Consumer Protection from Unfair Trading Regulations (the **CPUTR**), which came into force on 26 May 2008. The CPUTR prohibit certain practices which are deemed "unfair" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but the possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreement may result in irrecoverable losses on amounts to which such agreements apply and the CMA and any "qualifying body" within the UTCCR (such as the FCA) may seek to enjoin a business from relying on unfair terms. Breach of certain CPUTR provisions is a criminal offence. The Consumer Protection (Amendment) Regulations 2014 (SI No.870/2014) were laid before Parliament on 1 April 2014 and came into force on 1 October 2014. These amendments to the CPUTR give consumers a right to redress for prohibited practices, including a right to unwind agreements.

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

5.13 *The Renting Homes (Wales) Act 2016*

The Renting Home (Wales) Act (the **Renting Homes Act**) received royal assent on 18 January 2016 but has not yet been brought into force. This 2016 Act will convert the majority of residential tenancies in Wales into a 'standard contract' with retrospective effect when it has been brought into force, however some tenancies will not be converted with retrospective effect (including those which have Rent Act protection and tenancies for more than 21 years).

The Renting Homes Act (which only has effect in Wales) does not contain an equivalent mandatory ground for possession that a lender had under the Housing Act 1988 where a property was subject to a mortgage granted before the beginning of the tenancy and the lender required possession in order to dispose of the property with vacant possession.

The Renting Homes Act may result in lower recoveries in relation to buy-to-let mortgages over Properties in Wales and may affect the ability of the LLP to make payments under the Covered Bond Guarantee.

5.14 *Repossessions*

The pre-action protocol for repossessions based on mortgage or home purchase plan arrears in respect of residential property in England and Wales came into force on 19 November 2008 and sets out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders have confirmed that they will delay the initiation of repossession action for at least three months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium is subject to the wishes of the relevant borrower and may not apply in cases of fraud. The protocol is addressed to residential mortgage lenders and may have adverse effects in markets experiencing above average levels of possession claims.

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

The Mortgage Repossession (Protection of Tenants etc.) Act 2010 (the **Repossession Act**) came into force in October 2010. The Repossession Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. The lender has to serve notice at the property before enforcing a possession order. The Repossession Act may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Mortgage Loans may result in lower recoveries and reduce the amounts available to meet the payments due in respect of the Covered Bonds.

Part I of the Home Owner and Debtor Protection (Scotland) Act 2010 came into force on 30 September 2010. Under Part I of the Act, the heritable creditor has to obtain a court order to exercise its power of sale, unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor has to demonstrate that it has taken various steps to resolve the borrower's position, and comply with further procedural requirements.

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

5.15 *Financial Ombudsman Service*

Under the FSMA, the Ombudsman is required to make decisions on complaints relating to the activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account law and guidance. Transitional provisions exist by which certain complaints relating to breach of the Mortgage Code occurring before 31 October 2004 may be dealt with by the Ombudsman. Complaints properly brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated and 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.

5.16 *General*

No assurance can be given that additional regulations or guidance from the FCA, the PRA, the Ombudsman, the CMA or any other regulatory authority will not arise with regard to the mortgage market in the UK generally, the 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.

5.17 *Political uncertainty*

The main Westminster political parties have devolved to the Scottish Parliament additional legislative powers currently reserved to the United Kingdom Parliament under the Scotland Act 2016 which came into force on 23 March 2016. By virtue of the Scotland Act 2016 which came into force on 23 March 2016, a proportion of income tax in Scotland is collected by the Scottish Government and the Scottish Parliament has greater control over the rates and bands applicable to Scottish income tax payers by raising or lowering the rate of income tax and thresholds for non-dividend and non-savings income of Scottish residents. This could mean that Borrowers in Scotland are subject to a different rate of income tax from Borrowers in the same income bracket in England, Wales and Northern Ireland, which may affect some Borrowers' ability to pay amounts when due on the Loans originated in Scotland, and which, in turn, may adversely affect payments on the Covered Bonds. The Scottish Parliament has recently passed a Budget which reduced income tax for lower income taxpayers whilst marginally increasing income tax for higher paid taxpayers but overall the impact of the tax changes compared with England is viewed as being minimal.

On 23 June 2016 the UK held a referendum on whether the UK should remain a member of the European Union. The UK voted to leave the European Union and the UK Government invoked article 50 of the Lisbon Treaty relating to withdrawal on 29 March 2017. Under

article 50, there the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances.

There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms is likely to take a number of years. Until the terms and timing of the UK's exit from the European Union are confirmed, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the business of the Issuer or any other party to the Transaction Documents.

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

Investors should also note that future UK political developments, including but not limited to the UK departure from the EU and/or any changes in government structure and policies, could affect the fiscal, monetary and regulatory landscape to which the Group is subject and also therefore its financing availability and terms. Consequently no assurance can be given that the Group's operating results, financial condition and prospects would not be adversely impacted as a result.

In general, no assurance can be given that any of the matters outlined above would not adversely affect the ability of the Issuer to satisfy its obligations under the Covered Bonds and/or the market value or liquidity of the Covered Bonds.

5.18 *Change 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. In addition, it should be noted that regulatory requirements (including due diligence and disclosure obligations) may be recast or amended and there can be no assurance that any such changes will not adversely affect the compliance position of a transaction described in this Prospectus or of any party under any applicable law or regulation.

5.19 *UK regulated covered bond regime*

On 24 February 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations. The RCB Regulations and the Regulated Covered Bond Sourcebook (the **RCB Sourcebook**) impose certain ongoing obligations and liabilities on both the Issuer and the LLP. In this regard, the LLP is required to (amongst other things), following the insolvency of the Issuer, make arrangements for the maintenance and administration of the Asset Pool such that certain asset capability and quality related requirements are met.

The legislative framework for UK covered bonds contemplated by the RCB Regulations is intended to meet the requirements set out in Directive 85/11/EEC on the coordination of laws,

regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). The Authorities will notify the European Commission of an issuer's inclusion in the register of issuers, a covered bond included in the register of regulated covered bonds and the status of the guarantee offered in respect of such covered bonds once the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made, any covered bonds issued under the Programme will not be UCITS compliant.

The Authorities may take certain actions in respect of the Issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing the Issuer from the register of issuers (however, pursuant to the RCB Regulations, a regulated covered bond may not be removed from the register of regulated covered bonds prior to the expiry of the whole period of validity of the relevant bond), directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP. The bodies which regulate the financial services industry in the UK may take certain actions in respect of issuers using their general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). There is a risk that any such enforcement actions by the Authorities may reduce the amounts available to pay Covered Bondholders.

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

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

5.20 *Expenses of insolvency officeholders*

Under the RCB Regulations, following the realisation of any asset pool security and/or winding-up of the LLP, certain costs and expenses are payable out of the fixed and floating charge assets of the LLP in priority to the claims of Secured Creditors (including the Covered Bondholders). Such costs and expenses are also payable out of the floating charge assets of the LLP (but it would appear not out of the fixed charge assets) in priority to the claims of Secured Creditors in a winding-up and/or an administration of the LLP. Such costs and expenses include costs incurred by an insolvency officeholder (including an administrative receiver, liquidator or administrator) in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English law which provides that in general the expenses of any administration or winding-up rank ahead of unsecured debts and the claims of any floating charge-holder, but not ahead of the claims of any fixed charge-holder.

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

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

5.21 *Insolvency Act 2000*

The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting together a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. This also extends to limited liability partnerships by virtue of the Limited Liability Partnership (Amendment) Regulations 2005.

A "small" company is defined as one which satisfies two or more of the following criteria: (a) its turnover is not more than £6.5 million, (b) its balance sheet total is not more than £3.26 million and (c) the number of employees is not more than 50. The position as to whether or not a company is a "small" company may change from time to time and consequently no assurance can be given that the LLP will not, at any given time, be determined to be a "small" company. The UK Secretary of State for Business, Energy and Industrial Strategy (formerly the UK Secretary of State for Business, Innovation & Skills) 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 UK Secretary of State for Business, Energy and Industrial Strategy may by regulation modify the exceptions. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of Covered Bondholders. Correspondingly, if the LLP is determined to be a "small" company and determined not to fall within one of the exceptions, then certain actions against or in respect of the LLP may, for a period, be prohibited by the imposition of a moratorium.

5.22 *English law security and insolvency considerations*

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

In addition, it should be noted that, to the extent that the assets of the LLP are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of Section 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the LLP in the Transaction Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the LLP has any other such creditors at any time. There can be no assurance that the Covered Bondholders

will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

Pursuant to the modifications made by the RCB Regulations to (amongst other things) the Insolvency Act 1986, the provisions set out above in respect of Section 176A will not apply with respect to the LLP and its floating charge assets.

5.23 *U.S. insolvency proceedings and subordinated provisions*

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

The English Supreme Court held in *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Ltd and Lehman Brothers Special Financing Inc* [2011] UKSC 38 (the **Belmont decision**) that a flip clause as described above is valid under English law. Contrary to this, however, the U.S. Bankruptcy Court has held that such a subordination provision is unenforceable under U.S. bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a U.S. bankruptcy of the counterparty. The implications of this conflict remain unresolved, particularly as several subsequent challenges to the U.S. decision have been settled and certain other actions which raise similar issues are pending but have not progressed for some time.

If a creditor of the Issuer (such as a swap counterparty or a related entity) becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the U.S.), and it is owed a payment by the Issuer, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of the contractual subordination provisions included in the English law governed Transaction Documents such as a provision of the Priority of Payments which refers to the ranking of the swap counterparties' payment rights in respect of subordinated termination payments. In particular, based on the decision of the U.S. Bankruptcy Court referred to above, there is a risk that such contractual subordination provisions would not be upheld under U.S. bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as swap counterparty, including U.S. established entities and certain non-U.S. established entities with assets or operations in the U.S. (although the scope of any such proceedings may be limited if the relevant non-U.S. entity is a bank with a licensed branch in a U.S. state).

In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Covered Bondholders, the market value of the Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

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

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

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

In particular, it should be noted that the Basel Committee on Banking Supervision (**BCBS**) has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as **Basel III**). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). BCBS member countries agreed to implement the initial phase of the Basel III reforms from 1 January 2013 and the second phase from 1 January 2022, subject to transitional and phase-in arrangements for certain requirements. As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the framework of Directive 2009/138/EC (**Solvency II**) in Europe.

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

5.25 *Covered Bonds where denominations involve integral multiples: Definitive Covered Bonds*

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

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

5.26 *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Covered Bonds and the LLP will make any payments under the Covered Bond Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are

denominated principally in a currency or currency unit other than the Specified Currency (the **Investor's Currency**). These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency-equivalent market value of the Covered Bonds.

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

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

Various interest rate benchmarks (including the London Inter-Bank Offered Rate (**LIBOR**)) and the Euro Interbank Offered Rate (**EURIBOR**) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented including the EU Benchmark Regulation (Regulation (EU) 2016/1011) (the **Benchmark Regulation**).

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

The sustainability of LIBOR has been questioned by the UK Financial Conduct Authority as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. Additionally, in March 2017, the European Money Markets Institute (formerly Euribor-EBF) (the **EMMI**) published a position paper referring to certain proposed reforms to EURIBOR, which reforms aim to clarify the EURIBOR specification, to develop a transaction-based methodology for EURIBOR and to align the relevant methodology with the Benchmarks Regulation, the IOSCO Principles for Financial Benchmarks and other regulatory recommendations. The EMMI has since indicated that there has been a "change in market activity as a result of the current regulatory requirements and a negative interest rate environment" and "under the current market conditions it will not be feasible to evolve the current EURIBOR methodology to a fully transaction-based methodology following a seamless transition path". It is the current intention of the EMMI to develop a hybrid methodology for EURIBOR.

These reforms and other pressures may cause one or more interest rate benchmarks to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted.

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

(a) any of these reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR and EURIBOR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be; and

(b) if LIBOR or EURIBOR is discontinued or is otherwise unavailable, then:

(i) the rate of interest on the Mortgage Loans may be determined for a period by any applicable fall-back provisions under the relevant Mortgage Loan documentation, although such provisions may not operate as intended (depending on market circumstances and the availability of rates information at the time); and

(ii) in circumstances where an amendment as described in paragraph (c) below has not been made at the relevant time, the rate of interest on the Covered Bonds will be determined for a period by the fall-back provisions provided for under Condition 4.2 (*Interest on Floating Rate Covered Bonds*) of the Terms and Conditions of the Covered Bonds, although such provisions, being dependent in part upon the provision by reference banks of offered quotations for leading banks in the London interbank market (in the case of LIBOR) or in the Euro-zone interbank market (in the case of EURIBOR), may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time) and may in certain circumstances result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR or EURIBOR was available; and

(c) while an amendment may be made under Condition 14.3 (Additional Right of Modification and Waiver) of the Terms and Conditions of the Covered Bonds to change the base rate on the Covered Bonds from LIBOR or EURIBOR to an alternative base rate under certain circumstances broadly related to LIBOR or EURIBOR dysfunction or discontinuation and subject to certain conditions being satisfied including with respect to Noteholder consent in part (in this regard, please also refer to the risk factor above entitled "*Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents so long as at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have not contacted the Issuer in writing notifying it that such Covered Bondholders object to the proposed modifications*", there can be no assurance that any such amendment will be made or, if made, that it (i) will fully or effectively mitigate all relevant interest rate risks or result in an equivalent methodology for determining the interest rates on the Covered Bonds or (ii) will be made prior to any date on which any of the risks described in in this risk factor may become relevant (in this regard, please also refer to the risk factor above entitled "*Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents so long as at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have not contacted the Issuer in writing notifying it that such Covered Bondholders object to the proposed modifications*"); and

(d) if LIBOR, EURIBOR or any other relevant interest rate benchmark is discontinued, and whether or not an amendment is made under Condition 14.3 (Additional Right of Modification and Waiver) to change the base rate with respect to a Series of Covered Bonds as described in paragraph (c) above, there can be no assurance that the applicable fall-back provisions under the Swap Agreements would operate to allow the transactions under the Swap Agreements to effectively mitigate interest rate risk in respect of the Covered Bonds.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Mortgage Loans, the Covered Bonds and/or the Swap

Agreements due to applicable fall-back provisions or other matters and the effects of this are uncertain but could include a reduction in the amounts available to the Issuer to meet its payment obligations in respect of the Covered Bonds.

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

5.28 *The market continues to develop in relation to SONIA as a reference rate for Floating Rate Covered Bonds*

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

5.29 *Impact of EMIR on Swap Agreements*

EMIR introduced a number of regulatory requirements for counterparties to OTC derivatives contracts, including; (i) a mandatory clearing obligation for certain classes of OTC derivatives contracts (the **Clearing Obligation**); (ii) a collateral exchange obligation for OTC derivatives contracts not subject to clearing (the **Collateral Obligation**); (iii) daily valuation and other risk mitigation requirements for OTC derivatives contracts not subject to clearing; and (iv) certain reporting and record-keeping requirements.

Under EMIR, counterparties can be classified as: (i) financial counterparties (**FCs**) and (ii) non-financial counterparties. The latter classification is further split into: (i) non-financial counterparties whose positions, together with the positions of all other non-financial counterparties in its "group" (as defined in EMIR), in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold (**NFC+s**) and (ii) non-financial counterparties whose positions , together with the positions of all other non-financial counterparties in its "group" (as defined in EMIR), in OTC derivatives do not exceed any of the specified clearing thresholds (**NFC-s**). Whereas FCs and NFC+ entities may be subject to the Clearing Obligation or, to the extent that the relevant swaps are not subject to clearing, to the Collateral Obligation, such obligations do not apply in respect of NFC-s.

The LLP is currently an NFC- although its position may change from time to time. Should the counterparty status of the LLP change to NFC+ or FC, this may result in the application of the Clearing Obligation or the Collateral Obligation. In this regard, it should be noted that it is not clear that any of the Swap Agreements would be a relevant type of OTC derivative contract that would be subject to the Clearing Obligation under the relevant implementing measures made to date. Moreover, a conditional exemption for certain hedging transactions associated with covered bonds has been made under such measures and also under separate implementing measures relating to the Collateral Obligation. These exemptions may be available in respect of the Swap Agreements. However, prospective investors should note that the conditional exemption in respect of the Collateral Obligation is only a partial exemption as regards variation margin and would require the LLP to collect variation margin in the form of cash from its swap counterparties under in-scope Swap Agreements and return cash collected when due. If it was necessary and possible for the LLP to rely on the exemption, this requirement may increase the costs of entering into Swap Agreements for the LLP.

Notwithstanding the qualifications on application and the exemptions described above, the position of the Swap Agreements under each of the Clearing Obligation and Collateral Obligation is not entirely clear and may be affected by further measures still to be made. In this regard, we note Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 (the **Securitisation Regulation**), which entered into force on 17 January 2018. The Securitisation Regulation includes, amongst other things, amendments to EMIR, that make provision for the development of technical standards further specifying conditional exemptions from each of the obligations referred to above for certain OTC derivative contracts entered into by covered bond entities in connection with a covered bond (or by a securitisation special purpose entity in connection with certain securitisations). The Securitisation Regulation will apply in general from 1 January 2019 and, therefore, the exemption will be available at the earliest from that date.

Separately, it should also be noted that further changes will be made to the EMIR framework in the context of the EMIR review process which is ongoing and expected to be finalised during the course of 2018. Such changes are currently not expected to materially impact the Swap Agreements, however, as the proposals are not yet final, material impact cannot be fully discounted.

If the LLP's counterparty status as an NFC- were to change and one or more of the Swap Agreements is regarded to be in-scope and not exempt, then such Swap Agreements entered into or amended at a relevant time may become subject to the Clearing Obligation or the Collateral Obligation, as the case may be. Prospective investors should note that there is some uncertainty with respect to the ability of the LLP to comply with either of these requirements if applicable, which may (i) lead to regulatory sanctions, (ii) adversely affect the LLP's ability to enter into Swap Agreements and/or (iii) significantly increase the cost of such arrangements, thereby negatively affecting the LLP's ability to hedge certain risks. As a result, the amounts available to the LLP to make payments under the Covered Bond Guarantee may be reduced.

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 U.S. in reliance on Regulation S and Registered Covered Bonds may be issued outside the U.S. in reliance on Regulation S.

Bearer Covered Bonds

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

(i) if the Bearer Global Covered Bonds (as defined below) are issued in new global covered bond (**NGCB**) form, as stated in the applicable Final Terms, be delivered on or prior to the issue date of the relevant Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and

(ii) if the Bearer Global Covered Bonds are not issued in NGCB form, be delivered on or prior to the issue date of the relevant Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg.

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

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

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

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon either (a) provided the Covered Bonds have only one Specified Denomination, or have 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 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

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

The exchange of a Permanent Bearer Global Covered Bond for definitive Bearer Covered Bonds upon notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Bearer Covered Bonds are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Bearer Covered Bonds which is to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Covered Bonds.

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

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

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

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

Registered Covered Bonds

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

Luxembourg, and such Registered Global Covered Bond will bear a legend regarding such restrictions on transfer (see *Subscription and Sale and Transfer and Selling Restrictions*).

Registered Global Covered Bonds will be deposited with the Common Depositary or Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, or in the name of a nominee of the Common Safekeeper as specified in the applicable Final Terms.

Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

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

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

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that in the case of a Registered Global Covered Bond registered in the name of the Common Depositary or its nominee or in the name of the Common Safekeeper, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, 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.

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 which are different from the common code and ISIN 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 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.

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

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

FORM OF FINAL TERMS

[*Date*]

TSB Bank plc
Legal Entity Identifier (LEI): 549300XP222MV7P3CC54

Issue of Regulated [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]irrevocably and unconditionally guaranteed as to payment of principal and interest by TSB Covered Bonds LLP
under the £5 billion
Global Covered Bond Programme

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

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

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 1 November 2018 which constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (as amended, which includes the amendments made by Directive 2010/73/EU to the effect that such amendments have been implemented in a relevant Member State) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus. Full information on the Issuer, the LLP and the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus [and the supplemental Prospectus dated [**date**]]. The Prospectus is available for viewing at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH [and] http://www.tsb.co.uk/investors/debt-investors/covered-bonds/ and copies may be obtained during normal business hours from TSB Bank plc, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the prospectus dated [●] which are incorporated by reference into the Prospectus dated 1 November 2018 which constitute[s] a base prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC) (as amended, which includes the amendments made by Directive 2010/73/EU to the effect that such amendments have been implemented in a relevant Member State) (the **Prospectus Directive**) to the extent that such

amendments have been implemented in a Member State). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the LLP and the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus dated [**current date**] [and the supplemental Prospectus dated [**date**]]. Copies of the Prospectus are available for viewing at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH [and] http://www.tsb.co.uk/investors/debt-investors/covered-bonds/ and copies may be obtained during normal business hours from TSB Bank plc, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH.]

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

	Covered Bond Guarantee:	
10	Interest Basis:	[●] per cent. Fixed Rate] [[SONIA]/[[●] [[●] LIBOR]/[EURIBOR]] [[+/–] [●] per cent.] Floating Rate] [Zero Coupon]
11	Redemption/Payment Basis:	[100] per cent. of the nominal value
12	Change of Interest or Redemption/Payment Basis:	[●]/[in accordance with paragraphs 16 and 17 below]
13	Put/Call Options:	[Investor Put Option]/[Issuer Call Option]/[Not Applicable]
14	[Date of [Board] approval for issuance of Covered Bonds and Covered Bond Guarantee obtained:	[●] [and [●], respectively]]
15	Listing:	London

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	**Fixed Rate Covered Bond Provisions**		[Applicable/Not Applicable]
	(i)	[Fixed Rate(s) of Interest:	[●] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[●] in each year up to and including the [Final Maturity Date] or the [Extended Due for Payment Date, if applicable]/(provided however that [after the Extension Determination Date, the Interest Payment Date shall be [monthly]])
	(iii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv)	Business Day(s):	[●]
	(v)	Additional Business Centre(s):	[●]/ [Not Applicable]
	(vi)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(vii)	Initial Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/[Not Applicable]
	(viii)	Final Broken Amount:	[●]
	(ix)	Day Count Fraction:	[●]
	(x)	Determination Dates:	[●] in each year/[Not Applicable]
17	**Floating Rate Covered Bond Provisions**		[Applicable/Not Applicable]
	(i)	Specified Period(s)/Specified Interest Payment Date(s):	[●] (provided however that [prior to the Extension Determination Date,][the Specified Interest Payment Date shall be no more frequent than quarterly][, and provided further that] [after the Extension Determination Date, the Interest Payment Date shall be [monthly][quarterly]]) The first Interest Payment Date shall be [●].

	(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iii)	Additional Business Centre(s):	[●]/ [Not Applicable]
	(iv)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(v)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Principal Paying Agent):	[●]
	(vi)	Screen Rate Determination:	[Applicable/Not Applicable]
		– Reference Rate:	[SONIA]/[[●]-month] [[●] LIBOR]/[EURIBOR]
		– Relevant Financial Centre:	[London/Brussels/Stockholm/Hong Kong/Singapore/Tokyo/New York/Luxembourg/Frankfurt]
		– Interest Determination Date(s):	[[●] [TARGET/[●]] Business Days [in [●]] prior to the [●] day in each Interest Period/each Interest Payment Date][[●] London Banking Day prior to the end of each Interest Period] [●]
		– Relevant Screen Page:	[●]
		– Observation Period:	[[●] London Banking Days] /[Not Applicable]
	(vii)	ISDA Determination:	[Applicable/Not Applicable]
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]
		– Reset Date:	[●]
	(viii)	Margin(s):	[+/–][●] per cent. per annum
	(ix)	Minimum Rate of Interest:	[●] per cent. per annum
	(x)	Maximum Rate of Interest:	[●] per cent. per annum
	(xi)	Day Count Fraction:	[Actual/Actual (ICMA) Actual/Actual (ISDA) Actual/Actual Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 360/360 Bond Basis 30E/360 Eurobond Basis] 30E/360(ISDA)
18	**Zero Coupon Covered Bond Provisions**		[Applicable/Not Applicable]
	Accrual Yield:		[●] per cent. per annum

Reference Price:		[●]
(i)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(ii)	Business Day(s):	[●]
	Additional Business Centre(s):	[●]/[Not Applicable]
(iii)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) and 6.7(b) (*Early Redemption Amounts*) apply]

PROVISIONS RELATING TO REDEMPTION

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

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

23	**Form of Covered Bonds**	[Bearer Covered Bonds: [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form after an Exchange Event [/on not less than 60 days' notice] [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event] [Permanent Global Covered Bond exchangeable

		for Bearer Definitive Covered Bonds after an Exchange Event [/on not less than 60 days' notice] [Registered Covered Bonds: [Registered Global Covered Bond ([●] nominal amount) registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg])
24	**New Global Covered Bond**:	[Yes][No]
25	**Additional Financial Centre(s) or other special provisions relating to payment dates:**	[Not Applicable]
26	**Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):**	[Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupons payments are still to be made/No.]
27	**Details relating to Instalment Covered Bonds:**	
	Instalment Amount(s):	[Not Applicable/●]
	Instalment Date(s):	[Not Applicable/●]

Signed on behalf of TSB Bank plc

By:

Duly authorised

Signed on behalf of TSB Covered Bonds LLP

By:

Duly authorised

PART B — OTHER INFORMATION

1	**LISTING**		
	(i)	Admission to trading:	Application [is expected to/has] been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the London Stock Exchange's Regulated Market and to the Official List of the UK Listing Authority with effect from [●]
	(ii)	Estimate of total expenses related to admission to trading:	[●]
2	**RATINGS**		
	Ratings:		The Covered Bonds to be issued have been initially rated: Moody's: [●]
3	**PROVISIONS RELATING TO THE INTEREST RATE SWAPS**		
	Fixed Rate Spread:		[●]% per annum
	Tracker Rate Spread:		[●]% per annum
	Variable Rate Spread:		[●]% per annum
4	**[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**		
	[Save as discussed in "*Subscription and Sale and Transfer and Selling Restrictions*", so far as the Issuer and LLP are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged and may in the future engage in investment banking and/or commercial banking transactions with and may perform other services for the Issuer and/or the LLP and/or it or their affiliates in the ordinary course of business.]		
5	**OPERATIONAL INFORMATION:**		
	(i)	ISIN:	[●]
	(ii)	CFI:	[[●]/Not Applicable]
	(iii)	FISN:	[[●]/Not Applicable]
	(iv)	Common Code:	[●]
	(v)	[(Insert here any other relevant codes):]	[Not Applicable/give name(s) and number(s)]
	(vi)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):	
	(vii)	Names and addresses of additional Paying Agents	[●]
6	**YIELD (Fixed Rate Covered Bonds only)**		[●]

	Indication of yield:	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
7	**RELEVANT BENCHMARKS**	[[*Specify benchmark*] is provided by [*administrator legal name*]]. As at the date hereof, [*administrator legal name*] [appears] / [does not appear] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation] / [As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the Benchmark Regulation] / [Not Applicable].

TERMS AND CONDITIONS OF THE COVERED BONDS

With the exception of the N Covered Bonds, the following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into 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 (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 24 February 2017 and as modified and/or supplemented and/or restated as at the date of issue of the Covered Bonds (the **Issue Date**), the **Trust Deed**) between TSB Bank plc (the **Issuer**), TSB Covered Bonds LLP (the **LLP**) and Citicorp Trustee Company 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 24 February 2017 (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, Citibank, N.A., London Branch as registrar and principal paying agent and the other agents named in it. The principal agent, the paying agents, the registrar, 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 **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) attached to this Covered Bond supplements these Terms and Conditions (the **Terms and Conditions**). References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) endorsed on or attached to this Covered Bond.

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 and a Notice to Pay 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 Citigroup Centre, 25 Canada Square, Canary Wharf, London E14 5LB. 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*.

This Covered Bond may be denominated in any Specified Currency.

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

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

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

Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery 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 depositary or common safe keeper (as the case may be) for, Euroclear Bank S.A./N.V. (**Euroclear**) or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg 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 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, Luxembourg'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 the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

Interests in 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 or Clearstream, Luxembourg or any other relevant clearing system, as the case may be.

References to 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 any additional or alternative clearing system specified in the applicable Final Terms.

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 or Clearstream, Luxembourg, 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.

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 or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement.

Transfers of Registered Covered Bonds in definitive form

Subject as provided in Conditions 2(b) (*Registration of transfer upon partial redemption*), 2(c) (*Costs of registration*), 2(d) (*Transfers of interests in Registered Global Covered Bonds in the United States or to U.S. persons*), 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.

(b) *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.

(c) *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.

(d) *Transfers of interests in Registered 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 Registered Global Covered Bond to a transferee in the United States or who is a U.S. person will only be made 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.

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 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Covered Bonds where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to: (i) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding (as defined in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) but subject to Condition 4.4 (*Accrual of interest*)) of the Fixed Rate Covered Bonds represented by such Global Covered Bond; 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 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for each Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

4.2 *Interest on Floating Rate Covered Bonds*

(a) Interest Payment Dates

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

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

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

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

(b) Rate of Interest

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

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

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms 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, if the applicable Floating Rate Option is based on LIBOR or EURIBOR for a currency, 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. (**Relevant Financial Centre time**) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of those quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of the offered quotations.

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

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

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

SONIA

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined and the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms as being SONIA, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus (as indicated in the applicable Final Terms) the Margin.

Compounded Daily SONIA means the rate of return of a daily compound interest investment (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) and will be calculated by the

Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) as at the Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SONIA_{i-pLBD}\times n_i}{365}\right)-1\right]\times\frac{365}{d}$$

where:

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

d_o is the number of London Banking Days in the relevant Interest Period;

i is a series of whole numbers from one to d_0, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Period;

London Banking Day or **LBD** means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

n_i, for any day "i", means the number of calendar days from and including such day "i" up to but excluding the following London Banking Day;

Observation Period means the period from and including the date falling "p" London Banking Days prior to the first day of the relevant Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling "p" London Banking Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" London Banking Days prior to such earlier date, if any, on which the Covered Bonds become due and payable);

p means for any Interest Period, the number of London Banking Days included in the Observation Period, as specified in the applicable Final Terms;

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

$SONIA_{i\text{-}pLBD}$ means, in respect of any London Banking Day falling in the relevant Observation Period, the SONIA reference rate for the London Banking Day falling "p" London Banking Days prior to the relevant London Banking Day "i".

If, in respect of any London Banking Day in the relevant Observation Period, the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms)

determines that the SONIA reference rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA reference rate shall be: (i) the Bank of England's Bank Rate (the **Bank Rate**) prevailing at close of business on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA reference rate to the Bank Rate over the previous five days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate.

In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms), but without prejudice to Condition 14.3 (*Additional Right of Modification and Waiver*), the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Covered Bonds for the first Interest Period had the Covered Bonds been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Period).

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

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

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

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

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

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

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

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

(ii) in the case of Floating Rate Covered Bonds in definitive form, the Calculation Amount,

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

(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 are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to be published in accordance with Condition 13 (*Notices*) as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day (as defined in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to Covered Bondholders in accordance with Condition 13 (*Notices*).

(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 Registrar, the Calculation Agent or the Bond Trustee shall (in the absence of wilful default, manifest error, gross 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, gross 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 Zero Coupon Covered Bonds

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

4.3 *Interest following a Notice to Pay*

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

4.4 *Accrual of interest*

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

4.5 *Business Day, Business Day Convention, Day Count Fractions and other adjustments*

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

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London 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 or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto (the **TARGET2 System**) is open.

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

(i) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) (*Interest on Floating Rate Covered Bonds*), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(iii) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

(c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:

(A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined in Condition 4.5(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(B) in the case of Covered Bonds where the Accrual Period is longer than one Determination Period, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of

days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

(ii) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(iii) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iv) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(v) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

4.6 *Other Calculations*

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

5. Payments

5.1 *Method of payment*

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; 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, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction but without prejudice to the provisions of Condition 7 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law.

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

Payments of principal and interest (if any) will (subject as provided below) be made in accordance with Condition 5.1 (*Method of payment*) only against presentation and surrender of Bearer Definitive Covered Bonds, Receipts or Coupons (or, in the case of part payment of

any sum due, endorsement of the Bearer Definitive Covered Bond (or Coupon)), as the case may be, only at a specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

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

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

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

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

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

shall be payable only against presentation and surrender of the relevant Bearer Definitive Covered Bond.

5.3 *Payments in respect of Bearer Global Covered Bonds*

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

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

5.4 *Payments in respect of Registered Covered Bonds*

Payments of interest and payments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made in accordance with Condition 5.1 (*Method of payment*) by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date and (ii) where in definitive form at the close of business on the fifteenth business day (being for this purpose 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**).

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.

Notwithstanding the previous sentences, 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.

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.

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 Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg, 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 in the relevant place 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) in the case of Covered Bonds in definitive form only, the relevant place of presentation;

(ii) London; and

(iii) any Additional Financial Centre specified in the applicable Final Terms; and

(b) either (1) 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 or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

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 (*Early Redemption Amounts*));

(g) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and

(h) any Excess Proceeds which may be payable by the Bond Trustee 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:

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

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

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

Treaty means the Treaty on the Functioning of the European Union, as amended.

6. Redemption and Purchase

6.1 *Final redemption*

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount in the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms.

Without prejudice to Condition 9 (*Events of Default, Acceleration and Enforcement*), if an Extended Due for Payment Date is specified in the applicable Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (in each case after the expiry of the grace period

set out in Condition 9.1 (*Issuer Events of Default*)) and following service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date, the LLP has insufficient moneys available to apply under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of a Notice to Pay on the LLP or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2 (*LLP Events of Default*) and (b) the Extension Determination Date, under the Covered Bond Guarantee, then (subject as provided below) payment of the unpaid portion of the Final Redemption Amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above will be paid by the LLP to the extent it has sufficient moneys available under the Guarantee Priority of Payments on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The LLP shall notify the relevant Covered Bondholders (in accordance with Condition 13 (*Notices*)), the Rating Agency, 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 (*LLP Events of Default*), and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the corresponding part of Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the LLP shall not constitute an LLP Event of Default.

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

6.2 *Redemption for taxation reasons*

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

6.7 (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

Subject to Condition 6.4 (*Redemption at the option of the Covered Bondholders (Investor Put)*), 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) 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 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 Investor Put is specified as being applicable in the Final Terms (the **Investor Put**), then if and to the extent specified in the applicable Final Terms, upon the holder of this Covered Bond giving to the Issuer, in accordance with Condition 13 (*Notices*), not less than 15 nor more than 30 days' (or such other notice period specified in the applicable Final Terms) notice (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice provided that the Cash Manager has notified the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s), redeem subject to, and in accordance with, the terms specified in the applicable Final Terms in whole (but not in part) such Covered Bond on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied and, where relevant, the provisions will be set out in the applicable Final Terms.

If the relevant Covered Bond is in definitive form, to exercise the right to require redemption of this Covered Bond, the holder of the relevant Covered Bond must (in the case of Bearer Covered Bonds) deliver such Covered Bond (together with all unmatured Receipts and Coupons and unexchanged Talons), on any Business Day falling within the above-mentioned

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

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 (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.6 *General*

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

6.7 *Early Redemption Amounts*

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

(a) in the case of a Covered Bond other than a Zero Coupon Covered Bond (but including an Instalment Covered Bond), at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its Principal Amount Outstanding, together with interest accrued to (but excluding) the date fixed for redemption; and

(b) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable.

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

6.8 *Instalments*

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

6.9 *Purchases*

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

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 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

(c) the holder of which 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

(d) 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

(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 10 years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (*Taxation*)) therefor, subject in each case to the provisions of Condition 5 (*Payments*).

The Issuer shall be discharged from its obligation to pay principal on a Registered Covered Bond to the extent that the relevant Registered Covered Bond certificate has not been surrendered to the Registrar by, or a cheque which has been duly despatched in the Specified Currency remains uncashed at, the end of the period of 10 years from the Relevant Date for such payment.

The Issuer shall be discharged from its obligation to pay interest on a Registered Covered Bond to the extent that a cheque which has been duly dispatched 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*).

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 and/or prefunded 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 (a **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) following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied. For the avoidance of doubt, a breach by the

Issuer of any of the representations or warranties provided under any of the Transaction Documents shall not constitute an Issuer Event of Default;

(c) if an order is made or an effective resolution is passed for the winding-up of the Issuer (otherwise than for the purposes of a reconstruction or amalgamation, on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution of all the Covered Bondholders);

(d) if the Pre-Maturity Liquidity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Liquidity Test Breach Period, and the LLP has not cured the breach as described in the LLP Deed before the earlier to occur of:

(i) 10 Business Days from the date that the Seller, the LLP and the Bond Trustee 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;

(e) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice; or

(f) the Issuer shall be unable to pay its debts as they fall due (within the meaning of Section 23(1)(b) to (e) and Section 123(2) of the Insolvency Act (as those sections may be amended)) or shall admit inability to pay its debts as they fall due or shall stop making payment in respect of any debts that are due (save, in the case of stopping making payments, in each case in respect of any obligation for the payment of principal or interest in respect of the Covered Bonds of any Series) or shall be adjudged or found bankrupt or insolvent,

provided that any condition, event or act described in paragraph (b) above shall only constitute an Issuer Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series and provided also that a breach of any obligation to provide notices, reports or other information under the RCB Regulations and/or Regulated Covered Bond Sourcebook (**RCB Sourcebook**) shall not be considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee.

Upon the Covered Bonds becoming immediately due and payable against the Issuer pursuant to this Condition 9.1, the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP and the Issuer with a copy to the Principal Paying Agent pursuant to the Covered Bond Guarantee. If a Notice to Pay has been served, the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9.3 (*Enforcement*).

The Trust Deed provides that all moneys received by the Bond Trustee 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 Transaction 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 Transaction 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 and/or prefunded to its satisfaction), give notice (the **LLP Acceleration Notice**) in writing to the Issuer and the LLP, that (i) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against the Issuer following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not already included in the Early Redemption Amount) accrued interest, and (ii) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with (to the extent not already included in the Early Redemption Amount) accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

(a) if default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount which is Due for Payment under Condition 6.1 (*Final redemption*) when the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or

(b) if default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document other than the Programme Agreement or any Subscription Agreement (other than the obligation to satisfy the Asset Coverage Test in accordance with Clause 11 of the LLP Deed) to which the LLP is a party and (except where such default is or the effects of such default are, in the opinion of the Bond Trustee, acting in its absolute discretion, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required), such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or

(c) if an order is made or an effective resolution passed for the liquidation or winding-up of the LLP; or

(d) if the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(e) if the LLP is unable, or admits inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or

(f) if proceedings are initiated against the LLP under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar

laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or

(g) 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

(h) if there is a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any Calculation Date following service of a Notice to Pay,

provided that any condition, event or act described in paragraph (b) above shall only constitute an LLP Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series.

Following service of an LLP Acceleration Notice, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9.3 (*Enforcement*).

Upon service of an LLP Acceleration Notice, the Covered Bondholders shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with (to the extent not included in the Early Redemption Amount) accrued interest and any other amount due under such Covered Bonds (other than additional amounts payable under Condition 7 (*Taxation*)) as provided in the Trust Deed.

9.3 *Enforcement*

The Bond Trustee may at any time after service of an Issuer Acceleration Notice (in the case of the Issuer) and a Notice to Pay on the LLP 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 and/or prefunded 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 and/or prefunded 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 and Transfer Agent

The names of the initial Principal Paying Agent, the initial Registrar, the initial Transfer 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 in Europe, outside the UK approved by the Bond Trustee; and

(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.

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 (*General provisions applicable to payments*). Any such variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice shall have been given to the Covered Bondholders in accordance with Condition 13 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the LLP and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*).

Where:

(a) a Talon (the **relevant Talon**) has become prescribed in accordance with Condition 8 (*Prescription*); and

(b) the Covered Bond to which the relevant Talon pertains has not become void through prescription; and

(c) no Coupon sheet (or part thereof, being (a) Coupon(s) and/or a Talon, hereinafter called a **part Coupon sheet**), which Coupon sheet would have been exchangeable for the relevant Talon or for any subsequent Talon bearing the same serial number pertaining to such Covered Bond, has been issued; and

(d) either no replacement Coupon sheet or part Coupon sheet has been issued in respect of any Coupon sheet or part Coupon sheet referred to in (c) above or, in the reasonable opinion of the Issuer, there is no reasonable likelihood that any such replacement has been issued,

then upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity or security as the Issuer may reasonably require there may be obtained at the specified office of the Paying Agent (or such other place of which notice shall be given in accordance with Condition 13 (*Notices*)), a Coupon sheet or Coupon sheets or part Coupon sheet(s), as the circumstances may require, issued:

(i) in the case of a Covered Bond that has become due for redemption (x) without any Coupon itself prescribed in accordance with Condition 8 (*Prescription*) or the Relevant Date for payment of which would fall after the Relevant Date for the

redemption of the relevant Covered Bond, and (y) without any Talon or Talons, as the case may be; or

(ii) in any other case, without any Coupon or Talon itself prescribed in accordance with Condition 8 (*Prescription*) and without any Talon pertaining to a Coupon sheet the Relevant Date of the final Coupon of which falls on or prior to the date when the Coupon sheet(s) or part Coupon sheet(s) is (are) delivered to or to the order of the claimant, but in no event shall any Coupon sheet be issued the original due date for exchange of which falls after the date of delivery of such Coupon sheet(s) as aforesaid.

For the avoidance of doubt, the provisions of this Condition 12 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 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 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 day on which the said notice was given to 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 Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and 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 Creditors 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 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 for the passing of a Programme Resolution which is not for the purpose of directing the Bond Trustee to accelerate the Covered Bonds or to take enforcement action pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) 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. In relation to a meeting for the passing of a Programme Resolution which is for the purpose of directing the Bond Trustee to accelerate the Covered Bonds or to take enforcement action pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*), the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series) may at any time and the Issuer shall upon a requisition in writing in the English language signed by the holders of not less than 20 per cent. of the Principal Amount Outstanding of the Covered Bonds for the time being outstanding convene a meeting of the Covered Bondholders. 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 or Programme 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. Any Series Reserved Matter shall only be capable of being effected after having been approved by an Extraordinary Resolution.

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 or request in writing or written resolution 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 (*Events of Default, Acceleration and Enforcement*), 9.2 (*LLP Events of Default*), 9.3 (*Enforcement*) and 14.2 (*Modifications and Waivers*)).

14.2 *Modifications and Waivers*

The Bond Trustee and the Security Trustee may in the case of (a) and (b) below, and the Bond Trustee and the Security Trustee shall in the case of (c) to (n) below, agree and 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 provided that any such modification does not relate to a Series Reserved Matter:

(a) to any modification of the trust presents, 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 in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series; or

(b) to any modification of the trust presents, 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 opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature, is to correct a manifest error or is to comply with mandatory provisions of law; or

(c) subject to receipt by the Bond Trustee and the Security Trustee of a certificate of the Issuer or the LLP certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer or the LLP to satisfy the relevant requirements, to any modifications of the terms and conditions applying to Covered Bonds of any one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document as requested by the Issuer and/or the LLP in order to enable the Issuer and/or the LLP to comply with any requirements which apply to it under Regulation (EU) 648/2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from supervisory regulation) (the **European Market Infrastructures Regulation** or **EMIR**) in accordance with the terms of the Trust Deed, and the Covered Bondholder shall be deemed to have instructed the Bond Trustee and the Security Trustee to consider such amendments to the Transaction Documents and/or these Terms and Conditions to be not materially prejudicial for the purposes of making a determination under Clause 23 of the Deed of Charge; or

(d) to any modification for the purpose of allowing the Issuer to maintain compliance with the RCB Regulations in respect of the Programme and the Covered Bonds provided that the Issuer and the LLP certify to the Bond Trustee and to the Security Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect; or

(e) to the partial termination of any Covered Bond Swap following the redemption in part or cancellation in part of the related Series of Covered Bonds (for the avoidance of doubt, if there is more than one Covered Bond Swap in place in relation to such Series of Covered Bonds, each such Covered Bond Swap may be partially terminated in any amount as determined by the LLP) provided that the Issuer and the LLP certify to the Bond Trustee and the Security Trustee that following such partial termination (or partial terminations, as the case may be) the LLP remains adequately hedged in

relation to such Series of Covered Bonds and provided further that the Issuer and the LLP have certified to the Bond Trustee and the Security Trustee that such partial termination (or partial terminations, as the case may be) will not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Series of Covered Bonds by the Rating Agency or (y) the Rating Agency placing any Covered Bonds on rating watch negative (or equivalent); or

(f) to any modifications to a Cover Pool Swap Agreement or (if the relevant Covered Bond Swap Agreement so provides) a Covered Bond Swap Agreement requested by the LLP or the relevant Cover Pool Swap Provider or Covered Bond Swap Provider, as applicable, for the purpose of complying with, or implementing or reflecting updated criteria of one or more Rating Agencies which may be published after 24 February 2017 (the **New Rating Criteria**) and the Bond Trustee shall be obliged to concur in and to effect, and to direct the Security Trustee to concur in and to effect, any modifications to a Cover Pool Swap Agreement or a Covered Bond Swap Agreement that are requested by the LLP or a relevant Cover Pool Swap Provider or Covered Bond Swap Provider, as applicable, to modify the relevant Cover Pool Swap Agreement or Covered Bond Swap Agreement to reflect the New Rating Criteria, provided (i) that the conditions precedent to making of such amendments as set out in the relevant Cover Pool Swap Agreement or a Covered Bond Swap Agreement have been satisfied immediately prior to the date on which it is proposed that the amendments are effected and (ii) the Issuer and the LLP certify in writing to the Bond Trustee and the Security Trustee that such modification is necessary to comply with, implement or reflect the New Rating Criteria. For the avoidance of doubt, such modifications may include, without limitation, modifications which would allow any Cover Pool Swap Provider or Covered Bond Swap Provider not to post collateral in circumstances where it previously would have been obliged to do so, subject to satisfaction of the foregoing conditions; or

(g) to any modifications to the Transaction Documents and/or the Conditions (other than those referred to in Condition 14.2(f)) that are requested by the Issuer and the LLP to comply with any criteria of the Rating Agency which may be published after 24 February 2017 and which the Issuer and the LLP certify to the Bond Trustee and the Security Trustee in writing are required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by the Rating Agency to any Series of Covered Bonds; or

(h) to any modification for the purpose of allowing one or more additional rating agencies to be appointed in respect to one or all Series of Covered Bonds provided that the Issuer and the LLP, certify in writing to the Bond Trustee and the Security Trustee that (1) the additions do not dilute any of the existing requirements from the existing Rating Agency, (2) the Rating Agency has been informed of the proposed modification and the Rating Agency has not indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Series of Covered Bonds by such Rating Agency or (y) such Rating Agency placing any Covered Bonds on rating watch negative (or equivalent) and (3) that the Issuer pays all costs and expenses (including legal fees) incurred by the Issuer, the LLP and the Bond Trustee and the Security Trustee in connection with such modification; or

(i) to any modification for the purpose of enabling the Covered Bonds to be (or to remain) listed on the Stock Exchange, provided that the Issuer and the LLP certify to the Bond Trustee and the Security Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect; or

(j) to any modification for the purposes of enabling the Issuer or any of the other transaction parties to comply with FATCA, provided that the Issuer and the LLP or

the relevant transaction party, as applicable, certify to the Bond Trustee and the Security Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect; or

(k) to any modification for the purpose of allowing any additional Account Banks or Swap Collateral Account Banks to be appointed and/or additional Transaction Accounts or Swap Collateral Accounts to be opened, including custody accounts under the relevant Bank Account Agreement and Swap Collateral Bank Account Agreement, as applicable, provided that the Issuer and the LLP certify to the Bond Trustee and the Security Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect; or

(l) to any modification for the purpose of allowing a Collateralised GIC Account Provider to be appointed and/or any Collateralised GIC Accounts to be opened, under the relevant Collateralised GIC Account Agreement, provided that the Issuer and the LLP certify to the Bond Trustee and the Security Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect; or

(m) to the accession of any New Seller to the Programme provided that the Issuer and the LLP certify to the Bond Trustee and the Security Trustee in writing that the relevant conditions precedent in the Transaction Documents are satisfied at the time of the intended accession; or

(n) to any modification of the Cover Pool Swap Agreement for the purpose of enabling the Cover Pool Swap in relation to the Variable Rate Loans to be extinguished at the option of the Cover Pool Swap Provider following a downgrade in the relevant rating of the Cover Pool Swap Provider or any guarantor of the Cover Pool Swap Provider's obligations by the Rating Agency, provided that the Issuer and the LLP certify in writing to the Bond Trustee that (a) such modification is required solely for such purpose and has been drafted solely to such effect and (b) the Rating Agency has confirmed that such a downgrade in the relevant rating of the Cover Pool Swap Provider or any guarantor of the Cover Pool Swap Provider's obligations will not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Series of Covered Bonds by the Rating Agency or (y) the Rating Agency placing any Covered Bonds on rating watch negative (or equivalent),

PROVIDED that (1) the Bond Trustee and the Security Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and the Security Trustee, as applicable, would have the effect of (a) exposing the Bond Trustee and the Security Trustee, as applicable, to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (b) increasing the obligations or duties, or decreasing the rights or protections, of the Bond Trustee and the Security Trustee, as applicable in the Transaction Documents and/or the Conditions and (2) at least 14 days' prior written notice of any such proposed modification has been given to the Bond Trustee and the Security Trustee and (3) the consent of each Secured Creditor (other than the Bond Trustee, the Security Trustee and the Covered Bondholders) which is a party to the relevant Transaction Document has been obtained.

Notwithstanding the above, the Issuer and the LLP 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 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, without prejudice to its rights in respect of any subsequent breaches, 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 given Series and provided always that the Bond Trustee shall not exercise any powers conferred on it in contravention of any express direction by Extraordinary Resolution but so that no such direction shall affect any waiver, authorisation or determination previously given or made. 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.

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 and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

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 and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

In relation to any such modification, waiver, authorisation or determination, the Trust Deed contains provisions (which are described in Condition 14.1 (*Meetings of Covered Bondholders*)) for determining which Series of Covered Bonds are relevant in any particular case and for determining whether separate Extraordinary Resolutions or requests of each relevant Series or a single Extraordinary Resolution or request of all relevant Series are/is required.

The Security Trustee or the Bond Trustee shall not agree to any modification or make or grant any authorisation, waiver or determination pursuant to this Condition 14, until it shall have received from the Issuer written confirmation that such modification, waiver, authorisation or determination, as applicable, would not result in (1) a breach of the RCB Regulations or (2) the Issuer and/or the Programme ceasing to be registered under the RCB Regulations and that either:

(a) such modification, authorisation, waiver or determination would not require the Authorities to be notified in accordance with Regulation 20 of the RCB Regulations; or

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

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;

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; and

Stock Exchange means the London Stock Exchange or any other or further stock exchange(s) on which any Covered Bonds may from time to time be listed or admitted to trading.

14.3 *Additional Right of Modification and Waiver*

(a) In respect of any Covered Bonds issued on or after 1 November 2018 and which are not to be consolidated and form a single Series with Covered Bonds issued before 1 November 2018, the Bond Trustee, the Security Trustee and the LLP shall concur with the Issuer in making any modification (other than in respect of a Series Reserved Matter, provided that a Base Rate Modification (as defined below) will not constitute a Series Reserved Matter) to the Conditions and/or any Transaction Document (including, for the avoidance of doubt but without limitation, the Covered Bond Swap in relation to the relevant Series of Covered Bonds and subject to the consent only of

the Secured Creditors (i) party to the relevant Transaction Document being amended or (ii) whose ranking in any Priorities of Payments is affected) that the Issuer considers necessary for the purpose of changing the base rate in respect of the Covered Bonds from LIBOR, EURIBOR or such other benchmark rate (each, a **Reference Rate**) to an alternative base rate (any such rate, an **Alternative Base Rate**) and making such other amendments to the Conditions and/or any Transaction Documents (including the Cover Pool Swap) as are necessary or advisable in the reasonable judgment of the Issuer to facilitate such change (a **Base Rate Modification**), provided that:

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

I. such Base Rate Modification is being undertaken due to:

(A) a material disruption to the relevant Reference Rate, an adverse change in the methodology of calculating the relevant Reference Rate or the relevant Reference Rate ceasing to exist or be published; or

(B) a public statement by the administrator of the relevant Reference Rate that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator for the Reference Rate has been appointed that will continue publication of the relevant Reference Rate) and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable; or

(C) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued or will be changed in an adverse manner and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable; or

(D) a public statement by the supervisor of the administrator of the relevant Reference Rate that means such Reference Rate may no longer be used or that its use is subject to restrictions or adverse consequences; or

(E) the reasonable expectation of the Issuer that any of the events specified in sub-paragraphs (A), (B), (C) or (D) will occur or exist within six months of the proposed effective date of such Base Rate Modification; and

II. such Alternative Base Rate is:

(A) a base rate published, endorsed, approved or recognised by the Bank of England, any regulator in the United States, the United Kingdom or the European Union or any stock exchange on which the Covered Bonds are listed (or any

relevant committee or other body established, sponsored or approved by any of the foregoing); or

(B) in relation to LIBOR, the Sterling Over Night Index Average (or any rate which is derived from, based upon or otherwise similar to either of the foregoing); or

(C) a base rate utilised in a material number of publicly-listed new issues of floating rate covered bonds prior to the effective date of such Base Rate Modification (for these purposes, unless agreed otherwise by the Bond Trustee, 3 such issues shall be considered material); or

(D) a base rate utilised in publicly-listed new issues of floating rate covered bonds where the issuer (or, in the case of asset backed securities, the originator of the relevant assets) is the Issuer or an Affiliate of the Issuer; and

III. the Base Rate Modification proposed is required solely for the purpose of applying the Alternative Base Rate and making consequential modifications to the Conditions, the Trust Deed and/or any Transaction Document which are, as reasonably determined by the Issuer, necessary or advisable, and the modifications have been drafted solely to such effect;

(ii) at least 30 days' prior written notice of any proposed Base Rate Modification has been given to the Bond Trustee and the Security Trustee;

(iii) the Base Rate Modification Certificate is provided to the Bond Trustee and the Security Trustee both (i) at the time the Bond Trustee and the Security Trustee are notified of the Base Rate Modification and (ii) on the effective date of such Base Rate Modification;

(iv) with respect to each Rating Agency, either:

(A) the Issuer obtains from such Rating Agency written confirmation that such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the relevant Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent) and delivers a copy of each such confirmation to the Bond Trustee and the Security Trustee; or

(B) the Issuer certifies in writing to the Bond Trustee and the Security Trustee that it has notified such Rating Agency of the Base Rate Modification and, in its opinion, formed on the basis of due consideration and consultation with such Rating Agency (including, as applicable, upon receipt of oral confirmation from an appropriately authorised person at such Rating Agency), such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Covered Bonds of

any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent);

(v) the Issuer pays (or arranges for the payment of) all documented fees, costs and expenses (including legal fees) incurred by the Bond Trustee and the Security Trustee in connection with such Base Rate Modification;

(vi) the Issuer has provided at least 30 days' notice to the Covered Bondholders of the relevant Series of Covered Bonds of the Base Rate Modification in accordance with Condition 13 (Notices) and by publication on Bloomberg on the "Company News" screen relating to the Covered Bonds (in each case specifying the date and time by which Covered Bondholders must respond), and Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have not contacted the Issuer in writing (or otherwise in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held) by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification.

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

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

For the avoidance of doubt, the Issuer may propose an Alternative Base Rate on more than one occasion provided that the conditions set out in this Condition 14.3(a) are satisfied.

(b) When implementing any modification pursuant to Condition 14.3 (*Additional Right of Modification and Waiver*):

(i) the Bond Trustee and the Security Trustee shall not consider the interests of the Covered Bondholders, any other Secured Creditor or any other person and shall act and rely solely and without investigation or liability on any Base Rate Modification Certificate or other certificate or evidence provided to it by the Issuer and shall not be liable to the Covered Bondholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and

(ii) neither the Bond Trustee nor the Security Trustee shall be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and/or the Security Trustee would have the effect of (i) exposing the Bond Trustee and/or the Security Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights, powers, authorisations, discretions, indemnification or protections, of the Bond Trustee and/or the Security Trustee in the Transaction Documents and/or these Conditions.

Neither the Bond Trustee nor the Security Trustee shall be responsible or liable in damages or otherwise to any person or party for any loss incurred by reason of the Bond Trustee and/or the Security Trustee consenting to or concurring in such amendments, replacements and modifications.

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 and/or prefunded 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 and other Secured Creditors 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 the 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 the 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 Agency 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 Agency 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 the 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 the Rating Agency cannot provide a Rating Agency Confirmation in the time available, or at all, and the Rating Agency shall not be responsible for the consequences thereof;

(c) a Rating Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bond forms a part; and

(d) a Rating Agency Confirmation represents only a restatement of the opinions given, and shall not be construed as advice for the benefit of any Covered Bondholder or any other party.

19. Substitution, Consolidation, Merger, Amalgamation or Transfer of the Issuer

19.1 If so requested by the Issuer, the Bond Trustee 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.

19.2 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.

19.3 The Issuer may (without the consent of the Covered Bondholders, Receiptholders or Couponholders of any Series or any other Secured Creditor (including the Bond Trustee and the Security Trustee) where the new entity is a corporation organised under the laws of the United Kingdom) consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation (where the surviving entity or transferee company is not the Issuer, such surviving entity or transferee company shall be referred to as the **New Entity**). Further conditions shall apply to such consolidation, merger or amalgamation as set out in the Trust Deed.

19.4 Any such trust deed executed and/or undertakings given pursuant to this Condition shall, if so expressed, operate to release the Issuer (as the case may be) or the previous substitute as aforesaid from all of its obligations under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents. Not later than 14 days after such consolidation, merger, amalgamation and/or transfer, the New Entity shall give notice thereof in a form previously approved by the Bond Trustee to the Covered Bondholders in the manner provided in Condition 13 (*Notices*). Upon the execution of such documents and compliance with such requirements, the New Entity shall be deemed to be named in the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents to which the Issuer is a party as the principal debtor in place of the Issuer (where the New Entity is the successor entity or transferee company of the Issuer) (or in each case in place of the previous substitute under this Condition) under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents and the Covered Bonds, the Receipts, the Coupons and the other relevant Transaction Documents shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the trust presents, the Covered Bonds, the Receipts, the Coupons and the other relevant Transaction Documents to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to the New Entity.

20. Contracts (Rights of Third Parties) Act 1999

No person (other than the Rating Agency 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) are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust is governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

USE OF PROCEEDS

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after exchanging the proceeds of the Term Advances into Sterling, if necessary) either to (i) acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

(a) to acquire Loans and their Related Security;

(b) to invest the same in Substitution Assets up to the prescribed limit;

(c) 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;

(d) subject to complying with the Asset Coverage Test, to make Capital Distributions to one or more Members; and/or

(e) to make a deposit of all or part of the proceeds in the Transaction Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit).

TSB BANK PLC

CORPORATE DETAILS OF THE ISSUER

TSB Bank plc (**TSB**) is domiciled in the UK. TSB was incorporated and registered in Scotland on 24 September 1985 (Registration number SC095237). TSB's registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, Scotland, telephone number (+44) (0) 1452 841 380.

INTRODUCTION

On 9 September 2013, TSB was launched as a re-branded retail bank operating in the UK with branches across England, Scotland and Wales. As at the date of the Prospectus, the Issuer is a wholly owned subsidiary of TSB Banking Group plc which in turn is wholly owned by Sabadell.

BACKGROUND

In November 2009, Lloyds Banking Group announced that it had agreed the terms of a restructuring plan with the European Commission, including the divestment of a significant UK retail banking business (the business that is TSB Bank today) as part of the approval by the European Commission of the State aid granted to Lloyds Banking Group.

H.M. Treasury's financial support of Lloyds Banking Group during a period of unprecedented turbulence in the global financial markets in 2008 – 2009 was deemed by the European Commission to have constituted State aid. As a result, Lloyds Banking Group was required to dispose of a UK retail banking business meeting certain criteria, with the aim of bringing more competition to UK retail banking. The criteria to be met by the divestment business, included a minimum number of branches and their customers, a minimum share of the PCA market in the UK and a specified proportion of Lloyds Banking Group's mortgage assets meeting certain quality thresholds.

Lloyds Banking Group chose to divest the TSB business by way of initial public offering and on 25 June 2014, the ordinary shares of TSB Banking Group were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities.

On 20 March 2015, the boards of TSB Banking Group and Sabadell announced that they had reached agreement on the terms of a recommended cash offer to be made by Sabadell for the entire issued share capital of TSB Banking Group. The acquisition of TSB Banking Group plc by Sabadell was completed on 30 June 2015 and the ordinary shares of TSB Banking Group were delisted.

Sabadell migrated TSB Bank's infrastructure onto a new IT platform built and provided by companies within the Sabadell Group (and other third party suppliers) in April 2018. Whilst the servicing agreements with Lloyds Bank have been ended for the majority of services, some specific extended services are also still provided by Lloyds Bank. These are principally being provided under the previous transitional services agreement together with other standalone arrangements for varying periods of time and which still utilise some elements of the Lloyds Bank IT systems and infrastructure.

STRATEGY

TSB Bank's strategy is one of growth. The strategy is aimed at efficiently growing its key market shares by utilising the substantial scale of its distribution capability and infrastructure. The key components of TSB Bank's strategy are to grow its share of the current account market, to lend more to people right across Britain, to continue to enhance its proposition including deploying its considerable digital banking capability and strengthen its position in the small business banking market.

In the medium term, TSB Bank aims to increase its share of personal current accounts along with growing TSB Franchise lending, materially enabled through the intermediary mortgage market. This growth is being undertaken responsibly, within TSB Bank's conservative risk appetite, and with

funding provided primarily by customer deposits. TSB is also broadening its offering to small businesses.

A focus on deploying TSB Bank's digital capability and on differentiating customer service and specific initiatives to enhance TSB Bank's proposition serves to build greater consideration of the TSB Bank brand. TSB Bank focuses on controlling costs as it grows the business and continues to invest in the TSB Franchise.

CURRENT OPERATIONS AND PRINCIPAL ACTIVITIES

TSB Bank is a fully functioning UK bank with a multi-channel, national distribution model, including 550 branches (as at 30 September 2018) with coverage across England, Scotland and Wales and a full digital (internet and mobile) and telephony capability.

TSB Bank's comprehensive product suite includes PCAs, savings products, mortgages, unsecured personal and business lending and certain insurance products.

TSB Bank has a simple balance sheet and comparatively low-risk financial structure overall. TSB Bank also benefits from a broad and (save in certain limited respects) uncapped Conduct Indemnity from Lloyds Bank against losses arising out of historical conduct issues.

On 7 December 2015 TSB Bank further grew its balance sheet by acquiring the Whistletree Portfolio.

BUSINESS AND ACTIVITIES

TSB Bank offers a range of banking services and products to individuals and predominantly 'micro' business banking customers throughout the UK.

1. Deposits

PCAs

For most retail customers, a PCA is at the core of their overall relationship with a bank. PCAs provide retail banks with loyal customers and a source of resilient, low-cost funding. Whilst TSB Bank offers attractive rates of interest on qualifying PCA balances held on some of its PCA products, in common with some other market participants, the majority of its PCA deposits are non-interest bearing.

Savings accounts

Savings accounts can offer a fixed interest rate for a fixed term, or a variable interest rate (which may change at the discretion of the bank but often moves in response to changes in the Bank of England Base Rate). Variable rate savings accounts may also include a "bonus" rate on top of the standard variable deposit rate for a specified term. Deposits held with savings accounts can either be instant access (where customers can withdraw the deposits at any time) or be term deposits (where customers can generally only withdraw deposits without penalty at the end of the term).

2. Residential mortgages and unsecured lending

Residential mortgages

The information in this section relates to the TSB Franchise only.

TSB Bank's residential mortgage portfolio consists solely of residential mortgage loans to individuals secured on residential properties located in the UK. TSB Bank's residential mortgage loans are fully secured by way of a first ranking charge on the residential property to which the mortgage loan relates, on terms which allow for the repossession and sale of the property if the borrower fails to comply with the terms of the loan.

TSB Bank offers both mainstream residential mortgage lending (where the borrower is the owner and occupier of the mortgaged property) and buy-to-let lending (where the borrower intends to let the mortgaged property). In common with other residential mortgage lenders in

the UK, TSB Bank does not offer mortgages to borrowers who self-certify their income or who have adverse credit histories (sub-prime). However, unlike many lenders, TSB Bank also has no historical self-certification or sub-prime business in its mortgage portfolio.

3. Unsecured Lending Business

Unsecured lending

The unsecured lending products offered to customers by TSB Bank consist of unsecured personal loans, credit cards and overdrafts.

Unsecured personal loans

TSB Bank's unsecured personal loan portfolio consists of fixed rate lending to customers, referred to as "Fix and Flex Loans" (previously known as "standard personal loans") which are generally purpose loans in the form of "Car Loans" for customers looking to buy a new or used car, "Debt Consolidation Loans" that allow customers to refinance and combine their existing debt and "Home Improvement Loans" for customers looking to extend, convert, refurbish or renovate their home. In addition, TSB Bank offers "Graduate Loans" for customers who require assistance with their finance following graduation and "Additional Borrowing" facilities for customers who already have an unsecured personal loan with TSB Bank and require additional funding.

Credit cards

Credit cards are a key transactional banking product, meeting a range of customers' buying and borrowing needs. TSB Bank offers credit cards both to customers with an existing relationship with the bank, and on the open market. Its focus is on providing compelling credit card propositions and pricing to meet the needs of its existing current account customers and to deepen the banking relationship with them.

PCA Overdrafts

TSB Bank also offers both planned and unplanned overdrafts to its PCA customers. Planned overdrafts are overdrafts that have been formally agreed to by TSB Bank. Unplanned overdrafts are overdrafts that have not been formally agreed to by TSB Bank and occur where a PCA holder pays or withdraws money from their PCA in excess of their credit balance or the amount of their planned overdraft.

4. Business Banking

As TSB Bank initially focused on retail customers, its business banking services are geared towards the needs of "micro" business customers (which TSB Bank defines as business banking customers with a revenue of less than £500,000 and borrowing no more than £1 million) with part of the business banking lending risks being mitigated by taking of a second charge over commercial or residential property. In 2018, TSB plans to broaden its offering to small businesses.

5. Insurance products

TSB Bank offers general insurance products, underwritten by Aviva Insurance Limited, through its branch, digital and telephony channels.

REGULATION

As a financial institution, the Group is subject to extensive financial services laws, regulations, administrative actions and policies in the UK, the EU and each other location in which the Group operates. As well as being subject to UK regulation, as part of the Sabadell Group the Group is also impacted indirectly through regulation by the Banco de España and, at a corporate level, by the ECB (following the introduction of the Single Supervisory Mechanism in November 2014). The laws, regulations and policies to which the Group is subject may be changed at any time. In addition, the interpretation and the application of

those laws and regulations by regulators are also subject to change. Extensive legislation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect the Group's business, including in Spain and the EU.

1. UK Regulators

TSB Bank falls under the ambit of UK banking regulators and regulation.

The PRA, the FCA and the Financial Policy Committee

Under the Financial Services Act 2012, a range of structural reforms to UK financial regulatory bodies were implemented, with the Financial Services Authority (the **FSA**) being replaced from 1 April 2013 by the following bodies: (i) the PRA; (ii) the FCA; and (iii) the Financial Policy Committee (the **FPC**).

The PRA, once a subsidiary of the Bank of England, has responsibility for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets, including banks, insurers and some large investment firms. Certain provisions of the Bank of England and Financial Services Act 2016 (the **2016 Act**) came into force on 1 March 2017 and ended the subsidiary status of the PRA. The 2016 Act transfers the functions of the PRA to sit within the Bank of England and for the PRA's functions to be exercised by the Prudential Regulation Committee (the **PRC**) (which is created by the 2016 Act). The 2016 Act and the Bank of England and Financial Services (Consequential Amendments) Regulations 2017 (the **2016 Act Regulations**) make amendments to references to the Bank of England and the PRA in various enactments to account for the change in status of the PRA. While no significant impact on either the private or public sectors is foreseen on account of this legislation, care must be taken to ensure that documentation referring to either the PRA or the Bank of England is updated in accordance with the 2016 Act and the 2016 Act Regulations.

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the FSA's market regulatory functions, and it represents the UK's interests in markets regulation at the European Securities and Markets Authority. TSB Bank is authorised by the PRA and is regulated by both the PRA and the FCA.

The FPC, which sits within the Bank of England, is tasked with macro-prudential regulation, or regulation of the stability and resilience of the financial system as a whole.

For the purposes of this section, the terms the **Relevant Regulator** and **Relevant Regulators** refer, as the context requires, to one or more of the PRA, FCA and/or FPC.

The UK Government

The UK Government has no operational responsibility for the activities of the PRA, the FCA or the FPC. However, there are a variety of circumstances where the PRA, the FCA and the FPC will need to alert H.M. Treasury (as the representative of the UK Government) about possible problems, for example, in terms of the PRA, where there may be a need for a support operation or a problem arises which could cause wider economic disruption and, in terms of the FCA, where there has been a significant regulatory failure to secure appropriate consumer protection.

The Financial Ombudsman Service

The FSMA established the FOS, which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money that can be awarded by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012 (£100,000 for earlier complaints)

plus interest and costs. The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate.

2. UK Regulation

Overview of the UK financial services regulation

Financial Services and Markets Act 2000

The cornerstone of the regulatory regime in the UK is the FSMA, which came into force on 1 December 2001. However, the framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by European Union legislation.

The FSMA prohibits any person from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK unless that person is authorised or exempt under the FSMA (the **General Prohibition**). Regulated activities include deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments and managing investments).

The UK regulators are responsible for the authorisation and supervision of institutions that provide regulated financial products and services as defined in the FSMA in the UK. TSB Bank is authorised by the PRA with permission to undertake, among other things, deposit-taking, mortgage and certain investment activities. The FSMA also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised person or exempt from such requirements.

Financial services handbooks

The FSMA (as amended by the Financial Services Act 2012, as amended (the **FSA 2012**)) imposes an ongoing system of regulation and control on banks. The detailed rules and prudential standards set by the FCA and the PRA are contained in various parts of the FCA handbook (the **FCA Handbook**) and PRA rulebook (the **PRA Rulebook**).

Supervision and enforcement

Supervision

Each of the PRA and the FCA has wide powers, where relevant, to supervise and intervene in, the affairs of a firm authorised and regulated under, or pursuant to, the FSMA. These powers were extended under the FSA 2012.

The nature and extent of a Relevant Regulator's supervisory relationship with a firm depends on how much of a risk the Relevant Regulator considers that firm could pose to its statutory objectives. The PRA's supervisory interventions will focus on reducing the likelihood of a firm failing and on ensuring that if it does fail, it does so in an orderly manner. The PRA has introduced the 'Proactive Intervention Framework' to support early identification of risks to a firm's viability (and enable appropriate supervisory actions to be taken to address such risks if necessary) on the basis of information collected. The PRA conducts its assessment work on a continuous cycle.

When taking action, the Relevant Regulator can, for instance, require firms to provide particular information or documents to it, require the production of a report by a "skilled person" (as defined in the glossary to the FCA Handbook and the PRA Rulebook), appointed by either the authorised person or the Relevant Regulator, or formally investigate a firm. Where it will advance its objectives, the PRA has a broad power of direction over qualifying unregulated parent undertakings.

Enforcement

The Relevant Regulators have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. Most notably, enforcement actions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an approved person's status. The Relevant Regulators can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months, or that fails to meet the threshold conditions.

Capital adequacy and European regulatory landscape

The Group is subject to capital adequacy requirements and guidelines adopted by the PRA for a bank, which provide for a minimum ratio of total capital to risk weighted assets, expressed as a percentage. The PRA's capital adequacy requirements and guidelines for banks are found in the PRA Rulebook, as well as in the Capital Requirements Regulation.

European Union legislation transposing the current capital guidelines, through the Banking Consolidation Directive (2006/28/EC) (the **Banking Consolidation Directive**) and the recast Capital Adequacy Directive (2006/49/EC) (together the **Capital Requirements Directive**), was partially implemented at the start of 2007, with more advanced techniques in relation to the calculation of capital requirements for credit risk and operational risk implemented at the start of 2008. The Capital Requirements Directive has since been amended by CRD II and CRD III, which further tightened the capital requirements for trading books and securitisations. CRD III entered into force on 15 December 2010 and, following its implementation, the last of its provisions came into force in the UK on 16 April 2012.

The BCBS subsequently approved the Basel III proposals in 2011, including new capital and liquidity requirements intended to reinforce capital standards, with heightened requirements for global systemically important banks, and to establish minimum liquidity standards for credit institutions.

The European Commission published corresponding proposals to implement Basel III through CRD IV on 20 July 2011. The CRD IV draft legislation was approved by the European Council on 21 June 2013 and published in the Official Journal on 26 June 2013.

CRD IV substantially reflects the Basel III capital and liquidity standards, although certain details continue to be clarified in further binding technical standards issued by the EBA. CRD IV came into force in January 2014, but will only be fully implemented by January 2019; however, the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or levels of capital more quickly than is envisaged under Basel III. In the United Kingdom, the PRA has confirmed acceleration of the introduction of certain of the enhanced capital requirements under CRD IV. In accordance with the PRA's rules and supervisory statements, the PRA will require the Group to meet certain capital targets within certain prescribed time frames, without having regard to any transitional provisions in that respect. The actual impact of CRD IV on capital ratios may change as the CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be adopted by the EBA or changes to the way in which the PRA interprets or applies these requirements to the UK.

For more information see "*Risk Factors – The Group is subject to regulatory capital requirements*".

Recovery and resolution

In light of the crisis in the financial markets, the Banking Act received Royal Assent in February 2009 and certain provisions, including those relating to bank insolvency and bank administration, came into force at that time. The Banking Act provides the PRA, the Bank of England and H.M. Treasury with tools for dealing with failing institutions. 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 and which cannot be assisted through normal regulatory action or market-based solutions. The Banking Act also makes provision for special insolvency processes which authorities can utilise to deal with failing banks. For more information see "*Risk Factors – The Group is subject to substantial and changing prudential regulation – Banking Act 2009*".

Consumer credit regulation

Recent reforms have brought the UK consumer credit regime under the umbrella of the FSMA and transferred the responsibility for the oversight and regulation of consumer credit from the OFT to the FCA with effect from 1 April 2014. The reformed regulatory framework comprises the FSMA and its secondary legislation, retained provisions in the CCA and rules and guidance in the FCA Handbook, including the FCA's Consumer Credit Sourcebook (for the purposes of this section, collectively the **New Regime**).

Under the New Regime, the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 has been amended to extend the definition of "regulated activities" to consumer credit activities including entering into a "regulated credit agreement" as lender. A regulated credit agreement is any "credit agreement" that is not an "exempt agreement". A credit agreement is any agreement between an individual or relevant recipient of credit (**A**) and any other person (**B**), under which B provides A with "credit" of any amount. Credit is widely defined and includes cash loans and any other form of financial accommodation. Exempt agreements include those predominantly for the purposes of a business, those secured on land or otherwise by mortgage and those where a local authority or other specified type of organisation is the lender. Other consumer credit activities which are now regulated include credit broking, debt-related consumer credit activities, entering into a regulated consumer hire agreement as owner or lender, operating an electronic system in relation to lending and providing credit information services and credit references.

Consumer credit activities are therefore now subject to the General Prohibition and the FSMA authorisation regime discussed earlier.

To facilitate transition to the New Regime, the UK Government introduced an interim permission regime.

Firms with existing FCA or PRA authorisations were not automatically given interim permission. If such firms notified the FCA of their wish to obtain an interim permission prior to 31 March 2014, and supplied the required information in the required form by the deadline, they received an interim variation of permission to continue to carry on consumer credit activities alongside their other regulated activities. TSB Bank obtained such interim permission and successfully applied to convert its interim permission to permanent permission with effect from 1 December 2015.

For further information please see the risk factor "*Risks relating to the regulatory environment in which the Group operates*" above.

Mortgage lending

The FSMA regulates mortgage credit within the definition of "Regulated Mortgage Contract" and also regulates certain other types of home finance.

If prohibitions under the FSMA as to authorisation or financial promotions are contravened, then the relevant Regulated Mortgage Contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The FCA's Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**) sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorised firm (such as TSB Bank) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can

include the extension of the term of the mortgage, product type changes and deferral of interest payments.

For further information please see the risk factor "*Risks relating to the regulatory environment in which the Group operates*" above.

Senior Managers Regime and Remuneration

Following the financial crisis, the Parliamentary Commission on Banking Standards (**PCBS**) was established to consider the professional standards and culture of the UK banking sector and report on lessons to be learned.

The PCBS found that a lack of accountability contributed to the mismanagement of key risks, and recommendations were made to improve individual accountability in the banking sector. The findings were incorporated into the Financial Services (Banking Reform) Act 2013. The Banking Reform Act includes certain provisions regarding a new regime for conduct of individuals performing a senior management function, which came into force on 25 July 2014. The PRA and FCA published final rules in July 2015, which came into force on 7 March 2016 (the transitional provisions have been in force since 13 July 2015). The senior managers regime will have a substantial impact on banks and building societies in the UK generally, including TSB.

The United Kingdom's regulatory approach to remuneration derives from the requirements of the Principles and Standards on compensation of the Financial Stability Board (**FSB**) and subsequent European legislation including CRD IV, on which much of the FCA Remuneration Code (the **Remuneration Code**) is based. Weaknesses in the alignment between risk and reward were also highlighted in the final report of the PCBS 'Changing Banking For Good' published in June 2013.

In April 2017, the PRA published a Policy Statement and Supervisory Statement on the PRA's expectations on remuneration.

Financial Services Compensation Scheme and the EU Deposit Guarantee Scheme Directive

FSCS

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for claims against firms declared in default: (i) for deposits, 100 per cent. of the first £85,000; (ii) for mortgage advice and arranging, 100 per cent. of the first £50,000; and (iii) for insurance, 90 per cent. of the claim with no upper limit (except that compulsory insurance is protected in full). In addition, the FSCS also pays compensation in certain circumstances on the balance of high deposits that an eligible customer has (on a temporary basis) with an authorised financial services firm. The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes, requires Member States to set the minimum level of compensation for deposits at €100,000.

EU DGSD

Please refer to the section of the Prospectus entitled "*Risks relating to the regulatory environment in which the Group operates - The Group is subject to the potential impacts of UK and European banking reform initiatives*" above.

Competition regulation

TSB is subject to EU and UK competition laws, which are enforced by a number of competition regulators, including the CMA, sector regulators and the European Commission. In its market investigation into retail banking (the final report in relation to which was published in 2016) the CMA identified several adverse effects on competition and announced a package of reforms designed to address these, including requiring certain banks to adopt and

maintain an open application programming interface (API) standard, to publish certain information on their services and to send certain information to customers. The CMA Order 2017 formally implements these reforms, which are currently being introduced according to the timetable set out in the CMA Order 2017. TSB is subject to, and currently in the process of implementing, certain parts of the CMA Order 2017.

Both the FCA and the payment systems regulator have concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively. The FCA is currently undertaking a number of studies, including into mortgages, overdrafts and retail banking business model. While the outcome of such studies, and the scope any future studies, is inherently uncertain, they may ultimately result in the application of behavioural and/or structural remedies by the regulator.

TSB Banking Group – press release on results

Neither of TSB Banking Group or TSB Bank publish interim financial statements. However, Sabadell published a press release on 26 October 2018 including details of the migration related financial impact on the Issuer as of 30 September 2018.

TSB Bank has recognised additional costs of £251.3 million, which include a provision for customer redress, associated remediation resource costs, fraud costs, additional resource and advisory costs to support the remediation of systems and operating defects and forgone income due to waived interest charges and overdraft fees.

Rebuilding customer confidence

In addition to the engagement of external parties to identify and stabilize the platform and the waiving of certain account charges, TSB Bank has hired and trained additional staff to restore service levels and to operate a redress scheme to ensure that all customers affected are properly reimbursed. Such measures seek to rebuild customer confidence in TSB Bank and improve the profile of the TSB brand, with the objective of restoring consumer confidence in order to enable the deposit and lending volumes to be restored to planned levels and TSB Bank's growth strategy to be fulfilled.

3. Directors of the Issuer

The directors of the Issuer, the business address of each of whom is Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, Scotland, and their respective principal outside activities, where significant to the Group, are as follows:

Name	Principal outside activities
Richard Meddings *Executive Chairman*	Non-executive Director, HM Treasury Non-executive Director, Jardine Lloyd Thompson Group plc Non-executive Director, Deutsche Bank AG Non-executive Director, ICC UK Non-executive Director, World Business Organization Ltd Member of the Financial Reporting Review Panel, FRC Trustee, Teach First
Ralph Coates *Chief Financial Officer*	
Paulina Beato *Independent Non-executive Director*	
Professor Dame Sandra Dawson *Senior Independent*	Trustee and Non-executive Director, Institute for Government Chairman of Executive Committee and Trustee, Social Science Research Council USA

Non-executive Director	Trustee, American University of Sharjah
Graeme Hardie *Independent* *Non-executive Director*	
Alexandra Kinney Pritchard (Sandy Kinney) *Independent* *Non-executive Director*	Non-executive Director, Credit Suisse (UK) Limited
Stephen Page *Independent* *Non-executive Director*	Non-executive Director, British Standards Institution Non-executive Director, The British Library Non-executive Director, Nominet UK
Polly Williams *Independent* *Non-executive Director*	Non-executive Director, Jupiter Fund Management plc Non-executive Director, RBC Europe Limited Non-executive Director, XP Power Limited Director, GDBA (Pension Fund Trustee) Limited Trustee, Guide Dogs for the Blind Association
Miquel Montes *Non-executive Director*	Executive, Banco de Sabadell, S.A. Chairman, Sabadell Innovation Cells, S.L. Chairman, Solvia Servicios Inmobiliarios, S.L.U. Director, Solvia Gestora de Vivienda Social, S.L.U.
Tomás Varela *Non-executive Director*	General Manager, Banco de Sabadell, S.A. Alternate Chairman, Banco Sabadell, S.A. IBM Alternate Chairman, SabCapital, S.A. de C.V. SOFOM E.R. Trustee, Fundación de Estudios Financieros
Andy Simmonds *Independent* *Non-executive Director*	Non-executive Director, EFG Private Bank Ltd Non-executive Director, ICBC Standard Bank plc

Both Miquel Montes and Tomás Varela are Executives of Banco de Sabadell, S.A. and have a potential conflict of interest in circumstances where the interests of TSB and the wider Sabadell Group are not aligned. This potential conflict has been authorised by the Board of the Issuer.

None of the other directors of the Issuer has any actual or potential conflict between their duties to the Issuer and their private interests or other duties as listed above.

THE LLP

TSB Covered Bonds LLP (the **LLP**) was incorporated on 16 May 2016 in England and Wales as a limited liability partnership (with registered number OC411834) under the LLPA, with TSB Bank plc and TSB Covered Bonds (LM) Limited (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 (+44) (0) 2073 986 300.

The LLP forms a group with its Members and has no subsidiaries. The LLP is dependent on (i) TSB Bank plc to provide certain services to it on the terms of the Transaction Documents and (ii) on the Corporate Services Provider to provide certain corporate administration services.

The principal activities of the LLP are set out in the LLP Deed and include, *inter alia*, the ability to carry on the business of acquiring the Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement with a view to profit, to borrow money and to do all such things as are incidental or conducive to the carrying on of that business.

The LLP has not engaged since incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA, activities contemplated under the Transaction Documents to which it is or will be a party, filing a notification under the DPA and other matters which are incidental or ancillary to the foregoing.

Members

The Members of the LLP as at the date of this Prospectus and their registered offices are:

Name	Registered Office
TSB Covered Bonds (LM) Limited	35 Great St. Helen's, London EC3A 6AP
TSB Bank plc	Henry Duncan House, 120 George Street, Edinburgh EH2 4LH

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

Directors of TSB Covered Bonds (LM) Limited

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

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

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

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

Directors of TSB Bank plc

The directors of TSB Bank plc are set out under "*TSB Bank plc – Directors of the Issuer*" above.

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

LLP Management Board

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

At the date of this Prospectus, the following are the members of the LLP Management Board:

Name	Business Address	Principal Activities outside the LLP
Ralph Coates	20 Gresham Street, London EC2V 7JE	Chief Financial Officer of TSB Bank plc
Alison Straszewski	20 Gresham Street, London EC2V 7JE	Treasurer of TSB Bank plc
Steve Vance	Barnett Way, Gloucester GL4 3DU	Head of Secured Funding of TSB Bank plc
Rangan Ravindran	20 Gresham Street, London EC2V 7JE	Head of Liquidity and Market Risk of TSB Bank plc

The LLP has no employees.

There are no potential conflicts of interest between, on the one hand, any duties of the members of the LLP Management Board to the LLP and, on the other hand, their private interests or other duties.

As at the date of this Prospectus, the LLP is controlled by 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 TSB Bank plc or TSB Bank plc disposing of any of the shares of TSB Covered Bonds (LM) Limited (such that it ceases to hold at least 20 per cent. of TSB Covered Bonds (LM) Limited without any necessary consents), TSB Covered Bonds (LM) Limited would take control of the LLP.

The LLP's accounting reference date is 31 December. The financial statements of the LLP for the year ended 31 December 2017 have been audited by the LLP's auditors and have been prepared in accordance with generally accepted accounting principles under IFRS. The LLP's audited accounts for the year ended 31 December 2017 are incorporated by reference in this Prospectus.

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 (following service of a Notice to Pay) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders) an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, the Extended Due for Payment Date, by the Issuer. Payment by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day which is two Business Days following service of a Notice to Pay on the LLP and (b) the day on which the Guaranteed Amounts are otherwise Due for Payment (the **Guaranteed Amounts Due Date**). In addition, the LLP shall, to the extent it has funds available to it, make payments in respect of the unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date (where an Extended Due for Payment Date is provided for in the relevant Final Terms). The Bond Trustee will be required to serve a Notice to Pay on the LLP with a copy to the Principal Paying Agent following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which, following the occurrence of an LLP Event of Default, an LLP Acceleration Notice is served in accordance with Condition 9.2 (*LLP Events of Default*). Following service of an LLP Acceleration Notice, the Covered Bonds will (if an Issuer Acceleration Notice has not already been served) become immediately due and payable as against the Issuer and the obligations of the LLP under the Covered Bond Guarantee will be accelerated.

All payments of Guaranteed Amounts by or on behalf of the LLP shall be made without withholding or deduction for, or on account of, any present or future taxes, duties or other charges of whatever nature imposed or levied by or on behalf of the UK 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 any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional (subject to a Notice to Pay or LLP Acceleration Notice having been served), irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9.2 (*LLP Events of Default*) of the Terms and Conditions, failure by the LLP to pay the Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date will result in an LLP Event of Default.

The Trust Deed provides that any Excess Proceeds shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the Transaction 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 Transaction Account and shall be applied as Available Principal Receipts. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

Fees and expenses

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

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

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

Retirement and removal

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

Governing law

The Trust Deed 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 to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms and will be swapped into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP:

(a) as consideration (in whole or in part) for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – *Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security*; and/or

(b) to invest in Substitution Assets in an amount not exceeding the prescribed limit,

to the extent required to meet the Asset Coverage Test and the requirement of Regulation 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and thereafter may be applied by the LLP:

(i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement; and/or

(ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or

(iii) (subject to satisfying the Asset Coverage Test), to make a Capital Distribution to a Member; and/or

(iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advances corresponding to the Covered Bonds being so refinanced; and/or

(v) to make a deposit in the Transaction Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit).

Each Term Advance 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.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments. Provided no Asset Coverage Test Breach Notice is outstanding, prior to service of a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. The Issuer may (but is not required to) use the proceeds of the Term Advances to pay amounts due on the Covered Bonds; any failure by the LLP to pay any amounts due on the Term Advances, however, will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so long as an Asset Coverage Test Breach Notice is outstanding, the LLP may not borrow any new Term Advances from the Issuer under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by (i) any amounts paid by the LLP under the terms of the Covered Bond Guarantee and (ii) the Principal Amount Outstanding of any Covered Bonds (the proceeds of which were originally applied to make such Term Advances) purchased by the Issuer or the LLP and cancelled in accordance with Condition 6.9 (*Purchases*).

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 TSB Bank plc (in its capacity as Seller), the LLP and the Security Trustee.

Sale by the Seller of the Loans and Related Security

The Portfolio will consist of the Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming the Portfolio will vary over time provided that the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Sale Date. Accordingly, the Portfolio may, at any time, include Loans with different characteristics from Loans that were included in the Portfolio or being offered to Borrowers on previous Sale Dates.

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or an LLP Event of Default and service of an LLP Acceleration Notice, the LLP will acquire the Loans and their Related Security from the Seller in certain circumstances, including the three circumstances described below.

(a) *First*, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied in whole or in part by the LLP to acquire Loans and their Related Security from the Seller.

(b) *Second*, the LLP will, in certain circumstances, use the Available Principal Receipts to acquire Loans and their Related Security from the Seller and/or Substitution Assets (in the case of any Substitution Assets, up to the prescribed limit) on each LLP Payment Date.

(c) *Third*, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable endeavours to offer to sell to the LLP sufficient New Loans and their Related Security on or before the next Calculation Date to ensure compliance with the Asset Coverage Test as at the next Calculation Date.

If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, Loans and their Related Security may only be acquired from the Seller if the Seller has provided a solvency certificate to the LLP and the Security Trustee.

In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the Current Balance of those Loans sold by it as at the Sale Date, which will be satisfied by one or a combination of:

(i) a cash payment to be made by the LLP from the Sterling Equivalent of the proceeds of the relevant Term Advance and/or from Available Principal Receipts;

(ii) the Seller being treated as having made a Capital Contribution in Kind in an amount equal to the difference between the Current Balance of the New Loans sold by the Seller as at the relevant Sale Date and the cash payment (if any) made by the LLP in accordance with (i) above; and/or

(iii) Deferred Consideration (including any Postponed Deferred Consideration) which shall be paid by the LLP on each LLP Payment Date (provided there are available funds) in accordance with the relevant Priorities of Payments.

If Selected Loans and their Related Security are sold by or on behalf of the LLP as described below under *LLP Deed – Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice remains outstanding* and *Sale of Selected Loans and their Related Security following service of a Notice to Pay* and *Sale of Selected Loans and their Related Security if a Supplemental Liquidity Event has occurred* and *Sale of Selected Loans and their Related Security if the Pre-Maturity Liquidity Test is breached*, 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 include (but are not limited to) the following:

(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 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 (the **Relevant Loans**) 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, the LLP has obtained written confirmation from the Rating Agency that if such New Loan Types were to be sold to the LLP, such sale of New Loan Types to the LLP would not have an adverse effect on the then current ratings by the Rating Agency 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.

Transfer of title to the Loans to the LLP

English Loans will be sold by the Seller to the LLP by way of equitable assignment. Scottish Loans will be sold by the Seller on the First Sale Date by way of a Scottish Declaration of Trust and, in relation to Scottish Loans sold by the Seller to the LLP after the First Sale Date, by further Scottish Declarations of Trust under which the beneficial interest in such Scottish Loans will be transferred to the LLP. In relation to Scottish Loans, references in this document to a sale or equitable assignment of Loans or to Loans having been sold or equitably assigned are to be read as references to the making of such Scottish Declarations of Trust in respect of Scottish Loans. For the avoidance of doubt, in relation to Scottish Loans, references in this document to a legal assignment of Loans or to Loans having been legally assigned are to be read as references to the granting of assignations 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 assignations (as appropriate) are effected by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignation (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, assignations, 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 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 7 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;

(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 occurrence of an Insolvency Event in relation to the Seller; or

(h) the date on which the Seller ceases to be assigned a long-term Counterparty Risk Assessment from Moody's of at least "Baa3(cr)",

(each a **Perfection Event**).

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 LLP or as the LLP 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 or acquired by the Seller and is denominated in Sterling;

- no Loan has a Current Balance of more than £1,000,000;
- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of that advance were satisfied in all material respects subject only to exceptions made on a case by case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- so far as the Seller is aware, other than with respect to Monthly Payments, no Borrower is or has, since the date of the execution of the relevant Mortgage, been in material breach of any obligation owed in respect of the relevant Loan or its Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security;
- the total amount of interest or principal in arrears, including any fees, commissions and premiums payable at the same time as that interest payment or principal repayment, on any Loan is not, on the relevant Sale Date in respect of any Loan, more than the amount of the Monthly Payment then due;
- all of the Borrowers are individuals (and not partnerships) and were aged 18 years or older at the date of execution of the Mortgage;
- at least one Monthly Payment has been made in respect of each Loan or, for the avoidance of doubt, in case of a Product Switch, Flexible Loan Drawing or Further Advance, the original advance;
- the whole of the Current Balance on each Loan is secured by the relevant Mortgage;
- no loan is originated under a dedicated staff scheme;
- no Loan is an Equity Release Loan or a Self-Certified Loan;
- no Loan, Related Security or Insurance Claim Proceeds consists of stock or marketable securities (in either case for the purposes of Section 122 of the Stamp Act 1891), chargeable securities (for the purposes of Section 99 of the Finance Act 1986) or a chargeable interest (for the purposes of Section 48 of the Finance Act 2003);
- each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage (or in Scotland) first ranking standard security over the relevant Property, and subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales or in the Registers of Scotland which, where required, have been made and are pending and in relation to such cases the Seller is not aware of any notice or any other matter that would prevent such registration or recording;
- each Loan and its Related Security is, save in relation to any term of a Loan or of its Related Security which is not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999, or (as the case may be) the Consumer Rights Act 2015, valid and binding and enforceable in accordance with its terms and is non-cancellable. To the best of the Seller's knowledge, none of the terms of any Loan or of its Related Security, save for any term which relates to Early Repayment Charges, the power to vary closing administration charges and the power to recover indemnity costs is unfair within the meaning of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999 or (as the case may be) the Consumer Rights Act 2015. In this warranty, references to any legislation shall be construed as a reference to that legislation as amended, extended or re-enacted from time to time;
- all of the Properties are located in England, Wales or Scotland;
- in respect of the Loans the Seller will 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;

- prior to the taking of each Mortgage (other than a remortgage), the Seller (a) instructed its solicitor or licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Property and to undertake such other searches, investigations, enquiries and other actions on its behalf in accordance with the instructions which the Seller issued to the relevant solicitor or licensed conveyancer or (in Scotland) qualified conveyancer as are set out in the applicable UK Finance Mortgage Lenders' Handbook for conveyancers or other comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place, subject only to such variations made on a case-by-case basis as would have been acceptable to a Reasonable, Prudent Mortgage Lender at the relevant time; and (b) received a Certificate of Title from the solicitor or licensed conveyancer or (in Scotland) qualified conveyancer referred to in paragraph (a) relating to the Property, the contents of which were such as would have been acceptable to a Reasonable, Prudent Mortgage Lender at that time;
- so far as the Seller is aware, buildings insurance cover for such Property is available under a policy arranged by the Borrower or by or on behalf of the Seller or a buildings insurance policy arranged by the relevant landlord or the Properties in Possession Cover;
- the Seller has full right, good and valid title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold by it to the LLP pursuant to the Mortgage Sale Agreement free and clear of all Security Interests, claims and equities (including, without limitation, rights of set-off or counterclaim and unregistered dispositions which override first registration and unregistered interests which override registered dispositions (as listed in Schedule 1 and Schedule 3 respectively to the Land Registration Act 2002) in the case of any property, interests or rights governed by English law) and the Seller is not in breach of any covenant implied by reason of its selling the relevant Portfolio with full title guarantee or with absolute warrandice or as beneficial owner, as the case may be;
- the Seller has, since the making of or acquisition of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all variations in the relevant financial terms and conditions, transactions, payments, payment holidays, receipts, proceedings and notices relating to such Loan; and
- there are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence.

Each Loan and its Related Security will be **eligible property** for the purposes of Regulation 2 of the RCB Regulations.

The Seller will make Representations and Warranties (subject to appropriate adjustments) in relation to each Loan which is subject to a Product Switch, Flexible Loan Drawing or Further Advance that remains in the Portfolio on the date on which the relevant Product Switch, Flexible Loan Drawing 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 Seller may also be required to repurchase Loans and their Related Security which have been the subject of a Product Switch, Further Advance or Flexible Loan Drawing (as to which, see *Product Switches, Further Advances and Flexible Loan Drawings* below). In each case, 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 in an amount equal to the relevant increase of the Current Balance of the Loan, as set out in the LLP Deed.

The right to the interest and benefit in the Further Advances or Flexible Loan Drawings shall pass to the LLP automatically on the relevant Advance Date (subject where necessary to a further Scottish Declaration of Trust being declared) and the deemed Capital Contribution in Kind made by the Seller to the LLP in respect of such Further Advances or Flexible Loans shall be made on such Advance Date.

The Seller (or the Servicer on its behalf) may also accept applications from or make offers to Borrowers for Product Switches. The Seller (or the Servicer on its behalf) is solely responsible for documenting any relevant offer or accepting any application for a Product Switch and the LLP shall not itself accept any application from or make offers to relevant Borrowers for Product Switches.

Neither the Seller (nor the Servicer on behalf of the Seller or the LLP) shall take or omit to take any action, including without limitation offering or making a Further Advance, Flexible Loan Drawing or Product Switch (as applicable), if such action or omission 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.

If the Servicer determines on a Calculation Date that there is a breach of any of the Representations and Warranties with respect to any Further Advance or a Flexible Loan Drawing, as applicable, as at the relevant Advance Date purchased by the LLP in the preceding calendar month, the Seller shall offer to repurchase the relevant Loan and its Related Security subject to such Further Advance or a Flexible Loan Drawing, as applicable, from the LLP, on any London Business Day prior to the LLP Payment Date immediately following such Calculation Date, at a repurchase price equal to the then Current Balance of the relevant Loan as at the date of such repurchase. The LLP (or the Servicer on behalf of the LLP) may at its absolute discretion accept such offer by delivering a Loan Repurchase Notice duly signed on behalf of the LLP in accordance with the provisions of the Mortgage Sale Agreement. The repurchase price for a Loan and its Related Security subject to a Further Advance or a Flexible Loan Drawing, as applicable, and repurchased by the Seller will not include the amount of the relevant Further Advance or a Flexible Loan Drawing, as applicable (unless the Seller has already made a Capital Contribution in Kind in relation to such Further Advance or a Flexible Loan Drawing, as applicable, in accordance with the LLP Deed), which will be returned by the Seller.

If the Servicer determines on a Calculation Date that there is a breach of any of the Representations and Warranties with respect to any Product Switch made in the preceding calendar month, the Seller shall offer to repurchase the relevant Loan and its Related Security subject to such Product Switch from the LLP, on any London Business Day prior to the LLP Payment Date immediately following such Calculation Date, at a repurchase price equal to the then Current Balance of the relevant Loan as at the date of such repurchase. The LLP (or the Servicer on behalf of the LLP) may at its absolute discretion accept such offer by delivering a Loan Repurchase Notice duly signed on behalf of the LLP in accordance with the provisions of the Mortgage Sale Agreement.

New Sellers

In the future, New Sellers may accede to the Programme and sell loans and their related security to the LLP. Any such New Seller will be required to enter into a New Mortgage Sale Agreement, which

will be in substantially the same form and contain substantially the same provisions as the Mortgage Sale Agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee. The sale of New Seller Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Seller Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;
- each New Seller enters into a New Mortgage Sale Agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Seller Loans and their Related Security to be sold by such New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;
- each New Seller accedes to such Transaction Documents and enters into such other documents as may be required by the Security Trustee, the Bond Trustee, the Cash Manager and/or the LLP (in each case acting reasonably) to give effect to the addition of such New Member to the transactions contemplated under the Programme;
- any New Seller Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the New Mortgage Sale Agreement;
- either the Servicer services the New Seller Loans and their Related Security sold by the New Member on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Member (or its nominee) enters into a servicing agreement with the LLP and the Security Trustee which sets out the servicing obligations of the New Member (or its nominee) in relation to the New Seller Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (such that any fees payable to the Servicer or the New Member (or its nominee) acting as servicer of such New Seller Loans and their Related Security would be determined on the date of the accession of such New Member to the Programme); and
- the Security Trustee is satisfied that any modification of the Transaction Documents in order to accommodate the accession of the New Seller to the Programme will not be materially prejudicial to the interests of the relevant Secured Creditors and has obtained a Rating Agency Confirmation in relation thereto.

If the above conditions are met, the consent of Covered Bondholders will not be required in relation to the accession of a New Seller to the Programme.

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

The Mortgage Sale Agreement is governed by English law (other than certain aspects relating to the Scottish Loans and their Related Security, which are governed by Scots law).

Servicing Agreement

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

Pursuant to the terms of the Servicing Agreement entered into on the Programme Date between the Seller, the LLP, the Servicer, the Back-Up Servicer Facilitator and the Security Trustee, the Servicer has agreed to service, on behalf of the LLP, the Loans and their Related Security comprised in the Portfolio.

The Servicer will be required to manage the Loans and their Related Security in accordance with the Servicing Agreement:

(a) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; 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;
- maintain approvals, authorisations, permissions, consents and licences required in order properly to service the loans and their related security and to perform or comply with its obligations under the Servicing Agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, consents and licences required in connection with the provision of services under the servicing agreement, and in particular any necessary registrations under the DPA and permissions under the FSMA;
- 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 any Discretionary Rate (defined below) or margin in relation to any Loan sold by the Seller to the LLP and in the Portfolio or as a consequence of any provisions of the Mortgage Conditions. Any change in any 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 Collection

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 Collection Account. Under certain circumstances, alternative payment arrangements that ensure timely payment of monthly payments due from the Borrower may be agreed between the Servicer and the Borrower;

- keep the Customer Files and Title Deeds in its possession in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to the Title Deeds (if any), the Customer Files and other records relating to the management of the Loans and their Related Security in its possession;
- in respect of any application for any Further Advance, Flexible Loan Drawing or Product Switch (whether written or otherwise) in respect of any Loan in the Portfolio accepted by the Servicer, notify the Seller (where the Seller is a different entity to the Servicer) and the LLP in writing on the Calculation Date following the calendar month in which such application was accepted.
- 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 and the Security Trustee a report on a monthly 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 and the Security Trustee, containing certain information about the individual Loans in the Portfolio;
- provide to the Authorities such information on the composition of the Loans and their Related Security contained in the Portfolio and/or such other information as the Authorities may direct pursuant to the RCB Regulations;
- take all reasonable steps, in accordance with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender, to recover all sums due to the LLP including, without limitation, the institution of proceedings and/or the enforcement of any Loan sold by the Seller to the LLP comprised in the Portfolio or its Related Security; and
- enforce any Loan which is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the procedures that would be undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

Setting of Discretionary Rates

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set, in relation to the Loans in the Portfolio, any Discretionary Rates or margins applicable in relation to the Loans comprising the Portfolio from time to time, except in the limited circumstances described below when the LLP will be entitled to do so.

The Servicer will not (except in limited circumstances) at any time set or maintain:

(a) any Discretionary Rate applicable to any Variable Rate Loan sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing relevant TSB Discretionary Rate; or

(b) any other variable rate or margin in respect of any other Loan sold by the Seller to the LLP and in the Portfolio which is higher than (although it may be lower than or equal to) the then prevailing relevant variable rate or margin of the Seller,

which applies to that type of Loan beneficially owned by the Seller outside the Portfolio, unless the Servicer is required to do so pursuant to the Servicing Agreement due to an Interest Rate Shortfall or in connection with its lowering of any Discretionary Rate, and, subject to that requirement, it shall not change any Discretionary Rate nor any other variable rate or margin in relation to any Loans sold by the Seller and in the Portfolio save for the same reasons as the Seller was entitled, under the Mortgage Terms, to change the relevant Discretionary Rate or any other variable rate or margin of the Seller prior to the sale to the LLP of the Loans comprised in the Portfolio and their Related Security. The LLP shall be bound by the relevant Discretionary Rate and any other variable rate or margin in relation to any Loan set in accordance with the Servicing Agreement.

In particular, the Servicer shall determine on each Calculation Date immediately preceding each LLP Payment Date, having regard to the aggregate of:

(i) the revenue which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);

(ii) the Discretionary Rates or margins applicable in respect of the Loans which the Servicer proposes to set for the Relevant LLP Payment Period under the Servicing Agreement; and

(iii) the other resources available to the LLP including those under the Cover Pool 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 the 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 relevant 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 relevant 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 relevant 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 relevant Discretionary Rates and/or any other variable 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 Discretionary Rates and/or any other variable 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 Discretionary Rates or margins of the Seller, as the case may be.

In the event of an Interest Rate Shortfall, the Servicer is only permitted to determine and/or set any Discretionary Rate and/or any other applicable variable rates or margins in accordance with the Servicing Agreement prior to the perfection of the assignment in accordance with the Mortgage Sale Agreement.

In addition, the Servicer shall determine on each Calculation Date following the occurrence of a Perfection Event having regard to the aggregate of:

(a) the relevant Discretionary Rates or margins 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 Cover Pool Swap Agreement,

whether the LLP would receive an aggregate amount of interest on the Loans and amounts under the Cover Pool 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 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 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 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 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 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 Discretionary Rates or margins of the Seller, subject to the terms of the underlying Mortgage Conditions.

The LLP (with the prior written consent of the Security Trustee) may terminate the authority of or any direction to the Servicer to determine and set the 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 applicable Discretionary Rates or margins in relation to any such Loans in the Portfolio.

Remuneration

The LLP shall pay to the Servicer a servicing fee (inclusive of VAT) for its services (the **Administration Fee**). Such Administration Fee shall be calculated in relation to each LLP Payment 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 LLP (prior to the delivery of an LLP Acceleration Notice) or the Security Trustee (following the delivery of an LLP Acceleration Notice) 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;
- the Servicer fails to obtain or maintain the necessary licences or regulatory approvals enabling it to continue to service the Loans;
- the Servicer ceases to be assigned a long-term Counterparty Risk Assessment by Moody's of at least "Ba2(cr)");
- 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.

Each of the Servicer and the LLP have covenanted in the Servicing Agreement that, upon the Servicer ceasing to be assigned a long-term Counterparty Risk Assessment by Moody's of at least "Baa3(cr)" (a **Back-Up Servicer Event**), they will use best endeavours to (with, in the case of the LLP, the assistance of the Back-Up Servicer Facilitator), to identify and appoint a suitable third party to act as a back-up or stand-by servicer (the **Back-Up Servicer**) to the Servicer within 60 days of such Back-Up Servicer Event.

Each of the Servicer and the LLP have covenanted in the Servicing Agreement that they will use best endeavours to procure that the agreement appointing the Back-Up Servicer contains an undertaking from the Back-Up Servicer that it will commence servicing the Portfolio within 60 days of a Servicer Termination Event.

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, the LLP and the Back-Up Servicer Facilitator (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 administering residential mortgages in the UK has been appointed (with the assistance of the Back-Up Servicer Facilitator) 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 will be governed by English law (provided that any terms of the Servicing Agreement that are particular to the law of Scotland shall be construed in accordance with Scottish 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 be appointed and act as asset pool monitor (as defined in the RCB Regulations) and to conduct tests in respect of the arithmetical accuracy of the calculations performed by the Cash Manager, prior to service of a Notice to Pay or an LLP Acceleration Notice, on the Calculation Date immediately prior to each anniversary of the Programme Date or at such other additional times as may be agreed from time to time with a view to confirmation of compliance by the LLP with the Asset Coverage Test on that Calculation Date. If and for so long as the long-term Counterparty Risk Assessment by Moody's of the Cash Manager is below "Baa3(cr)" 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 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, 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, bank administrator, bank liquidator 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 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 will be 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 Transaction 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 Transaction 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 Transaction 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 the Issuer or the LLP shall send notice of the same to the Authorities pursuant to the RCB Regulations. The Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

For so long as an Asset Coverage Test Breach Notice is outstanding:

(a) the LLP will be required to sell Selected Loans (as described further under *LLP Deed – Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice remains outstanding*);

(b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in *Cashflows - 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; and

(c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and pursuant to Condition 9.1 (*Issuer Events of Default*) the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice. On the occurrence of an Issuer Event of Default, the Bond Trustee shall give notice of the same to the

Authorities pursuant to the RCB Regulations. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the LLP.

For the purposes hereof:

Adjusted Aggregate Loan Amount means the amount calculated on each Calculation Date as follows:

$$A + B + C + D + E - (U + V + X + Y + Z)$$

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 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 Transaction Account and any Collateralised 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 aggregate amount of (i) any Sale Proceeds or Capital Contributions (to the extent not falling within "C" above) otherwise standing to the credit of the Transaction Account and credited to the Pre-Maturity Liquidity Ledger as at the relevant Calculation Date plus (ii) any amount standing to the credit of the Transaction Account and credited to the Supplemental Liquidity Reserve Ledger as at the relevant Calculation Date (in each case, without double counting);

U = an amount equal to the Supplemental Liquidity Reserve Amount;

V = if a Collateralised GIC Provider has been appointed (i) for so long as the Collateralised GIC Provider does not have ratings at least equal to the Account Bank Required Ratings, an amount equal to the amounts deposited in the Collateralised GIC Account comprising the Designated Mortgages Amount or (ii) in all other cases, zero;

X = either:

(i) zero, for so long as the Issuer's long-term Counterparty Risk Assessment by Moody's is at least "A3(cr)"; or

(ii)

(x), where the Seller monitors deposit account balances on a monthly basis, the sum of the Deposit Set-off Balance for each Loan, where the **Deposit Set-off Balance** equals,

(1) in respect of each Loan where the aggregate amount of the relevant Borrowers' deposit account balances exceeds the FSCS Limit but the Current Balance of the relevant Loan does not exceed the FSCS Limit, the lower of:

(A) the Current Balance of the relevant Loan; and

(B) the aggregate amount of deposit account balances of the relevant Borrower minus the FSCS Limit, each as calculated on the relevant Calculation Date and notified to the Rating Agency; or

(2) in respect of each Loan where the aggregate amount of the relevant Borrowers' deposit account balances exceeds the FSCS Limit and the Current Balance of the relevant Loan also exceeds the FSCS Limit, the lower of:

(A) the Current Balance of the relevant Loan; and

(B) the aggregate amount of deposit account balances, or

(3) in respect of each Loan where the aggregate amount of the relevant Borrower's deposit account balances is below the FSCS Limit, nil; or

(y) provided that if the aggregate amount of deposit account balances of such Borrower is not available, or is not monitored on a monthly basis the Deposit Set-off Balance for that Loan shall be 4% of the Current Balance of that Loan on the relevant Calculation Date;

FSCS Limit means the current applicable limit established by the Financial Services Compensation Scheme.

Y = 8 per cent. ***multiplied by*** the Flexible Draw Capacity (as defined below) ***multiplied by*** 3; 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 (where the **Negative Carry Factor** is a percentage calculated as the weighted average Covered Bond Swap interest rate used to determine payments to be paid by the LLP under the Covered Bonds Swaps less the interest rate payable on the LLP Accounts (other than any Swap Collateral Account or any custody account) and will, in any event, be not less than 0.50 per cent.).

The **Asset Percentage** on any Calculation Date shall be the lowest of:

(a) 94.0 per cent.; or

(b) 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, the percentage figure on the last date of such notification, such percentage figure being that 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) and taking into account the Supplemental Liquidity Reserve Amount.

Deposit Non-Reserved Amounts means all cash amounts which may be held by the LLP in the Collateralised GIC Account, provided that the Reserve Fund and amounts standing to the credit of either the Pre-Maturity Liquidity Ledger or the Supplemental Liquidity Reserve Ledger may not be held in the Collateralised GIC Account;

Designated Mortgages Amount means such amount of Deposit Non-Reserved Amounts as are collateralised by mortgages as the Cash Manager shall determine as at any date of determination;

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.

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.

Supplemental Liquidity Reserve Amount means (i) prior to the service of a Notice to Pay, an amount calculated on the basis of a method proposed by the Issuer to the Rating Agency in connection with the funding of the Supplemental Liquidity Reserve Ledger when required under the terms of the LLP Deed and which may be varied by the Cash Manager from time to time but which, as at the Programme Date, is equal to zero per cent. of the then Adjusted Aggregate Loan Amount as required under the Asset Coverage Test provided that for the purposes of calculating such Adjusted Aggregate Loan Amount the Asset Coverage Test was (A) calculated in respect of the Adjusted Aggregate Loan Amount without taking into account factor "U" and (B) not failed; and (ii) following the service of a Notice to Pay, an amount equal to the Supplemental Liquidity Reserve Amount immediately prior to the service of such Notice to Pay minus an amount equal to the aggregate Current Balance of Loans sold to fund or replenish the Supplemental Liquidity Reserve Ledger, provided that, in each case, such amount shall (as at the Programme Date) be equal to zero per cent. of the Sterling Equivalent of the

Principal Amount Outstanding of the Covered Bonds as calculated on each relevant Calculation Date (such amount subject to adjustment by the Cash Manager in accordance with the terms of the Cash Management Agreement provided that such amount will not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Series of Covered Bonds by the Rating Agency or (y) the Rating Agency placing any Covered Bonds on rating watch negative (or equivalent).

Supplemental Liquidity Reserve Ledger means the ledger maintained by the Cash Manager on behalf of the LLP to record the credits and debits of moneys available from the proceeds of sales of Selected Loans sold with the aim to fund or replenish such Supplemental Liquidity Reserve Ledger.

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:

$$A + B + C - Y - Z$$

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 Transaction 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

Y= an amount equal to the Supplemental Liquidity Reserve Amount; 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 if a Supplemental Liquidity Event has occurred

If a Supplemental Liquidity Event has occurred which is continuing, then the LLP is permitted (but not required) to sell Selected Loans with the aim to fund or replenish the Supplemental Liquidity Reserve Ledger, provided that the aggregate Current Balance of Selected Loans so sold shall not exceed the Supplemental Liquidity Reserve Amount.

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 Transaction 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 Transaction 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) whilst an Asset Coverage Test Breach Notice is outstanding (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:

$$N \times \frac{\text{Current Balance of all Loans in the Portfolio less the Supplemental Liquidity Available Amount}}{\text{the Sterling Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

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 (other than any Swap Collateral Account) 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	x	(1+ Negative Carry Factor x (days to maturity of the relevant Series of Covered Bonds/365))

Supplemental Liquidity Available Amount means (i) prior to the service of a Notice to Pay, an amount equal to the Supplemental Liquidity Reserve Amount minus, if a Supplemental Liquidity Event has occurred which is continuing, an amount equal to the aggregate Current Balance of Loans sold to fund or replenish the Supplemental Liquidity Reserve Ledger and (ii) following the service of a Notice to Pay, an amount equal to the Supplemental Liquidity Reserve Amount.

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 the 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 or to 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 (other than any Swap Collateral Account) 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 Cover Pool 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 are 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 a breach of the Pre-Maturity Liquidity Test or following service on the LLP of a Notice to Pay, the LLP will instruct the Portfolio Manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable and in accordance with its recommendations (which shall take into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed).

The terms of any sale and purchase agreement with respect to the sale or refinancing of Selected Loans and their Related Security will be subject to the prior written approval of the Security Trustee. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under – *Deed of Charge – Release of Security* below) are satisfied.

If Purchasers accept the offer or offers from the LLP or the portfolio manager on its behalf so that some or all of the Selected Loans and their Related Security shall be sold prior to the Final Maturity Date of the Earliest Maturing Covered Bonds or the Hard Bullet Covered Bonds or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require, *inter alia*, a cash payment from the relevant Purchasers. Any such sale will not include any representations and warranties from the LLP or the Seller in respect of the Loans and their Related Security unless expressly agreed by the Security Trustee and unless otherwise agreed with the Seller.

Covenants of the LLP and the Members

Each of the Members covenants that (amongst other things), subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to dissolve or purport to dissolve the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP covenants that (amongst other things) it will not, save with the prior written consent of the LLP Management Board (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by or pursuant to the Transaction Documents:

(a) create or permit to subsist any Security Interest (unless arising by operation of law) upon the whole or any part of its assets or undertakings, present or future;

(b) sell, assign, transfer, convey, lend, part with, charge, declare a trust over, create any beneficial interest in or otherwise dispose of, or deal with, or grant any option or present or future right

to acquire any of the Charged Property or any of its interest, estate, right, title or benefit therein or thereto or agree or attempt to purport to do so;

(c) have an interest in a bank account other than the LLP Accounts, unless such account or interest therein is charged to the Security Trustee on terms acceptable to it;

(d) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any such indebtedness;

(e) consolidate or merge with any person or convey or transfer its property or assets substantially as an entirety to any other person;

(f) have any employees, premises or subsidiaries;

(g) acquire assets;

(h) engage in any activities in the U.S. (directly or through agents) or derive any income from the U.S. sources as determined under the U.S. income tax principles or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the U.S.;

(i) enter into any contracts, agreements or other undertakings;

(j) compromise, compound or release any debt due to it;

(k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or

(l) be a member of any VAT group.

The LLP and each of the Members further covenants that it will, amongst other things:

(a) ensure that the Asset Pool will only comprise of those assets set out in items (a) to (h) of Regulation 3(1) (Asset Pool) of the RCB Regulations;

(b) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of **eligible property** in Regulation 2 (*Eligible Property*) of the RCB Regulations;

(c) keep a record of those assets that form part of the Asset Pool which, for the avoidance of doubt, shall not include any Swap Collateral; and

(d) at all times comply with its obligations under the RCB Regulations and/or the Regulated Covered Bond Sourcebook.

Limit on Investing in Substitution Assets and Authorised Investments

Provided no Asset Coverage Test Breach Notice is outstanding and prior to the service on the LLP of a Notice to Pay, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances in Substitution Assets, provided that the aggregate amount so invested in such Substitution Assets does not exceed 10 per cent. of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Placing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

For so long as an Asset Coverage Test Breach Notice is outstanding or following service on the LLP of a Notice to Pay, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the Transaction 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 TSB Bank plc, 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, TSB Bank plc in its capacity as the Cash Manager, the Back-Up Cash Manager Facilitator 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 Payments described under *Cashflows* below;

(d) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under *Credit Structure – Asset Coverage Test* below;

(e) determining whether the Amortisation Test is satisfied on each Calculation Date following the service of a Notice to Pay in accordance with the LLP Deed, as more fully described under *Credit Structure – Amortisation Test* below;

(f) on each London Business Day, determining whether the Pre-Maturity Liquidity Test for each Series of Hard Bullet Covered Bonds is satisfied as more fully described under *Credit Structure* – Pre-Maturity Liquidity Test below;

(g) providing the Authorities with information on the composition of any Substitution Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information as may be required in accordance with the RCB Regulations; and

(h) preparation of the Asset Monitor and Investor Report for the Covered Bondholders, the Rating Agency and the Bond Trustee.

Removal or resignation of the Cash Manager

The LLP and/or the Security Trustee may terminate the appointment of the Cash Manager under the Cash Management Agreement by notice in writing to the Cash Manager (with a copy to the Security Trustee and the Back-Up Cash Manager Facilitator) if any of the following events occurs:

(a) default is made by the Cash Manager in the payment on the due date of any payment due and payable by it under the Cash Management Agreement or in the performance of certain of its obligations thereunder and such default continues unremedied for a period of seven London Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the LLP (copied to the Security Trustee) or the Security Trustee, as the case may be, requiring the same to be remedied; or

(b) the Cash Manager defaults in the performance or observance of any of its other covenants and obligations under the Cash Management Agreement, which in the reasonable opinion of the Security Trustee is materially prejudicial to the interests of the Covered Bondholders and such default continues unremedied for a period of 20 London Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the LLP (copied to the Security Trustee) or the Security Trustee requiring the same to be remedied;

(c) the Cash Manager ceases to be assigned a long-term Counterparty Risk Assessment by Moody's of at least "Ba2(cr)"; or

(d) an Insolvency Event occurs with respect to the Cash Manager,

(each a **Cash Manager Termination Event**).

Such termination shall take effect from a date (not earlier than the date of the notice) specified in the notice, provided that in the case of (c) above such termination will occur within 30 days following the relevant Cash Manager Termination Event.

The Cash Manager and the LLP each covenant that, on the Cash Manager ceasing to be assigned a long-term Counterparty Risk Assessment by Moody's of at least "Baa3(cr)" (a **Back-Up Cash Manager Event**), they will use best endeavours (with, in the case of the LLP, the assistance of the Back-Up Cash Manager Facilitator) to identify and appoint a suitable third party to act as back-up or stand-by cash manager to the Cash Manager and to undertake back-up cash management services to the LLP within 30 days of such Back-Up Cash Manager Event.

The Cash Manager and the LLP covenant that they will use best endeavours to procure that the agreement appointing the back-up cash manager contains an undertaking from the back-up cash manager that it will commence performing cash management services to the LLP within 30 days of a Cash Manager Termination Event.

Subject to the fulfilment of a number of conditions, the Cash Manager 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 Cash Manager, the LLP and the Security Trustee) provided that a substitute cash manager with cash management experience and approved by the LLP and the Security Trustee enters into a cash management agreement with the LLP substantially on the same terms as the Cash Management Agreement (or on such terms as are satisfactory to the LLP and the Security

Trustee). The Cash Manager shall not be released from its obligations under the relevant provisions of the Cash Management Agreement until such substitute cash manager has entered into such new agreement and the rights of the LLP under such agreement are charged in favour of the Security Trustee on terms satisfactory to the Security Trustee. The resignation of the Cash Manager 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.

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.

Cover Pool 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 (subject to the Servicer's ability to set the Discretionary Rates, as to which see *Summary of the Principal Documents – Mortgage Sale Agreement*), some of the Loans will pay a fixed rate of interest for a period of time and other Loans will pay rates of interest which track the Bank of England Base Rate. 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 plus a spread (as specified in the Cover Pool Swap Agreement),

the LLP, the Cover Pool Swap Provider and the Security Trustee will enter into Cover Pool Swaps (one in relation to Variable Rate Loans, one in relation to Fixed Rate Loans and one in relation to Tracker Loans) under the Cover Pool Swap Agreement.

Under the terms of the Cover Pool Swap Agreement, in the event that the relevant rating of the Cover Pool Swap Provider or any guarantor of the Cover Pool Swap Provider's obligations is downgraded by the Rating Agency below the rating specified in the Cover Pool Swap Agreement (in accordance with the requirements of the Rating Agency) for the Cover Pool Swap Provider or any guarantor of the Cover Pool Swap Provider's obligations, the Cover Pool Swap Provider will, in accordance with the Cover Pool Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Cover Pool Swap, arranging for its obligations under the Cover Pool 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 guarantor (or, if applicable, co-obligor)) in respect of its obligations under the Cover Pool Swap, or, if applicable, taking such other action (as confirmed by the relevant Rating Agency) as will result in the rating of the Covered Bonds then outstanding following the taking of such action being maintained at, or restored to, the level it was immediately prior to such ratings downgrade. In accordance with the terms of the Cover Pool Swap confirmation relating to the Variable Rate Loans, if the Issuer, being otherwise required to procure a guarantee of its obligations or transfer its rights and obligations under such transaction to a replacement counterparty cannot do so having used commercially reasonable efforts to do so), the Cover Pool Swap Provider may reduce the notional amount of such Cover Pool Swap to zero, provided that the Rating Agency has confirmed that the ratings of the Covered Bonds would not be adversely affected or withdrawn as a consequence. A failure to take such steps will allow the LLP to terminate the Cover Pool Swap Agreement.

The Cover Pool 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 Cover Pool Swap Agreement (each referred to as a **Cover Pool Swap Early Termination Event**), including, without limitation:

- at the option of any party to the Cover Pool Swap Agreement, if there is a failure by the other party to make timely payments of any amounts due under the Cover Pool Swap Agreement; and
- upon the occurrence of the insolvency of the Cover Pool Swap Provider or any guarantor of the Cover Pool Swap Provider's obligations, or the merger of the Cover Pool Swap Provider without an assumption of its obligations under the Cover Pool Swap Agreement.

Upon the termination of the Cover Pool Swap pursuant to a Cover Pool Swap Early Termination Event, the LLP or the Cover Pool Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Cover Pool Swap Agreement.

The amount of this termination payment will be calculated and made in Sterling. Any termination payment made by the Cover Pool Swap Provider to the LLP in respect of the Cover Pool 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 Cover Pool Swap Provider to enter into a replacement Cover Pool Swap with the LLP, unless a replacement Cover Pool Swap has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Cover Pool Swap Provider in respect of a replacement Cover Pool Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Cover Pool 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 Cover Pool 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 Cover Pool Swap Agreement, to reimburse the Cover Pool Swap Provider for any gross up in respect of any withholding or deduction made under the Cover Pool Swap Agreement.

Any Swap Collateral Excluded Amounts in respect of the Cover Pool Swap Agreement will be paid directly to the Cover Pool Swap Provider subject to the terms of the Cover Pool Swap Agreement.

If a withholding or deduction for or on account of taxes (other than certain taxes that are unconnected to the jurisdiction of the government or taxation authority imposing such tax on the LLP) is imposed on payments made by the Cover Pool Swap Provider to the LLP under the Cover Pool Swap Agreement, the Cover Pool 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 Cover Pool Swap Provider under the Cover Pool Swap Agreement, the LLP shall not be obliged to gross up those payments.

The Cover Pool Swap Provider may transfer all its interest and obligations in and under the Cover Pool Swap Agreement to a transferee with the minimum ratings required by the Rating Agency, without any prior written consent of the Security Trustee, subject to certain conditions.

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 Transaction 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 and service of a Notice to Pay, 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 Cover Pool 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 Cover Pool 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 Cover Pool Swap Provider.

Under the Cover Pool Swap Agreement, recourse in respect of the LLP's obligations is limited to the Charged Property.

The Cover Pool Swap Agreement (and the Cover Pool Swap) is governed by English law.

Covered Bond Swap Agreements

Where Covered Bonds are issued in a currency and/or on an interest rate basis different from the Cover Pool Swap, the LLP will enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers and the Security Trustee under the relevant Covered Bond Swap Agreement. Each Covered Bond Swap will be governed by a **Covered Bond Swap Agreement** with each such Covered Bond Swap Provider that only governs Covered Bond Swaps related to the relevant Series of Covered Bonds.

Each Covered Bond Swap will provide a hedge against certain interest rate and/or currency risks in respect of amounts received by the LLP under the Loans and the Cover Pool Swaps 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 Covered Bond Swaps on the relevant Issue Date, the LLP will (where the relevant Series or Tranche is denominated in a currency other than Sterling) pay to the Covered Bond Swap Provider an amount equal to the relevant portion of the amount received by the LLP under the applicable Term Advance (being the aggregate nominal amount of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay to the LLP the Sterling Equivalent of that amount. Thereafter, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date an amount equal to the relevant portion of the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan Agreement or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will periodically pay to the Covered Bond Swap Provider an amount in Sterling calculated by reference to Sterling LIBOR plus a spread and, where relevant, the Sterling Equivalent of the relevant portion of any principal due to be repaid in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement or the Covered Bond Guarantee.

However, under the terms of each Covered Bond Swap Agreement, 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 Covered Bond Swap Agreement, 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 the Rating Agency below the rating specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agency) 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 guarantor (or, if applicable, co-obligor) in respect of its obligations under the Cover Pool Swap, or, if applicable, taking such other action (as confirmed by the relevant Rating Agency) as will result in the rating of the Covered Bonds then outstanding following the taking of such action being maintained at, or restored to, the level it was at immediately prior to such ratings downgrade. A failure to take such steps will, subject to certain conditions, allow the LLP to terminate the Covered Bond Swap(s).

A Covered Bond Swap Agreement may also be terminated in certain other circumstances, including (without limitation) pursuant to any other events of default and termination events set out in the relevant Covered Bond Swap Agreement (each referred to as a **Covered Bond Swap Early Termination Event**), including without limitation:

- 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 Agreement, the LLP or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made in the termination currency specified in the relevant Covered Bond Swap Agreement. Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Covered Bond Swap Provider to enter into a replacement Covered Bond Swap with the LLP, unless a replacement Covered Bond Swap has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap, unless such termination payment has already been made on behalf of the LLP. If the LLP or a Member of the LLP receives any Tax Credits in respect of a Covered Bond Swap, payments in respect of such Tax Credits will be used, to the extent provided for in the relevant Covered Bond Swap Agreement, to reimburse the relevant Covered Bond Swap Provider for any gross up in respect of any withholding or deduction made under the relevant Covered Bond Swap Agreement.

Any Swap Collateral Excluded Amounts in respect of a Covered Bond Swap Agreement will be paid to the Covered Bond Swap Provider directly subject to the terms of the relevant Covered Bond Swap Agreement.

If a withholding or deduction for or on account of taxes (other than certain taxes that are unconnected to the jurisdiction of the government or taxation authority imposing such tax on the LLP) is imposed on payments made by the Covered Bond Swap Provider to the LLP under a Covered Bond Swap Agreement, 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 Agreement, 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 Agency, without any prior written consent of the Security Trustee, subject to certain conditions.

In the event that the Covered Bonds of any Series are wholly redeemed in accordance with Conditions 6.2 and 6.5, the Covered Bond Swaps will terminate. In the event that the Covered Bonds of any Series are wholly or partially purchased and surrendered in accordance with the Terms and Conditions, the Covered Bond Swap(s) in respect of such Series 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 (*Purchases*).

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 and the Security Trustee, the LLP will maintain with the Account Bank the Transaction Account and/or any other bank account(s) (the **Bank Accounts** and each a **Bank Account**), which will be operated in accordance with the Cash Management Agreement, the LLP Deed, the Deed of Charge and the relevant Swap Agreements.

All amounts received from Borrowers in respect of Loans in the Portfolio (except for Deposit Non-Reserved Amounts, if applicable) will be paid into the Transaction 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 Transaction Account (and any other Bank Account(s), if applicable) 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 entered into with HSBC Bank plc on the Programme Date includes the Swap Collateral Bank Account Agreement entered into with HSBC Bank plc on the Programme Date.

The Bank Account Agreement is governed by English law.

Corporate Services Agreement

The LLP, the Liquidation Member and Holdings have entered into a Corporate Services Agreement with Intertrust Management Limited (as **Corporate Services 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**). 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; and

(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).

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 and/or prefunded to its satisfaction. All proceeds (other than any Tax Credit (including, for the avoidance of doubt, any amounts received by the LLP from a Member in respect of Tax Credits), Third Party Amount, Swap Provider Tax Payment or Swap Collateral Excluded Amounts) received by the Security Trustee or any Receiver from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under *Cashflows.*

Fees and expenses

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

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

The Security Trustee may, in certain circumstances undertake duties of an exceptional nature or otherwise outside the scope of its normal duties as set out in the Deed of Charge, in which case the Issuer or the LLP shall pay to the Security Trustee such additional remuneration as shall be agreed between the Security Trustee and the LLP.

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

Retirement and removal

The Security Trustee may retire at any time upon giving not less than three calendar months' prior notice to the LLP, provided, however, that the retirement or removal of any Security Trustee shall not become effective unless there remains at least one Security Trustee in office upon such retirement or removal. The power of appointing a new Security Trustee and removing the Security Trustee or any new Security Trustee shall be vested in the LLP, provided that such appointment or removal must be approved by (i) an Extraordinary Resolution of the Covered Bondholders of all Series taken together as a single Series and (ii) each Secured Creditor. Any appointment of a new Security Trustee and any retirement or removal of an existing Security Trustee under the Deed of Charge shall as soon as practicable thereafter be notified by the LLP to the Secured Creditors.

Governing Law

The Deed of Charge is governed by English law (other than the 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).

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 and the Supplemental Liquidity Reserve Amount are intended to provide liquidity to the LLP in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- following the service of a Notice to Pay, but prior to the service of an LLP Acceleration Notice or the commencement of winding-up proceedings against the LLP, the Supplemental Liquidity Reserve Amount is available to provide liquidity to the LLP in respect of principal due on the Extended Due for Payment Date of any Series of Covered Bonds to which an Extended Due for Payment Date applies;
- 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; and
- if the Issuer's Counterparty Risk Assessment falls below "P-1(cr)" by Moody's, Available Revenue Receipts (up to an amount equal to the Reserve Fund Required Amount) will be trapped in the Reserve Fund.

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

In addition, the Issuer is required to comply with certain statutory tests pursuant to the RCB Regulations, as to which see further "*Description of the UK Covered Bond Regime*".

Covered Bond Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any payment obligation of the Issuer being accelerated pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) following the service of a Notice to Pay. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. However, should any payments made by the LLP under the Covered Bond Guarantee be subject to any withholding or deduction on account of taxes, duties, or other charges of whatever nature imposed or levied by or on behalf of the UK or by any authority therein or thereof having the power to tax, the LLP will not be obliged to pay any additional amount as a consequence.

See further *Summary of the Principal Documents – Trust Deed* as regards the terms of the Covered Bond Guarantee. See further *Cashflows – Guarantee Priority of Payments* as regards the payment of amounts payable by the LLP to Covered Bondholders and other Secured Creditors following service of a Notice to Pay.

Pre-Maturity Liquidity Test

Certain Series of Covered Bonds are scheduled to be redeemed in full on the Final Maturity Date therefor without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable Final Terms will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Liquidity Test is intended to provide liquidity for the Hard Bullet Covered Bonds when the Issuer's credit ratings fall to a certain level. On each Pre-Maturity Liquidity Test Date prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine whether the Issuer is in compliance with the Pre-Maturity Liquidity Test in respect of any Series of Hard Bullet Covered Bonds, and if it is not, it shall immediately notify the Members, the Seller and the Security Trustee thereof and if the Cash Manager makes such determination on the LLP's behalf, the Cash Manager shall immediately notify the LLP.

The Issuer will fail and be in breach of the **Pre-Maturity Liquidity Test** on a Pre-Maturity Liquidity Test Date if the Issuer's (i) long term Counterparty Risk Assessment is lower than "A1(cr)"and the Final Maturity Date of any Series of Hard Bullet Covered Bonds occurs within six (6) months from the relevant Pre-Maturity Liquidity Test Date or (ii) short-term Counterparty Risk Assessment by Moody's is lower than "P-1(cr)" and the Final Maturity Date of any Series of Hard Bullet Covered Bonds occurs within twelve (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) ten (10) Business Days from the date that the Seller, the LLP and the Bond Trustee 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 - 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 Transaction 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 Transaction 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 Transaction Account until the maturity of the relevant Covered Bonds and (v) failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Sale Date. See further *Summary of the Principal Documents – LLP Deed – Asset Coverage Test*, above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

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

The Issuer is additionally required to ensure that the principal amount of the eligible property in the Asset Pool is greater than 108 per cent. of the Principal Amount Outstanding of the Covered Bonds in accordance with the terms of the RCB Regulations. The Issuer must also ensure that over a twelve

month period the interest received on the eligible property must be equal to or greater than interest due on the Covered Bonds. See further "*Description of the UK Regulated Covered Bond Regime*".

Amortisation Test

The Amortisation Test is intended to ensure that if, following service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where Covered Bondholders may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears, other assets held by the LLP and the potential carry cost if the Loans and their Related Security were sold and cash proceeds thereof were invested in the Transaction 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 short term Counterparty Risk Assessment of the Issuer by Moody's ceases to be "P-1(cr)", 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.

Supplemental Liquidity Reserve

The amounts standing to the credit of the Supplemental Liquidity Reserve Ledger will only be available for application as follows:

(a) prior to the service of a Notice to Pay, if and to the extent the relevant sale or refinancing of Selected Loans relates to a Supplemental Liquidity Event which is continuing, for credit to the Pre-Maturity Liquidity Ledger up to an amount equal to the Required Redemption Amount of each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Liquidity Ledger is being maintained or, if the Supplemental Liquidity Event is not continuing, for credit to the Principal Ledger;

(b) 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 the realisation of the Security, on the Final Maturity Date of the Earliest Maturing Covered Bonds of any Series of Hard Bullet Covered Bonds or on the Extended Due for Payment Date of the

Earliest Maturing Covered Bonds of any Series of Covered Bonds to which an Extended Due for Payment Date applies, as the case may be, for payment of principal then due and payable on the relevant Series of Covered Bonds or, as applicable, the amount then due and payable in respect of principal under a Swap Agreement (if applicable) in respect of the relevant Series of Covered Bonds (in either case after taking account of any payment made by the Issuer in respect thereof or expected to be made by the Seller in respect thereof in accordance with the relevant Priority of Payments or from the Pre-Maturity Liquidity Ledger) or, if no Series of Covered Bonds is outstanding, for transfer to the Principal Ledger; and

(c) following the service of a Notice to Pay and of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security, to be credited to the Principal Ledger.

Except to the extent permitted by the Cash Management Agreement, amounts so credited to the Supplemental Liquidity Reserve Ledger shall not constitute Available Principal Receipts.

For these purposes, a Supplemental Liquidity Event will occur if there is a breach of the Pre-Maturity Liquidity Test.

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 (other than any Swap Collateral Account) 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

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, interests, costs, charges, liabilities and expenses 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, interests, costs, charges, liabilities and expenses 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, charges, liabilities and expenses) due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the terms of the Agency Agreement, together with applicable VAT (or other similar taxes) thereof to the extent provided therein;

(c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable amounts in respect of VAT (or other similar Taxes) thereon as provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar Taxes) thereon as provided therein;

(iii) amounts (if any) on a *pro rata* and *pari passu* basis then due and payable in the immediately succeeding LLP Payment Period to the Account Bank and the Swap Collateral Account Bank (including costs) pursuant to the terms of the Bank Account Agreement and the Swap Collateral Bank Account Agreement, respectively, together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(iv) any remuneration then due and payable to the Collateralised GIC Provider, and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Collateralised GIC Provider under the provisions of the Collateralised

GIC Account Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(v) 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;

(vi) amounts (if any) due and payable to the Authorities under the RCB Regulations (other than the initial registration fees); and

(vii) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (i) below), together with applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein;

(viii) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Back-Up Servicer Facilitator pursuant to the terms of the Servicing Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(ix) any remuneration then due and payable to the Back-Up Servicer, if applicable, and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Back-Up Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(x) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Back-Up Cash Manager Facilitator pursuant to the terms of the Cash Management Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(xi) any remuneration then due and payable to the Back-Up Cash Manager, if applicable, and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Back-Up 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 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 Cover Pool Swap Provider (including any termination payment due and payable by the LLP under the Cover Pool 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 Cover Pool Swap Provider) pursuant to the terms of the Cover Pool Swap Agreement;

(e) *fifth*, in or towards payment *pro rata* and *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 Cover Pool Swap Provider under the Cover Pool 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 Transaction 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 Transaction 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 Transaction 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 Cover Pool Swap Provider under the Cover Pool Swap Agreement;

(j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due to the Asset Monitor pursuant to the Asset Monitor Agreement;

(k) *eleventh*, to pay all remaining Available Revenue Receipts except for an amount equal to the profit to be paid to the Members in accordance with paragraph (l) below to the Seller in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP; and

(l) *twelfth*, towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) by way of fees and as their profit for their respective interests as Members in the LLP.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Cover Pool 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 Cover Pool Swap Agreement and any amounts (other than in respect of principal and other than Swap Collateral Excluded Amounts) received by the LLP under the Covered Bond Swap Agreements on or after the LLP Payment Date but prior to the next following LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (e)(ii) above or the preceding two paragraphs will be credited to the Revenue Ledger on the Transaction 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.

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 Transaction 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* and *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 Transaction 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 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 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 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 moneys will be applied under paragraph (e)(ii) (to the extent only that such amounts are payable to the Members), (j), (k) or (l) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (d)(ii), (e) or (f) of the Pre-Acceleration Principal Priority of Payments.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay

At any time after service of a Notice to Pay, but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings in respect of the LLP, and/or realisation of the Security, and whilst amounts are outstanding in respect of Covered Bonds, all Available Revenue Receipts and Available Principal Receipts standing to the credit of the LLP Accounts will be applied as described below under *Guarantee Priority of Payments*.

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 to repay the relevant Series of Hard Bullet Covered Bonds in accordance with the LLP Deed (as described in *Credit Structure — Pre-Maturity Liquidity Test*). 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, interests, costs, charges, liabilities and expenses 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, interests, costs, charges, liabilities and expenses 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, charges, liabilities 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) on a *pro rata* and *pari passu* basis due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Account Bank and the Swap Collateral Account Bank (including any costs) pursuant to the terms of the Bank Account Agreement and the Swap Collateral Bank Account Agreement, respectively, together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(iv) any remuneration then due and payable to the Collateralised GIC Provider, and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Collateralised GIC Provider under the provisions of the Collateralised GIC Account Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(v) 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;

(vi) amounts (if any) due and payable to the Authorities in respect of fees owed to the Authorities under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon;

(vii) 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;

(viii) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Back-Up Servicer Facilitator pursuant to the terms of the Servicing Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein; and

(ix) any remuneration then due and payable to the Back-Up Servicer, if applicable, and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Back-Up Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(x) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Back-Up Cash Manager Facilitator pursuant to the terms of the Cash Management Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;

(xi) any remuneration then due and payable to the Back-Up Cash Manager, if applicable, and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Back-Up 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 to the extent provided therein;

(d) *fourth*, in or towards payment of any amount due to the Cover Pool Swap Provider (including any termination payment due or to become due and payable by the LLP under the Cover Pool 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 Cover Pool Swap Provider) pursuant to the terms of the Cover Pool 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 Cover Pool Swap Provider in respect of the Cover Pool 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 of 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 Bond 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 Swap 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 Transaction 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 Cover Pool Swap Provider under the Cover Pool Swap Agreement;

(j) *tenth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds) any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;

(k) *eleventh*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed (and, if 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 Cover Pool 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 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 Cover Pool 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 Transaction Account (as appropriate) and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such moneys shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps

If the LLP receives any termination payment from a Swap Provider in respect of a Swap, such termination payment will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Swap Provider to enter into a replacement Swap with the LLP, unless a replacement Swap has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap, unless such termination payment has already been made on behalf of the LLP.

Application of moneys received by the Security Trustee following service of an LLP Acceleration Notice and enforcement or realisation of the Security and/or the commencement of winding-up proceedings against the LLP

Under the terms of the Deed of Charge, all moneys received or recovered by the Security Trustee or any Receiver (other than any Tax Credit, Third Party Amount, Swap Provider Tax Payment or Swap Collateral Excluded Amount) following the enforcement or realisation of the Security and/or the commencement of winding-up proceedings against the LLP, shall be held on trust to be applied (save to the extent required otherwise by law), in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) all amounts due and payable or to become due and payable to:

(A) the Bond Trustee under the provisions of the Trust Deed together with interest and applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein; and

(B) the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;

(ii) any remuneration then due and payable to the Agents and any costs, charges, liabilities and expenses 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 (on a *pro rata* and *pari passu* basis) due to the Account Bank and the Swap Collateral Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement and the Swap Collateral Bank Account Agreement, respectively, 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 (if any) due to the Collateralised GIC Provider (including any costs, charges, liabilities and expenses) pursuant to the terms of the Collateralised GIC Account 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;

(E) 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;

(F) amounts (including costs and expenses) due to the Back-Up Servicer Facilitator pursuant to the terms 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;

(G) amounts (including costs and expenses) due to the Back-Up Servicer, if applicable, pursuant to the terms 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;

(H) amounts (including costs and expenses) due to the Back-Up Cash Manager Facilitator pursuant to the terms 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;

(I) amounts (including costs and expenses) due to the Back-Up Cash Manager, if applicable, pursuant to the terms 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;

(iv) any amounts due and payable to the Cover Pool Swap Provider (including any termination payment, but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Cover Pool 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 Cover Pool 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 TSB Bank plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed.

If the LLP receives any Tax Credits in respect of a Swap Agreement following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, such Tax Credits will be used to reimburse the relevant Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Swap Agreement. Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Swap

Agreement will be returned to the relevant Swap Provider subject to the terms of the relevant Swap Agreement, and any Third Party Amounts will be returned to the Seller.

The above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 28 and 29 of the RCB Regulations. In particular, costs properly incurred by a receiver, liquidator, provisional liquidator or manager of the LLP in relation to:

(i) persons providing services for the benefit of Covered Bondholders (which is likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));

(ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and

(iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in (i) and (ii) above (e.g. liquidity loans),

shall be expenses which shall be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding-up or provisional liquidation) and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further *Risk Factors – Expenses of insolvency officeholders*.

THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**) consist of Loans and their Related Security sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under *Summary of the Principal Documents – Mortgage Sale Agreement.*

For the purposes hereof:

Initial Portfolio means the portfolio of Loans and their Related Security, particulars of which are set out in the Mortgage Sale Agreement (other than any Loan and its Related Security redeemed in full on or before the First Sale Date), and all rights, title, interest and benefit of the Seller in and to:

(a) all payments of principal and interest and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and undertakings made or expressed to be made in favour of the 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 relevant originator to make or offer to make any such Loan or part thereof; and

(f) the proceeds of all claims made by or on behalf of the Seller or to which the Seller is entitled under the Properties in Possession Cover in relation to any such Loan.

New Portfolio means each portfolio of Loans and their Related Security (other than any Loans and their Related Security which have been redeemed in full prior to the relevant Sale Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the relevant Sale Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (f) above.

See also the following risk factors under *Risk Factors – Risk factors relating to the Covered Bonds – Limited description of the Portfolio* and *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*.

Introduction

The following is a description of some of the characteristics of the loans currently or previously originated or acquired by the Seller including details of loan types, the underwriting process, Lending Criteria and selected statistical information.

Unless otherwise indicated, the description that follows relates to types of Loans that have been or could be sold to the LLP and form part of the Portfolio from time to time. It should be noted that the Seller retains the right to repurchase any of the Loans from time to time in accordance with the terms of the Mortgage Sale Agreement and, in certain circumstances, is required to repurchase specific Loans.

The Seller reserves the right to amend its Lending Criteria and the Seller reserves the right to sell New Loans which are based upon Mortgage Conditions different from those upon which Loans forming the Portfolio as at any date are based. Those New Loans may include loans which are currently being offered to borrowers which may or may not have some of the characteristics described here, but may also include loans with other characteristics that are not currently being offered to borrowers or that have not yet been developed. All New Loans will be required to comply with the representations and warranties set out in the Mortgage Sale Agreement from time to time and all the material representations and warranties in the Mortgage Sale Agreement are described in this Prospectus. See "*Summary of the Principal Documents – Mortgage Sale Agreement*".

References in this section to the Seller performing any obligations or taking any steps in relation to the administration of loans will include circumstances in which a member of the Group performs such obligations or takes such steps, on behalf of the Seller.

Characteristics of the Loans

Repayment terms

Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the product including free valuations and payment of legal fees. Additional features such as payment holidays (temporary suspension of Monthly Payments) and the ability to make overpayments or underpayments are also available to most borrowers under certain circumstances. See "*—Overpayments and Underpayments*" and "*—Payment Holidays*" below.

Loans are typically repayable on one of the following bases:

- **Repayment Loan**: the Borrower makes Monthly Payments of both interest and principal so that, when the Loan matures, the full amount of the principal of the Loan will have been repaid;
- **Interest-Only Loan**: the Borrower makes Monthly Payments of interest but not of principal; when the Loan matures, the entire principal amount of the Loan is still outstanding and is payable in one lump sum; and
- a combination of both these options.

In the case of either Repayment Loans or Interest-only Loans, the required Monthly Payment may alter from month to month for various reasons, including changes in interest rates.

For Interest-Only Loans, because the principal is repaid in a lump sum at the maturity of the loan, the borrower is required to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term.

Principal prepayments may be made in whole or in part at any time during the term of a Loan, subject to the payment of any early repayment charges (as described in "*The Portfolio—Early Repayment Charges*" below). A prepayment of the entire outstanding balance of a loan discharges the mortgage. Any prepayment in full must be made together with all Accrued Interest, arrears of interest, any unpaid expenses and any applicable repayment fee(s).

Various methods are available to Borrowers for making payments on the Loans, including:

- direct debit instruction from a bank or building society account,
- standing order from a bank or building society account, and
- payments made at TSB Bank branches.

Interest payments and interest rate setting

The Seller has responded to the competitive mortgage market by developing a range of products with special features that are used to attract new borrowers and retain existing customers. Interest on the

Loans is charged on one of the following bases and the Seller is able to combine these to suit the requirements of the Borrower:

- **Discretionary Rate Loans** are loans subject to one of the Seller's Discretionary Rates, including the Homeowner Variable Rate, which is the Seller's current reversionary rate and the Standard Variable Rate (which is the previous reversionary rate no longer available to new customers). The Seller may introduce other Discretionary Rates in the future. Discretionary Rates are currently only available to customers at the end of a fixed or tracker mortgage product.
- **Fixed Rate Loans** are loans which are subject to a fixed rate of interest for a specified period of time, usually for 2, 3, 5, 7 or 10 years.
- **Tracker Rate Loans** are loans which are subject to a variable interest rate linked to the Bank of England Base Rate plus or minus a margin, either for an initial fixed period or for the life of the loan. The percentage margin may be fixed for the entire tracker rate period or it may vary.

The Discretionary Rate and some tracker rates may apply for the life of the Loan. Otherwise, each of the above rates is offered for a predetermined period, usually between 2 and 10 years, at the commencement of the Loan (the **Product Period**). At the end of the Product Period the rate of interest charged will either (a) move to some other interest rate type for a predetermined period or (b) revert to a Discretionary Rate. Discretionary Rates are administered, at the discretion of the Seller, by reference to the general level of interest rates and competitive forces in the UK mortgage market. The Standard Variable Rate is capped at 2.0 per cent. above the Bank of England Base Rate. In certain instances, early repayment charges are payable by the Borrower if the Loan is redeemed within the Product Period. See "*The Portfolio - Characteristics of the Loans—Early Repayment Charges*" below.

All new lending features interest calculated on a daily basis, whereby any payment by the Borrower will immediately reduce the Borrower's balance on which interest will be calculated. Historically, mortgage products had carried interest calculated on an annual basis. Borrowers with existing loans on which interest is calculated on an annual basis are able to change and have their interest calculated on a daily basis, subject to the terms and conditions of their existing loan and to the borrower entering into an agreement. If a Borrower with a loan on which annual interest is calculated wishes to take a further advance, the interest on the existing loan must be switched to a daily interest basis. TSB Bank does not normally permit a mix of daily and annual interest calculation on loans.

Except in limited circumstances as set out in "*Servicing Agreement—Undertakings of the Servicer*", the Servicer is responsible for setting the applicable Discretionary Rate on the Loans in the Portfolio as well as on any new Loans that are sold to the LLP. Under the general loan conditions applicable to the Loans (the **Loan Conditions**), the Seller may change the interest rate at any time at its discretion subject to the provisions of the relevant Loan Conditions. If the Seller wishes to increase the interest rate it must first give notice to the Borrower of the increase. The Borrower may then repay the Loan without paying interest at the increased rate if the Borrower provides at least seven days' notice of the intention to repay and no later than three months after the Seller gives the notice of the increase the Borrower repays the Loan (or the part of it which is affected by the increase) together with any early repayment charge and any unpaid interest and expenses.

During the course of its mortgage origination business, the Seller has originated mortgage loans under a number of standard conditions which have been sequentially superseded by the **2013 Loan Conditions**. The 2013 Loan Conditions represent the current origination policy of the Seller and dictate the specified reasons to change the interest rate. The 2013 Loan Conditions set out the current policy of the Seller in this regard, such policy applying equally to the treatment of all mortgage loans of the Seller, regardless of the date of origination.

Early Repayment Charges

The Borrower may be required to pay an early repayment charge (the **Early Repayment Charge**), if certain events occur during the predetermined Product Period and the loan agreement states that the Borrower is liable for Early Repayment Charges and the Seller has not waived or revised its policy with regard to the payment of Early Repayment Charges. These events include a full or partial unscheduled repayment of principal, or an agreement between the Seller and the Borrower to switch to a different mortgage product. If all or part of the principal owed by the Borrower, other than the scheduled Monthly Payments, is repaid before the end of the Product Period, the Borrower will be liable to pay to the Seller a repayment fee based on a percentage of the amount repaid or switched to another product. If the Borrower has more than one product attached to the mortgage, the Borrower may choose under which product the principal should be allocated.

The Seller currently permits Borrowers to repay up to 10 per cent. of the loan balance each year (based on the loan balance as at a specified date of the year) without having to pay an Early Repayment Charge. If the mortgage is made up of more than one loan or part, each is treated separately so that if one or more of them has an early repayment, the Borrower can repay up to 10 per cent. on each. For example, if the total mortgage is £60,000 made up of two loans of £30,000 and one of them carried an Early Repayment Charge, then the Borrower can repay up to £3,000 of that loan (i.e. 10 per cent.) without charge. If the Borrower repays £7,000 of it (more than 10 per cent.) then the Early Repayment Charge will apply but only to the amount the Borrower repays above 10 per cent. The Seller currently has a policy not to charge the Early Repayment Charge in certain circumstances, for example if the repayment is due to the death of the Borrower.

If the Borrower repays its mortgage during an Early Repayment Charge period to move house, the Borrower may not have to pay the charge if the Borrower takes out a new loan for the new home with the Seller, subject to certain qualifying criteria.

Some mortgage products do not include any provisions for the payment of an Early Repayment Charge by the Borrower.

Overpayments and Underpayments

All loans are subject to a range of options, selected by the Borrower, that give the Borrower greater flexibility in the timing and amount of payments under each loan. The Loans may offer one or more of the features described below, subject to certain conditions and financial limits:

Overpayments – Borrowers may either increase their regular Monthly Payments above the normal Monthly Payment then applicable or make lump sum payments at any time.

Borrowers with interest calculated annually who make an Overpayment may choose whether such Overpayment is to be treated as a repayment of principal or as a credit to be carried forward against future scheduled instalments. If the Borrower elects for such Overpayment to be applied as a principal repayment then interest on the remaining principal outstanding balance of the loan is recalculated as from the date of receipt of such repayment. If the customer elects to apply such Overpayment towards scheduled instalments, interest is recalculated. In cases where a customer does not specify how any repayment they may make is to be applied, Overpayments of an amount of less than £1,000 are generally treated as credits towards scheduled instalments.

If Borrowers with daily calculations of interest pay more than the scheduled Monthly Payment, the balance on their mortgage loan will be reduced. The Seller will charge interest on the reduced balance, which reduces the amount of interest the Borrower must pay.

Any Overpayments may be applied by the Borrowers either towards repayment of principal or towards the repayment of their monthly repayment, as they may decide in line with the policies of the Seller described above.

Underpayments – where Borrowers have previously made an overpayment towards the repayment of their monthly repayment, they may reduce their Monthly Payments below the amount of the applicable Monthly Payment or make an irregular underpayment. Borrowers are not permitted to

make Underpayments that exceed the total of previous Overpayments less the total of previous Underpayments.

Payment Holidays – Provided they meet the qualifying conditions, Borrowers may apply for a break from making Monthly Payments of up to 2 months in any 3 year period, normally up to an aggregate of 6 months over the life of the Mortgage Loan; approval of such application and the determination of such period are at the discretion of the Seller who makes such a decision or approval based on, amongst other things, a maximum LTV of 75 per cent.

The qualifying conditions include the following (among others):

- The Mortgage Loan must have been open for at least 12 months with no further borrowing in the last 6 months;
- The account must not be in arrears at the time of the application or have had any historic arrears on the account (in the last 12 months); and
- There must have been no payment arrangement within the last 6 months.

Further Advances

If a Borrower wishes to take out a further loan secured by the same mortgage or standard security, the Borrower will need to make a Further Advance application and the Seller will use the lending criteria applicable to Further Advances at that time in determining whether to approve the application. The original mortgage deed or standard security is expressed to cover all amounts due under the relevant loan which would cover any Further Advance. All Further Advances require the postponement of any second charge or standard security.

Some Loans in the Initial Portfolio may have Further Advances made on them prior to their being sold to the LLP on the Programme Date and new Loans added to the Portfolio in the future may have had Further Advances made on them prior to their being sold to the LLP on the applicable Sale Date.

Product Switches

From time to time, Borrowers may request or the Servicer may send an offer of a variation in the financial terms and conditions applicable to the Borrower's loan. If a Loan is subject to a Product Switch as a result of a variation, then the Seller may be required to repurchase the Loan or Loans and their Related Security from the LLP.

In certain circumstances, if the Seller is notified that a Borrower, following the making of the Loan, intends to let or sub-let their property, the Seller would note the fact on its records as a Product Switch.

Origination Channels

The Seller currently derives its mortgage-lending business from the following sources: branches, intermediaries, telephony and internet.

Once an application for a mortgage loan is received from a prospective new customer (through whichever origination channel) it is processed by the channel staff and the servicer's New Business Department. The details of the application are entered into the Servicer's relevant computer system, and arrangements are made to obtain such references and/or other proof of income, valuation, survey or other evidence of value (if any and as appropriate) that may be required by the Seller under its lending policy. A mortgage offer may then be issued to the prospective new customer and instructions are despatched to the relevant solicitor or licensed conveyancer to investigate title and issue a report on the same to the Seller. Once a satisfactory report on title has been received (if appropriate) and no other matters in relation to the application are outstanding, mortgage funds can be released to the solicitor or licensed conveyancer.

The Seller is subject to the FSMA, MCOB (and other FCA rules) and the Financial Ombudsman Service, which is a statutory scheme under the FSMA.

Underwriting

The Seller's underwriting approach has changed over time. Loans in the Portfolio may have been originated in accordance with different underwriting criteria from those set out here, depending on their date of origination. The Seller currently adopts a system based approach to lending assessment. This assessment is made with reference to three independent components:

(a) Credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data;

(b) Affordability: calculation of an individualised lending amount that reflects the applicant's income net of tax, credit commitments and assumed living expenses, which vary according to income, number of applicants and dependants; and

(c) Policy rules: a range of automated rules to decline applications outside lending criteria.

The lending system returns a decision categorised into "accept", "refer" and "decline". Mortgage underwriting decisions are subject to internal monitoring by the Seller, using a risk-based model, in order to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

Lending Criteria

On the Programme Date and on each Sale Date, the Seller has represented, or shall represent, that each Loan being sold to the LLP was originated according to the lending criteria of the Seller at the time the Loan was offered (the **Lending Criteria**), which included some or all of the criteria set out in this section, in all material respects, subject only to exceptions made on a case-by-case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender. New Loans may only be included in the Portfolio and sold to the LLP if they are originated in accordance with the lending criteria applicable at the time the loan is offered and if the conditions set out in "*Mortgage Sale Agreement - Eligibility Criteria*" and "*Mortgage Sale Agreement - New Sellers*" have been satisfied. However, the Seller retains the right to revise its lending criteria from time to time, so the criteria applicable to New Loans may not be the same as those currently used. Some of the factors currently used in making a lending decision are as follows:

1. **Type of property**

Properties may be either freehold or the Scottish equivalent or leasehold or commonhold. In the case of leasehold properties, there must be at least 70 years left on the lease at the inception of the mortgage. This can be overridden with relevant underwriting approval. The property must be used as a single residential dwelling, although second homes and holiday homes are considered. Properties must be of good quality, in sound structural condition and in a reasonable state of repair. House boats, mobile homes, and any property on which buildings insurance cannot be arranged are not acceptable. All persons who are to be legal owners of the property on completion must be named as borrowers under the mortgage.

All Properties have either been valued by a valuer approved by the Seller or assessed using automated valuation models or other evidence, including the relevant Borrower's estimate of value, to the standards of a Reasonable, Prudent Mortgage Lender (as referred to under "*Servicing Agreement - Undertakings of the Servicer*"). The valuations are made at the date of origination of the relevant Loan.

2. **Term of loan**

The maximum term on home purchase loans is generally 40 years for all Loans (although longer terms have been granted on a case by case basis in exceptional cases only). A repayment period for a Further Advance that would extend beyond the term of the original advance may also be accepted at the Seller's discretion.

If the customer requests to increase the term of the existing loan, the maximum term for repayment is generally 40 years from the date of the term change (or less if the borrower will be 75 before the end of the extended term).

3. **Age of applicant**

All Borrowers must be aged 18 or over. The mortgage term must normally end before the Borrower reaches the age of 75. If the term of the mortgage exceeds the Borrower's anticipated retirement age, or the age of 70, the Seller will consider the Borrower's income in retirement. If the Seller determines the Borrower will not be able to afford the mortgage into retirement, the application will be declined.

4. **Loan-to-value (or LTV) ratio**

The maximum LTV offered for residential owner-occupied lending is 95 per cent., although higher LTV lending has historically been offered. Where fees are added to the loan, they may have taken the total lending over the specified LTV limit.

When the Seller makes a loan on a property which requires repairs, the property is either valued on a "when done" basis and part of the loan retained until works have been completed, or if the property is acceptable security in its existing condition, it may be valued on that basis and the loan released prior to works commencing.

5. **Status of applicant(s)**

Lending assessment is made using an automated decisioning system supported by a team of underwriters.

Employed applicant(s)

Mainstream lending is assessed on current basic annual income, other income and future retirement income (where applicable). (Applicants who have more than a 25 per cent. shareholding in their employer or joint applicants with more than a combined 25 per cent. shareholding in their employers are treated as if self-employed).

Basic annual income consists of gross basic pay, car allowance, large town allowance, London weighting/cost of living supplement, private pension and flexible benefits. 100 per cent. of these items are used within the affordability calculation.

Other income includes overtime, bonus and commission payments, disability living allowance, maintenance payments and child benefit. As a general rule, less than 100 per cent. of these items may be used in the affordability calculation.

Underwriters have discretion to accept other income.

Self Employed Applicant(s)

Normally such applicants must have been self-employed for at least three years. Underwriters may accept less within their discretion.

Underwriters have discretion to accept other income.

6. **Credit history**

Credit search

A credit search is carried out in respect of all new applicants including further lending. Applications may be declined where an adverse credit history (for example, county court judgment, Scottish court decree for payment, default, or bankruptcy notice) is revealed or the score does not meet the required risk/reward trade-off.

7. **Proof of income**

Income verification can be obtained via various means including payslips, bank statements, employer's reference, accountant's reference or Inland Revenue Self-Assessment forms for

self-employed customers. The use of internal bank account data may also be used to verify income, subject to meeting criteria requirements.

Historically, the Seller has waived income verification for certain customers, under the "fast track" process based upon the applicant's credit score among other factors.

8. **Scorecard**

The Seller uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of an account going into arrears.

The Seller reserves the right to decline an application that has received a passing score. The Seller does have an appeals process if a potential borrower believes his or her application has been unfairly denied. It is the Seller's policy to allow only authorised individuals to exercise discretion in granting variances from the scorecard.

Changes to the Underwriting Policies and the Lending Criteria

The Seller's underwriting policies and Lending Criteria are subject to change within the Seller's sole discretion. New Loans and Further Advances that are originated under Lending Criteria that are different from the criteria set out here may be sold to the LLP.

Insurance Policies

Insurance on the Property

Each mortgaged property is required to be insured with buildings insurance. The insurance may be purchased by the Borrower or landlord or property management company (in the case of a leasehold property). If the Seller becomes aware that no adequate insurance is in place, it has the power to arrange insurance on the property and charge the premiums for this to the Borrower's mortgage account.

Subject as set out above, the Seller only insures a property once it has repossessed the property from a defaulting Borrower. See "—*Properties in Possession Cover*" below.

Borrower-arranged Buildings Insurance

The Seller currently sells home insurance policies of a third party provider. A Borrower may elect not to take up such an insurance policy, or a Borrower who originally had such a policy may elect to insure the property with an independent insurer. The Seller requires that the Borrower maintains buildings insurance for the duration of the mortgage, with the sum insured to be not less than the full reinstatement value of the property. The Seller also requires that the Borrower inform the Seller of any damage to the property that occurs and that the Borrower must make a claim under the insurance for any damages covered by it unless the Borrower makes good the damage.

Properties in Possession Cover

When a mortgaged property is taken into possession by the Seller, the Seller takes the necessary actions to ensure that the property is placed on to its block properties in possession insurance policy so that appropriate insurance cover is provided on the property. The Seller may claim under this policy for any damage occurring to the property while in the Seller's possession, subject to policy terms and conditions.

The Seller has procured the agreement of HDI Gerling to the inclusion of the LLP as insured under the properties in possession cover from the Programme Date. To the extent that any insurance proceeds are received by the Servicer, it will agree to pay these into the Transaction Account.

In the Mortgage Sale Agreement, the Seller agrees to make and enforce claims under the relevant policies and to hold the proceeds of claims on trust for the LLP or as the LLP may direct.

Title Insurance

With the exception of some remortgage cases where title insurance is used to cover particular risks around leasehold property, the Seller currently only accepts title insurance in respect of certain limited title defects (e.g. restrictive covenants) and not *in lieu* of an investigation of title. This policy may change from time to time. There will be no Loans in the Portfolio in respect of which no investigation of title has been undertaken (other than where Loans were originated pursuant to certain remortgage practices within the Seller's lending policies, whether or not title insurance has been obtained).

Arrears Policy

The Seller identifies a Loan as being in arrears where an amount equal to or greater than a full month's contractual payment is past its due date and has not been paid by the Borrower. If a Borrower has not made a contractual payment within a month and a day of the date on which it became due and payable, that Borrower will receive an initial arrears letter from the Seller.

The Seller will attempt to contact the relevant Borrower by telephone and/or letter if such payments remain unpaid with a view to establishing the Borrower's circumstances and agreeing an arrangement to return the account to order, where possible. Arrears counselling may also be offered. Where a satisfactory arrangement cannot be reached or maintained, possession proceedings may be instigated to enable the Seller to enforce its security.

DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

The Regulated Covered Bonds Regulations 2008 (SI 2008/346), as amended from time to time (the **RCB Regulations**) and the corresponding implementation provisions, set out in the RCB Sourcebook to the FSA's Handbook (the **RCB Sourcebook**), came into force in the UK on 6 March 2008. In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 52(4) of EU Directive (2009/65/EC) on undertakings for collective investment in transferable securities (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting.

Supervision and registration

The FCA performs certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FCA has certain powers under the RCB Regulations. In particular, in certain circumstances it may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner. Moreover, as the body which regulates the financial services industry in the UK, the FCA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

On 24 February 2017, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations. The FCA has indicated that notification of such registration and certain other matters will be made by the FCA to the European Commission. Accordingly, in principle, the Covered Bonds are UCITS Directive-compliant. Under the RCB Regulations, an issuer may be removed from the register of issuers in certain limited circumstances with the result that such issuer may not make further issues under the Programme but the FCA is restricted from removing a regulated covered bond from the register of regulated covered bonds before the expiry of the whole period of validity of the relevant covered bond.

The Issuer has designated its Programme to be a single asset programme listed as class two (thereby consisting of restricted mortgage loans and various liquid assets).

Requirements under the legislative framework

The RCB Regulations and the RCB Sourcebook include various requirements related to registered issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FCA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FCA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above).

The relevant authorities undertook a review of the UK legislative framework in 2011 and certain changes were made to the regime with the intention of enhancing the attractiveness of UK regulated covered bonds to investors. These changes took effect from 1 January 2013 and include the following:

- *Single asset pool designation* – issuers are required to designate their programme as being a single asset pool (consisting of either class one assets – public sector debt, class two – residential mortgage loans or class three assets – commercial loans and, in each case, certain liquid assets) or a mixed asset pool (consisting of all eligible property for the purposes of the RCB Regulations). The Issuer has provided the necessary certifications for the Programme to be registered as a single asset pool programme, falling in class two. As a result, the Asset Pool will consist solely of residential mortgage loans and certain liquid assets, being UK Government securities and cash deposits. To be clear, and in keeping with the new requirements under the RCB Regulations, the Asset Pool will not include any asset-backed securities.

- *Fixed minimum over-collateralisation requirement for principal and fixed minimum coverage requirement for interest* –the total principal amount outstanding on the loans constituting eligible property in the asset pool is required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8 per cent. and a minimum threshold applies in respect of interest amounts such that the total amount of interest payable in the period of twelve (12) months following any given date in respect of the eligible property in the asset pool is required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period. For the purposes of calculating the overcollateralisation test, the issuer can take into account certain liquid assets up to a maximum of 8 per cent. of those covered bonds that have a maturity date of more than one year and 100 per cent. of those covered bonds that have a maturity date of one year or less.

- *Investor reporting, including loan-level data* – new investor reporting requirements apply. In particular, issuers are required to make available detailed loan-level information relating to the Asset Pool following an issuance of regulated covered bonds after 1 January 2013. Issuers are also required to publish certain transaction documents relating to the programme. The information to be published by the Issuer can be found at http://www.tsb.co.uk/investors/debt-investors/covered-bonds/ The website and the contents thereof do not form part of this Prospectus.

- *Asset pool monitor role* – new requirements have been introduced to formalise the role of the asset monitor. Under the new provisions, an asset pool monitor is required, on an annual basis, to inspect and assess the issuer's compliance with certain principles based requirements under the regime and to report on their findings (with additional reporting requirements in the case of issuer non-compliance). The Issuer has appointed an asset pool monitor for the purposes of the RCB Regulations.

See also *Risk Factors – UK regulated covered bond regime*.

DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland under the Limited Liability Partnerships Act 2000 (the **LLPA**). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

Corporate characteristics

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

The provisions of the Companies Act 2006 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships (Amendment) Regulations 2009 and the Limited Liability Partnerships Regulations 2001 (each as amended from time to time) 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

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

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 Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the U.S. may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form.

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 directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders 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.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between Clearstream, Luxembourg and Euroclear, 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 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.

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 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 Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Covered Bonds and is a summary of the Issuer's understanding of current United Kingdom law and published HMRC practice relating only to United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) by the Issuer in respect of the Covered Bonds and payments by the LLP in respect of Covered Bonds. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Covered Bonds. The United Kingdom tax treatment of prospective Covered Bondholders depends on their individual circumstances and may be subject to change in the future. Prospective Covered Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payment of Interest by the Issuer on the Covered Bonds

Payments of interest on the Covered Bonds by the Issuer may be made without deduction of or withholding on account of United Kingdom income tax provided that 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**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the 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 and continues to be 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 on the Covered Bonds may also be paid without withholding or deduction on account of United Kingdom tax where the maturity of the Covered Bonds is less than 365 days and those Covered Bonds do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Covered Bonds that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20%), subject to any available exemptions and reliefs, including an exemption for certain payments of interest to which a company within the charge to United Kingdom corporation tax is beneficially entitled. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Covered Bondholder, HMRC can issue a notice to the Issuer to pay interest to the Covered Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Payments by the LLP

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 UK 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.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "FATCA", a foreign financial institution (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain

certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Covered Bonds, such withholding would not apply prior to 1 January 2019 and Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding, in either case unless materially modified after such date (including by reason of a substitution of the Issuer). However, if (as described under "*Terms and Conditions of the Covered Bonds — Further Issues*") additional Covered Bonds that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Covered Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Covered Bonds, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

Each 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**) originally dated 24 February 2017, 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 Dealers are Banco de Sabadell, S.A. and Lloyds Bank Corporate Markets plc, but the Issuer may appoint other dealers from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis.

The Issuer may pay each relevant Dealer commissions as agreed in connection with the sale of any Covered Bonds. In the Programme Agreement, the Issuer has agreed to reimburse and indemnify the relevant Dealer for certain of its expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The relevant Dealer is entitled to be released and discharged from its obligations in relation to any agreement to purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

In order to facilitate the offering of any Tranche of the Covered Bonds, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Covered Bonds are reclaimed if Covered Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Covered Bonds to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under UK laws and regulations stabilising activities may only be carried on by the stabilising manager named in the applicable Final Terms and only for a period ending on the earlier of 30 days following the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the allotment of the relevant Tranche of Covered Bonds.

Transfer Restrictions

As a result of the following restrictions, purchasers of Covered Bonds in the U.S. are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Registered Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

(a) That it is outside the U.S. 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 U.S. within the meaning of the Securities Act, that neither the Covered Bonds nor the Covered Bond Guarantee has been or will be registered under the Securities Act or

any applicable U.S. State securities laws and that the Covered Bonds may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons except as set forth in this section;

(c) it agrees that neither the Issuer nor the LLP has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;

(d) that, unless it holds an interest in a Registered Global Covered Bond and either is a person located outside the U.S. or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (i) to the Issuer or any affiliate thereof, (ii) outside the U.S. in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(e) 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) if it is outside the U.S. and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the Issue Date), it will do so only (a) outside the U.S. in compliance with Rule 903 or 904 under the Securities Act and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Covered Bonds represented by a Registered Global Covered Bond and Registered Definitive 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 "; and

(g) 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.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Covered Bonds outside the U.S. and for the resale of the Covered Bonds in the U.S. The Issuer and the Lead Managers reserve the right to reject any offer to purchase the Covered Bonds, in whole or in part, for any reason. This prospectus does not constitute an offer to any person in the U.S. or to any U.S. person. Distribution of this Prospectus by any non-U.S. person outside the U.S. is unauthorised

and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the U.S. is prohibited.

Selling Restrictions

United States

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and Covered Bonds may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

In connection with any Covered Bond which are offered or sold outside the U.S. in reliance on Regulation S (**Regulation S Covered Bonds**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Covered Bonds (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bond during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bond within the U.S. or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds, an offer or sale of such Covered Bonds within the U.S. by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by

the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any relevant Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Covered Bonds to the public** in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) 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 Issuer or the LLP; 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 Act of Japan (Law No. 25 of 1948, as amended, the **FIEA**) and 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 as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

The Netherlands

Each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell Covered Bonds in the Netherlands other than to qualified investors as defined in article 1:1 of the Act on Financial Supervision (*Wet op het financieel toezicht*).

Republic of Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB (the Italian Securities Exchange Commission) Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Furthermore, each 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 the 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, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**); and

(ii) in compliance with Article 129 of the Italian Banking Act, as amended 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; or

(iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Germany

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it shall only offer or sell Covered Bonds in the Federal Republic of Germany in compliance with the provisions of the German Securities Prospectus Act (*Wertpapier- prospektgesetz*) of 22 June 2005, or any other laws applicable in the Federal Republic of Germany governing the offer and sale of securities.

Republic of France

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has only made and will only make an offer of Covered Bonds to the public in the Republic of France in the period beginning (i) when a prospectus in relation to the Covered Bonds has been approved by the *Autorité des marchés financiers* (**AMF**), on the date of publication of such prospectus or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive No. 2003/71/EC (as amended by Directive 2010/73/EU), 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; or

(ii) it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) acting for their own account, other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the French Code *monétaire et financier*.

Switzerland

This document is not intended to constitute an offer or solicitation to purchase or invest in the Covered Bonds described herein. The Covered Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this document nor any other offering or marketing material relating to the Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, nor the Issuer nor the Covered Bonds have been or will be filed with or approved by any Swiss regulatory authority. The Covered Bonds are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority (FINMA), and investors in the Covered Bonds will not benefit from protection or supervision by such authority.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that it will, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations or directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor. Furthermore, they will not directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other additional or modified restrictions (if any) as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer or sell Covered Bonds a copy of the Prospectus as then amended or supplemented or, unless delivery of the Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The Dealers are not authorised to give any information or to make any representation not contained in the Prospectus in connection with the offer and sale of Covered Bonds to which the Prospectus relates.

This Prospectus may be used by the Dealers for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the Dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the Dealers has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The Dealers are participating in the initial distribution of the Covered Bonds.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the UK in connection with the establishment, implementation and operation of the Programme and the issue of Covered Bonds. The establishment, implementation and operation of the Programme and the issue of Covered Bonds were authorised by resolutions of the board of directors of the Issuer dated 22 February 2017. 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 22 February 2017.

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 or a Registered 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 was granted on or about 28 February 2017. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

Documents Available

For so long as Covered Bonds may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted) for inspection at the office of TSB Bank plc, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH:

(i) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the LLP;

(ii) the Trust Deed (which includes the Covered Bond Guarantee and the forms of the Global Covered Bonds, the definitive Covered Bonds, the Coupons, the Receipts and the Talons);

(iii) the Agency Agreement;

(iv) the most recent publicly available reviewed or audited financial statements for the Issuer beginning with such financial statements for the years ended 31 December 2017 and 31 December 2016;

(v) the report of PricewaterhouseCoopers LLP in respect of the audited financial statements of the Issuer for the financial years ended 31 December 2017 and 31 December 2016;

(vi) the most recent publicly available reviewed or audited financial statements for the LLP beginning with such financial statements for the years ended 31 December 2017 and 31 December 2016;

(vii) the independent auditor's report in respect of the audited financial statements of the LLP for the financial years ended 31 December 2017 and 31 December 2016;

(viii) 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

(ix) 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 via the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Clearing Systems

The Covered Bonds issued pursuant to this Prospectus have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). 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 any alternative clearing system will be specified in the applicable Final Terms. The applicable Final Terms will also indicate whether the relevant Covered Bonds will not be cleared through any clearing system.

Significant or Material Change

Other than as disclosed in the Prospectus, there has been no significant change in the financial position of the Group since 31 December 2017, the date to which the Issuer's last published audited financial information (as set out in the Issuer's 2017 Annual Report and Accounts) was prepared. There has been no material adverse change in the prospects of the Group since 31 December 2017, the date to which the Issuer's last published audited financial information (as set out in the Issuer's 2017 Annual Report and Accounts) was prepared.

There has been no significant change in the financial position of the LLP since 31 December 2017, the date to which the LLP's last published audited financial information (as set out in the LLP's 2017 Annual Financial Statements) was prepared and there has been no material adverse change in the prospects of the LLP since 31 December 2017, the date to which the LLP's last published audited financial information (as set out in the LLP's 2017 Annual Financial Statements) was prepared.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Group 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 Group. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the LLP is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past a significant effect on the financial position or profitability of the LLP.

Independent Auditors

PricewaterhouseCoopers LLP, (members of the Institute of Chartered Accountants in England and Wales) have audited, and rendered unqualified audit reports on, the annual published accounts of the Issuer for the two financial years ended 31 December 2016 and 31 December 2015.

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.

Legal Entity Identifier

The Legal Entity Identifier of the Issuer (LEI) is 549300XP222MV7P3CC54.

Post-issuance information

The Issuer will provide a monthly Asset Coverage and Investor Report which will be made available to Covered Bondholders at http://www.tsb.co.uk/investors/debt-investors/covered-bonds/ detailing, among other things, compliance with the Asset Coverage Test. The website and the contents thereof do not form part of this Prospectus.

In addition, the Issuer is required, pursuant to the terms of the RCB Regulations, to provide loan level information relating to the Loans in the Asset Pool and to display the Transaction Documents related to the Programme.

GLOSSARY

2010 PD Amending Directive	Directive 2010/73/EU
30/360, **360/360** or **Bond Basis**	The meaning given in Condition 4.5(c)(vi) on page 122 of Programme Conditions
30E/360 or **Eurobond Basis**	The meaning given in Condition 4.5(c)(vii) on page 122 of the Programme Conditions
30E/360(ISDA)	The meaning given in Condition 4.5(c)(viii) on page 123 of the Programme Conditions
1999 Regulations	Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083), as amended
€, **Euro** or **euro**	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, *inter alia*, 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
£ or **Sterling**	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
$**, **U.S.$ or **U.S. Dollars** or **US Dollars**	The lawful currency for the time being of the United States of America
¥, **Yen**, **JPY**, **Japanese ¥** or **Japanese yen**	The lawful currency for the time being of Japan
Account Bank	HSBC 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
Account Bank Required Ratings	At least (i) a long-term deposit rating of "A2" or (ii) a short-term deposit rating of "P-1" by Moody's (or such other ratings that may be agreed between the parties to the Bank Account Agreement, provided that a Rating Agency Confirmation has been obtained)
Accrual Period	The meaning given on page 121 of this Prospectus
Accrual Yield	In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms
Accrued Interest	In relation to a Loan as at any date, the aggregate of all interest accrued but not yet due and payable on such Loan from (and including) the Monthly Payment Day in respect of such Loan immediately preceding the relevant date to (but excluding) the relevant date
Actual/360	The meaning given in Condition 4.5(c)(v) on page 122 of this Prospectus
Actual/365 (Fixed)	The meaning given in Condition 4.5(c)(iii) on page 122 of this Prospectus
Actual/365 (Sterling)	The meaning given on page 122 of this Prospectus

Actual/Actual or **Actual/Actual (ISDA)**	The meaning given on page 122 of this Prospectus
Actual/Actual (ICMA)	The meaning given in Condition 4.5(c)(i) on page 121 of this Prospectus
Additional Business Centre	The meaning (if any) given in the applicable Final Terms
Adjusted Aggregate Loan Amount	The meaning given on page 188 of this Prospectus
Adjusted Current Balance	The meaning given on page 188 of this Prospectus
Adjusted Required Redemption Amount	The meaning given on page 195 of this Prospectus
Administration Fee	The meaning given on page 183 of this Prospectus
Admission	The admission to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities of ordinary shares of TSB Banking Group on 25 June 2014
Advance Date	The date on which a relevant Further Advance or Flexible Loan Drawing is advanced to the relevant Borrower by the Seller
Agency Agreement	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 Registrar and the Transfer Agent (as the same may be amended, restated, supplemented, replaced or novated from time to time)
Agents	The Paying Agents, the Registrar, the Transfer Agents and any Calculation Agent
Alternative Base Rate	The meaning given on page 148 of this Prospectus
AMF	The meaning given on page 248 of this Prospectus
Amortisation Test	The meaning given on page 192 of this Prospectus
Amortisation Test Aggregate Loan Amount	The meaning given on page 192 of this Prospectus
Amortisation Test Current Balance	The meaning given on page 192 of this Prospectus
Amortised Face Amount	The meaning given on page 131 of this Prospectus
applicable Final Terms	The meaning given on page 109 of this Prospectus
Arranger	Lloyds Bank Corporate Markets plc and references to "Arranger" include any additional Dealer(s) appointed as Arranger and exclude any Arranger whose appointment has been terminated
Arrears Adjusted Current Balance	The meaning given on page 189 of this Prospectus
in Arrears	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
Asset Coverage and Investor Report	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
Asset Coverage Test	The meaning given on page 187 of this Prospectus
Asset Coverage Test Breach Notice	The notice required to be served by the Bond Trustee if the Asset Coverage Test is not satisfied on two consecutive Calculation Dates
Asset Monitor	PricewaterhouseCoopers LLP appointed as such under the Asset Monitor Agreement (and any successor asset monitor appointed in accordance with the Asset Monitor Agreement)
Asset Monitor Agreement	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)
Asset Monitor Report	A report substantially in the form contained in Schedule 2 to the Asset Monitor Agreement and prepared by the Asset Monitor on the basis of and in accordance with the calculations and procedures set out in Schedule 3 of the Asset Monitor Agreement
Asset Percentage	94.0 per cent. or such lower percentage figure as determined from time to time pursuant to Clause 11.3 of the LLP Deed
Asset Pool	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 (other than any Swap Collateral Account) and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) (*Asset Pool*) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations
Asset Segregation	The meaning given on page 13 of this Prospectus
Authorised Investments	Each of: (a) Sterling gilt-edged securities having a remaining maturity of 30 days or less and maturing on or before the next following LLP Payment Date; and (b) Sterling demand or time deposits, provided that in all cases such investments have a remaining period to maturity of 30 days or less and mature on or before the next following LLP Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least (i) "P-1" by Moody's or (ii) its equivalent by three other internationally recognised rating agencies, provided that such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations
Authorities	The UK Listing Authority, the FCA in its capacity as competent authority under the FSMA and references to the Authorities shall, in relation to any Covered Bonds, be references to the competent authority relating to the stock exchange on which the

Covered Bonds are from time to time, or will be, listed or admitted to trading

Available Principal Receipts

On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

(a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the Transaction Account;

(b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Portfolios or invest in Substitution Assets), (ii) any Cash Capital Contributions received from a Member (other than those Cash Capital Contributions credited to the Reserve Ledger on the Transaction Account) and (iii) the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement to the extent that such proceeds represent principal, but excluding any amount of principal received under the Covered Bond Swap Agreements, which is otherwise applied by the LLP in accordance with the provisions of the LLP Deed;

(c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the LLP on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the LLP has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger);

(d) the amount of any termination payment received from a Swap Provider which is not applied to acquire a replacement for the relevant terminated Swap; and

(e) any Excess Proceeds,

Excluding

(f) any Swap Collateral Excluded Amounts (to the extent otherwise constituting Available Principal Receipts);

(g) Tax Credits and any amount received by the LLP in respect of Tax Credits (to the extent otherwise constituting Available Principal Receipts); and

(h) Swap Provider Tax Payments received from Swap Providers (to the extent otherwise constituting Available Principal Receipts)

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 Transaction Account;

(b) other net income of the LLP including all amounts of interest received on the LLP Accounts (other than any

Swap Collateral Account), 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 Cover Pool 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 Transaction 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 Agreement, except to the extent applied to pay any termination payment under the relevant Swap being replaced,

Excluding

(g) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller (to the extent otherwise constituting Available Revenue Receipts);

(h) Tax Credits and any amount received by the LLP 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

Back-Up Cash Manager Any back-up or successor cash manager appointed as such under the Cash Management Agreement together with any successor appointed from time to time thereunder

Back-Up Cash Manager Facilitator Intertrust Management Limited acting through its office at 35 Great St. Helen's, London EC3A 6AP, in its capacity as back-up cash manager facilitator under the Cash Management Agreement

Back-Up Servicer Any back-up or successor servicer appointed as such under the Servicing Agreement together with any successor appointed from time to time thereunder

Back-Up Servicer Facilitator Intertrust Management Limited acting through its office at

	35 Great St. Helen's, London EC3A 6AP, in its capacity as back-up servicer facilitator under the Servicing Agreement
Bank Account Agreement	The bank account agreement entered into on the Programme Date between the LLP, the Account Bank, the Cash Manager and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time) and any other bank account agreements entered into from time to time between the LLP, any additional Account Bank, the Cash Manager and the Security Trustee (in each case as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
Bank Rate	The meaning given on page 118 of this Prospectus
Banking Act	Banking Act 2009
Base Rate Modification	The meaning given on page 148 of this Prospectus
Base Rate Modification Certificate	The meaning given on page 148 of this Prospectus
Basel III	The meaning given on page 92 of this Prospectus
BCBS	The meaning given on page 92 of this Prospectus
Bearer Covered Bonds	Covered Bonds in bearer form
Bearer Definitive Covered Bond	A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer, the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues) and having the Programme Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Programme Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Programme Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue
Bearer Definitive Covered Bonds	The meaning given on page 109 of this Prospectus
Bearer Global Covered Bonds	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
Belmont decision	The meaning given on page 91 of this Prospectus
Bond Trustee	Citicorp Trustee Company 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
Borrower	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
Broken Amount	The meaning (if any) given in the applicable Final Terms
Business Day	The meaning given in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) on page 120 of this Prospectus
Business Day Convention	In respect of a Tranche of Covered Bonds and either the Specified Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms and determined in accordance with Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) on page 120 of this Prospectus
Calculation Agent	In relation to one or more Series of Floating Rate Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor calculation agent in relation to such Covered Bonds
Calculation Agent(s)	The meaning given on page 109 of this Prospectus
Calculation Amount	In relation to any Series of Covered Bonds has the meaning given to it in the applicable Final Terms
Calculation Date	The third London Business Day prior to each LLP Payment Date
Calculation Period	The period from, and including the first day of each calendar month to, and including, the last day of each calendar month except that the first Calculation Period shall be the period from, and including, the First Sale Date to, and including, the last day of March 2017
Capital Account Ledger	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
Capital Contribution	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
Capital Contribution in Kind	A contribution by way of Loans and their Related Security to the LLP in an amount equal to (a) the Current Balance of those Loans as at the relevant Sale Date minus (b) any cash payment paid by the LLP to the Seller for the Loans and their Related Security on that Sale Date, plus (c) the principal amount of all Flexible Loan Drawings and Further Advances in respect of such Loans which are funded by the Seller as a Member of the LLP and, without double counting, any increases in the Current Balance of the relevant Loan
Capital Distribution	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)
Capital Requirements Directive	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)
Capital Requirements Regulation	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013
Cash Capital Contribution	A capital contribution to the LLP made in cash whether by way of loan or otherwise
Cash Management Agreement	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)
Cash Manager	TSB Bank plc, in its capacity as cash manager or any successor cash manager appointed from time to time pursuant to the Cash Management Agreement
CBTL	The meaning given on page 81 of this Prospectus
CCA	Consumer Credit Act 1974, as amended
CCA 2006	Consumer Credit Act 2006
cent and **c**	The meaning given on page 11 of this Prospectus
Certificate of Title	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
Charged Property	The meaning given on page 205 of this Prospectus
Clearing Systems	Euroclear and/or Clearstream, Luxembourg
Clearstream, Luxembourg	Clearstream Banking, *société anonyme* or its successors
CMA	Competition and Markets Authority
CML	Council of Mortgage Lenders
Collateralised GIC Account	Any collateralised guaranteed investment contract account in the name of the LLP held with the Collateralised GIC Provider and maintained subject to the terms of the Collateralised Guaranteed Investment Contract, the Deed of Charge and the LLP Deed or such additional or replacement account designated as such
Collateralised GIC or **Collateralised Guaranteed Investment Contract**	Any collateralised guaranteed investment contract between the LLP, the Cash Manager, the Collateralised GIC Provider and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
Collateralised GIC Provider	Any bank acting in its capacity as collateralised guaranteed investment contract provider or any successor collateralised guaranteed investment contract provider appointed from time to time
Collection Account	The Sterling account in the name of TSB Bank held with the Collection Account Bank or such additional or replacement bank account at such other Collection Account Bank
Collection Account Bank	Lloyds Bank plc (or its successors or assigns) acting in its

	capacity as the bank at which the Collection Account(s) in respect of the Loans are maintained
Commission's proposal	The meaning given on page 64 of this Prospectus
Common Depositary	The common depositary for Euroclear and Clearstream, Luxembourg
Common Safekeeper	The common safekeeper of Euroclear SA/NV and Clearstream, Luxembourg or any entity so determined pursuant to the Agency Agreement
Companies Act	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
Compounded Daily SONIA	The meaning given on page 116 of this Prospectus
CONC	The FCA's consumer credit sourcebook
Conduct Indemnity	The meaning given on page 41 of this Prospectus
Consumer Credit Directive	Directive 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC
Corporate Services Agreement	The corporate services agreement dated the Programme Date entered into by the Liquidation Member and Holdings, with, *inter alios*, the Corporate Services Provider, the Share Trustee and the LLP (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
Corporate Services Provider	Intertrust 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
Counterparty Risk Assessment	The counterparty risk assessment rating by Moody's
Coupon	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, 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, in such form as may be

	agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer
Couponholders	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons)
Coupons	The meaning given on page 110 of this Prospectus
Covered Bond	Each covered bond (including N Covered Bonds provided that the relevant N Covered Bondholder, in the case of the initial N Covered Bondholder, has entered into the related N Covered Bond Confirmation or, in the case of an assignee, has agreed to be bound by the terms of such N Covered Bond Confirmation by way of an N Covered Bond Assignment Agreement) issued or to be issued pursuant (except in the case of N Covered Bonds) to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond or, in the case of any N Covered Bond, by a relevant certificate and includes any replacements for a Covered Bond issued pursuant to Condition 10 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*) of the Terms and Conditions or, in the case of N Covered Bonds, equivalent provisions
Covered Bond Guarantee	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
Covered Bonds	The meaning given on page 1 of this Prospectus
Covered Bond Swap	Each transaction between the LLP, the relevant Covered Bond Swap Provider and the Security Trustee pursuant to a Covered Bond Swap Agreement
Covered Bond Swap Agreement	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, confirmations in relation to each transaction and a credit support annex
Covered Bond Swap Agreements	The meaning given on page 202 of this Prospectus
Covered Bondholder	The meaning given on page 111 of this Prospectus
Covered Bond Swap Early Termination Event	A Termination Event or Event of Default (each as defined in the relevant Covered Bond Swap Agreement), excluding a Swap Provider Downgrade Event, pursuant to which the Non-defaulting Party or the party that is not the Affected Party (each as defined in the relevant Covered Bond Swap Agreement), as applicable, may terminate the Covered Bond Swap Agreement
Covered Bond Swap Provider	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement
Covered Bond Swap Rate	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
Covered Bondholders	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 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) 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, 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 and for which purpose such Common Depositary or the Common Safekeeper 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
Cover Pool Swap	Any interest rate swap entered into between the Cover Pool Swap Provider, the LLP and the Security Trustee under the Cover Pool Swap Agreement for the purpose of hedging possible variances between the rates of interest payable on the Loans sold by the Seller to the LLP and Sterling LIBOR
Cover Pool Swap Agreement	The agreement between the LLP, the Cover Pool Swap Provider and the Security Trustee dated the Programme Date governing the Cover Pool Swap in the form of an ISDA Master Agreement, including a schedule, confirmations in relation to each transaction and a credit support annex, as the same may be amended, restated, supplemented, replaced or novated from time to time
Cover Pool Swap Early Termination Event	A Termination Event or an Event of Default (each as defined in the Cover Pool Swap Agreement), excluding a Swap Provider Downgrade Event, pursuant to which the Non-defaulting Party or the party that is not the Affected Party (each as defined in the Cover Pool Swap Agreement), as applicable, may terminate the Cover Pool Swap Agreement;
Cover Pool Swap Provider	TSB Bank plc in its capacity as interest rate swap provider under

	the Cover Pool Swap Agreement together with any successor or additional cover pool swap provider
CPUTR	The meaning given on page 85 of this Prospectus
CRA	The Consumer Rights Act 2015
CRA Regulation	The meaning given on page 3 of this Prospectus
Current Balance	In relation to any Loan at any date (the **current balance determination date**), the aggregate at such date (but avoiding double counting) of: (a) the Initial Advance; (b) Further Advances and/or Flexible Loan Drawings; (c) all expenses, charges, fees, premium or payment due and owing by the Borrower, whether or not such accounts have been capitalised including Accrued Interest, arrears of interest, high loan-to-value fees, insurance premiums, booking fees and valuation fees, in each case relating to such Loan less all prepayments, repayments or payments of any of the foregoing made on or prior to the current balance determination date; and in relation to any Mortgage Account at the current balance determination date, the aggregate at such date of the Current Balance in respect of each Loan comprised in the relevant Mortgage Account
Custodian	Any custodian with whom the relevant Registered Global Covered Bonds have been deposited
Custody Swap Collateral Account	A custody account opened pursuant to the Swap Collateral Bank Account Agreement
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
d	The meaning given on page 117 of this Prospectus
d_0	The meaning given on page 117 of this Prospectus
Day Count Fraction	The meaning given in Condition 4.5(c) (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) on page 121 of the Programme Conditions
Dealer	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 Dealers are Banco de Sabadell, S.A. and Lloyds Bank Corporate Markets plc (each referred to throughout this Prospectus as a **Dealer** and together the **Dealers**)

Dealers	The meaning given on page 1 of this Prospectus
Deed of Charge	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)
Defaulted Loan	Any Loan in the Portfolio where the amount in Arrears is equal to or greater than three times the current Monthly Payment
Deferred Consideration	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
Definitive Covered Bond	A Bearer Definitive Covered Bond and/or a Registered Definitive Covered Bond, as the context may require
Definitive Covered Bonds	The meaning given on page 109 of this Prospectus
Designated Account	The meaning given in Condition 5.4 (*Payments in respect of Registered Covered Bonds*) of the Programme Conditions
Designated Bank	The meaning given in Condition 5.4 (*Payments in respect of Registered Covered Bonds*) of the Programme Conditions
Designated Maturity	The meaning given in the ISDA Definitions
Designated Member	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, TSB Bank plc and the Liquidation Member
Designated Members	The meaning given on page 186 of this Prospectus
Determination Date	The meaning given in the applicable Final Terms
Determination Period	The meaning given in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Programme Conditions
Directors	The directors for the time being of the Issuer
Discretionary Rate	The Standard Variable Rate, the Homeowner Variable Rate and/or any other discretionary rates (other than fixed rates or tracker rates) applicable to any Discretionary Rate Loans
Discretionary Rate Loans	Loans which are subject to the Standard Variable Rate, the Homeowner Variable Rate or to other Discretionary Rates for the remaining life of the mortgage loan
Distribution Compliance Period	The period that ends 40 days after the later of the commencement of the offering and the Issue Date
DPA	Data Protection Act 1998, as amended
Due for Payment	The requirement by the LLP to pay any Guaranteed Amount: (a) following service of a Notice to Pay but prior to service of an LLP Acceleration Notice: (i) (except where paragraph (ii) below applies) on the date on which the Scheduled Payment Date in respect of such Guaranteed Amount is

reached, or, if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, on the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date or such other Interest Payment Date(s) specified in the applicable Final Terms (the **Original Due for Payment Date**); and

(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.

For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

(b) following service of an LLP Acceleration Notice, on the date on which the LLP Acceleration Notice is served on the Issuer and the LLP,

and the date on which any payment is Due for Payment shall be the **Due for Payment Date**

Earliest Maturing Covered Bonds

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 Transaction 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)
Early Redemption Amount	The amount calculated in accordance with Condition 6.7 (*Early Redemption Amounts*) of the Programme Conditions
Early Repayment Charges	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
Eligibility Criteria	The meaning given on page 173 of this Prospectus
EMIR	The meaning given on page 69 of this Prospectus
English Loan	A Loan secured by a Mortgage over a Property located in England or Wales
Equity Release Loan	A residential mortgage loan where Borrowers have monetised their properties for either a lump sum of cash or regular periodic income (e.g. as a retirement plan), with no repayment of the loan envisaged before the sale of the property
ESMA	The meaning given on page 65 of this Prospectus
EU	The European Union
EURIBOR	Euro-zone inter-bank offered rate
Euroclear	Euroclear Bank S.A./N.V. or its successors
European Market Infrastructures Regulation	The meaning given on page 143 of this Prospectus
Excess Proceeds	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
Exchange Date	On or after the date which is 40 days after a Temporary Global Covered Bond is issued
Exchange Event	In the case of Bearer Covered Bonds, the meaning given on page 98 and in the case of Registered Covered Bonds, the meaning given on page 99 of this Prospectus
Excluded Scheduled Interest Amounts	The meaning given in the definition of Scheduled Interest
Excluded Scheduled Principal Amounts	The meaning given in the definition of Scheduled Principal
Excluded Swap Termination Amount	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
Extended Covered Bond	The meaning given on page 223 of this Prospectus
Extended Due for Payment Date	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
Extension Determination Date	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
Extraordinary Resolution	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed
FATCA	The Foreign Account Tax Compliance Act
FCA or **Financial Conduct Authority**	Financial Conduct Authority of the United Kingdom
FIEA	The meaning given on page 247 of this Prospectus
Final Maturity Date	The Interest Payment Date on which a Series of Covered Bonds will be redeemed at the Final Redemption Amount in accordance with the Programme Conditions
Final Redemption Amount	The meaning given in the applicable Final Terms
Final Terms	The final terms substantially in the form of Schedule 3 to the Agency Agreement which, with respect to each Tranche of Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issue of the applicable Tranche or Series of Covered Bonds
Financial Services Act	Legislative Decree No. 58 of 24 February 1998 of the Republic of Italy, as amended
financial statements	The meaning given on page 11 of this Prospectus
First Sale Date	The date on which the Initial Portfolio is assigned to the LLP pursuant to the terms of the Mortgage Sale Agreement
Fixed Coupon Amount	The meaning given in the applicable Final Terms
Fixed Rate Covered Bonds	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
Fixed/Floating Rate Covered Bonds	Covered Bonds that 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
Fixed Rate Loans	Loans where the interest rate payable by the Borrower does not vary and is fixed for a certain period of time by the Seller
Flexible Draw Capacity	The meaning given on page 191 of this Prospectus
Flexible Loan	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
Flexible Loan Drawing	Any further drawing of moneys made by a Borrower under a Flexible Loan other than the Initial Advance
Floating Rate	The meaning given in the ISDA Definitions

Floating Rate Convention	The meaning given in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions
Floating Rate Covered Bonds	Covered Bonds which bear interest at a rate determined: (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 (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer, as set out in the applicable Final Terms
Floating Rate Option	The meaning given in the ISDA Definitions
Following Business Day Convention	The meaning given in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Programme Conditions
FOS	Financial Ombudsman Service under the FSMA
FSA or **Financial Services Authority**	The Financial Services Authority of the United Kingdom (from 1 April 2013, the Financial Conduct Authority or the Prudential Regulatory Authority, as applicable)
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000, as amended
FTT	The meaning given on page 64 of this Prospectus
Further Advance	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
Global Covered Bond	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require
Group	TSB Bank plc and its subsidiaries and associated undertakings
Guaranteed Amounts	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 (*Taxation*) 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

	and for the avoidance of doubt, including the remuneration and expenses of the Bond Trustee or other amounts due to it to the extent not received by the Bond Trustee
Guaranteed Amounts Due Date	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
Guarantee Priority of Payments	The meaning given on page 220 of this Prospectus
Hard Bullet Covered Bonds	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
HMRC	H.M. Revenue and Customs
H.M. Treasury	The Commissioners of Her Majesty's Treasury (or, where H.M. Treasury has nominated a nominee to acquire any shares which H.M. Treasury would otherwise be obliged to acquire, such nominee)
holding company	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
Holdings	TSB Covered Bonds (Holdings) Limited, a special purpose vehicle incorporated under the laws of England and Wales as a private limited company whose registered office is at 35 Great St. Helen's, London EC3A 6AP (registered no. 10181392)
holder of Covered Bonds	The meaning given on page 111 of this Prospectus
Homeowner Variable Rate	The Seller's current reversionary rate, being 3.74 per cent. as at the Programme Date, as administered, at the discretion of the Seller, by reference to the general level of interest rates and competitive forces in the UK mortgage market
House Price Index	The index of movements in house prices in relation to residential properties in the United Kingdom currently known as the "Halifax House Price Index" published by Markit Group Limited or any of its successors or assigns
House Price Indexed Valuation	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 House Price Index since the date of that Latest Valuation
i	The meaning given on page 117 of this Prospectus
ICSDs	The meaning given on page 205 of this Prospectus
IFRS	The meaning given on page 11 of this Prospectus
Indexed Valuation	In relation to any Loan secured over any Property at any date: (a) where the Latest Valuation of that Property is equal to or greater than the House Price Indexed Valuation as at that date, the House Price Indexed Valuation; or (b) where the Latest Valuation of that Property is less than the House Price Indexed Valuation as at that date, the Latest Valuation plus 85 per cent. of the difference between the Latest Valuation and the House Price

Indexed Valuation

Initial Advance — 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:

(a) Further Advance; and

(b) Flexible Loan Drawing,

in each case relating to any such Loan

Initial Portfolio — The meaning given on page 228 of this Prospectus

Insolvency Act — Insolvency Act 1986, as amended

Insolvency Event — In respect of the Seller, the Servicer or Cash Manager:

(a) an order is made or an effective resolution passed for the winding-up of the relevant entity; or

(b) the relevant entity ceases or threatens to cease to carry on the whole of its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or

(c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the relevant entity under any applicable liquidation, administration, reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or the substantial part of the undertaking or assets of the relevant entity or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or the substantial part of the undertaking or assets of the relevant entity and in any of the foregoing cases it is not discharged within 15 London Business Days; or if the relevant entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness

Instalment Amounts — In respect of Instalment Covered Bonds, each amount specified

	as such in the applicable Final Terms
Instalment Covered Bonds	Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms
Instalment Dates	In respect of Instalment Covered Bonds, each date specified as such in the applicable Final Terms
Insurance Acknowledgement	In the case of the Insurance Policy, a duly executed letter from the relevant insurer substantially in the form set out in Schedule 8 to the Mortgage Sale Agreement
Insurance Claim Proceeds	The proceeds resulting of any claims under the Insurance Policy
Insurance Policy	means the Properties in Possession Cover and **Insurance Policies** shall be construed accordingly
Intercompany Loan	All Term Advances made by the Issuer to the LLP under the Intercompany Loan Agreement
Intercompany Loan Agreement	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)
Intercompany Loan Ledger	The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record all payments of interest and repayments of principal on each of the Term Advances
Interest Amount	The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 4.2(d) (*Interest on Floating Rate Covered Bonds*) of the Programme Conditions
Interest Commencement Date	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
Interest Determination Date	In respect of Floating Rate Covered Bonds the meaning given in the applicable Final Terms
Interest Payment Date	In respect of Fixed Rate Covered Bonds, the meaning given to it in the applicable Final Terms and in respect of Floating Rate Covered Bonds, the meaning given in Condition 4.2(a)(ii) (*Interest on Floating Rate Covered Bonds*) of the Programme Conditions
Interest Period	In accordance with Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Programme Conditions, the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date
Interest Rate Shortfall	The meaning given on page 182 of this Prospectus
Interest Rate Shortfall Test	The meaning given on page 182 of this Prospectus
Investor Put	The meaning given in Condition 6.4 (*Redemption at the option of the Covered Bondholders (Investor Put)*) of the Programme Conditions

Investor's Currency	The meaning given on page 93 of this Prospectus
ISDA	International Swaps and Derivatives Association, Inc.
ISDA Definitions	The 2006 ISDA Definitions, as published by ISDA
ISDA Determination	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 (*Interest on Floating Rate Covered Bonds*)
ISDA Master Agreement	The 1992 ISDA Master Agreement (Multicurrency – Cross Border), as published by ISDA
ISDA Rate	The meaning given in Condition 4.2(b)(i) (*Interest on Floating Rate Covered Bonds*) of the Programme Conditions
Issue Date	Each date on which the Issuer issues a Tranche or Series of Covered Bonds under the Programme, as specified in the applicable Final Terms
Issue Price	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
Issuer	TSB Bank plc
Issuer Acceleration Notice	The meaning given in Condition 9.1 (*Issuer Events of Default*) of the Programme Conditions
Issuer Call	The meaning given in Condition 6.3 (*Redemption at the option of the Issuer (Issuer Call)*) of the Programme Conditions
Issuer Event of Default	The meaning given in Condition 9.1 (*Issuer Events of Default*) of the Programme Conditions
Issuer Subordinated Loan	The meaning given on page 186 of this Prospectus
Issuer-ICSDs Agreement	The meaning given on page 205 of this Prospectus
Italian Banking Act	Financial Services Act and Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended
Latest Valuation	In relation to any Property, the value given to that Property by the most recent Valuation Report addressed to the Seller or assessed using automated valuation models
Lead Manager	In relation to any Tranche of Covered Bonds, the person named as the Lead Manager in the applicable Subscription Agreement or, when only one Dealer signs such Subscription Agreement, such Dealer
Ledger	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Pre-Maturity Liquidity Ledger, the Supplemental Liquidity Reserve Ledger, the Intercompany Loan Ledger and the Capital Account Ledger
Lending Criteria	The lending criteria of the Seller from time to time
LIBOR	London inter-bank offered rate
Liquidation Member	TSB Covered Bonds (LM) Limited, a special purpose vehicle incorporated under the laws of England and Wales as a private limited company whose registered office is 35 Great St. Helen's, London EC3A 6AP (registered no. 10181264)

Liquidity Coverage Ratio	The meaning given on page 92 of this Prospectus
Lloyds Banking Group	Lloyds Banking Group plc and its associated and subsidiary undertakings
Lloyds 2013 Part VII Transfer	The transfer of assets from Lloyds Bank plc pursuant to a transfer under Part VII of the Financial Services and Markets Act 2000 to TSB Bank plc under a business transfer agreement dated 13 March 2013
LLP	TSB Covered Bonds LLP, a limited liability partnership incorporated in England and Wales whose registered office is 35 Great St. Helen's, London EC3A 6AP (registered no. OC411834)
LLPA	The meaning given on page 60 of this Prospectus
LLP Acceleration Notice	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
LLP Accounts	The Transaction Account and any additional or replacement accounts opened in the name of the LLP, including each Swap Collateral Account, the Collateralised GIC Account (if any) and any custody accounts
LLP Deed	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)
LLP Event of Default	The meaning given in Condition 9.2 (*LLP Events of Default*) of the Programme Conditions
LLP Management Board	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
LLP Payment Date	The 8th day of each month or if not a London Business Day the next following London Business Day
LLP Payment Period	The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date
Loan	Each mortgage loan (including, for the avoidance of doubt, any English Loan or any Scottish Loan) which is to be sold, assigned

	or transferred by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement (or, in the case of Scottish Loans, held pursuant to a Scottish Declaration of Trust) and referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including, without limitation, all Flexible Loan Drawings, Product Switches and Further Advances which are, or are to be, sold, assigned and transferred by the Seller to the LLP under the terms of the Mortgage Sale Agreement) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same but excluding any mortgage loan which is repurchased by the Seller or otherwise sold by the LLP and no longer beneficially owned by it
Loan Repurchase Notice	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
Loan-to-Value Ratio	The ratio of the outstanding balance of a Loan to the House Price Indexed Valuation (such House Price Indexed Valuation calculated following the application of the House Price Index on a regional basis to property valuations on a quarterly basis) of the Property securing that Loan
London Banking Day or **LBD**	The meaning given on page 117 of this Prospectus
London Business Day	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
London Stock Exchange	London Stock Exchange plc or any body to which its functions have been transferred
Long Maturity Covered Bond	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
Margin	In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms
MiFID II	The meaning given on page 1 of this Prospectus
Master Definitions and Construction Agreement	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)
Maximum Rate of Interest	In respect of Floating Rate Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms
Maximum Redemption Amount	The amount specified as such in the applicable Final Terms

MCCB	Mortgage Code Compliance Board
MCOB	Mortgages and Home Finance: Conduct of Business Sourcebook, published under the FSMA on 31 October 2004, as amended, revised or supplemented from time to time
Member	Each member of the LLP
Members	The meaning given on page 186 of this Prospectus
MH/CP Documentation	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
Minimum Rate of Interest	In respect of Floating Rate Covered Bonds the percentage rate per annum (if any) specified in the applicable Final Terms
Minimum Redemption Amount	The amount (if any) specified as such in the applicable Final Terms
Modified Following Business Day Convention	The meaning given in Condition 4.5(b)(iii) (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Programme Conditions
Monthly Payment	The amount which the relevant Mortgage Conditions require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Loan
Monthly Payment Day	The date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Loan or, if any such day is not a London Business Day, the next following London Business Day unless the related Mortgage Conditions provide for such other adjustment of the business day convention
Moody's	Moody's Investors Service Limited or its successors
Mortgage	The legal charge, mortgage, standard security or charge securing a Loan
Mortgage Account	All Loans secured on the same Property and thereby forming a single mortgage account
Mortgage Code	The mortgage code sponsored by the CML and policed by the MCCB under which, until 31 October 2004, residential mortgage business in the UK was voluntarily self-regulated
Mortgage Conditions	The terms and conditions applicable to a Loan and/or Mortgage as contained in the Seller's "Mortgage Conditions" booklet (or equivalent document) from time to time under the applicable Mortgage Terms (or the equivalent documentation published by a New Seller)
Mortgage Sale Agreement	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

Mortgage Terms	All the terms and conditions applicable to a Loan and/or Mortgage, including, without limitation, the applicable Mortgage Conditions, Loan Conditions and Offer Conditions
N Covered Bond	A registered Covered Bond in definitive form made out in the name of a specified N Covered Bondholder issued or to be issued by the Issuer in accordance with the provisions of the Agency Agreement and in accordance with and constituted by the Trust Deed, in the form of a German "Namensschuldverschreibung" substantially in the form set out in Schedule 7 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the LLP, the Bond Trustee and the relevant N Covered Bondholder and having the N Covered Bond Conditions applicable to it annexed thereto and subject to the provisions of the N Covered Bond Confirmation (incorporating the N Covered Bond Confirmation Terms) relating thereto
N Covered Bond Assignment Agreement	The assignment agreement attached to each N Covered Bond, substantially in the form set out at Schedule 6 to the Trust Deed
N Covered Bond Conditions	The terms and conditions of each N Covered Bond annexed thereto
N Covered Bond Confirmation	In relation to each N Covered Bond, a confirmation incorporating the N Covered Bond Confirmation Terms and signed by the N Covered Bondholder, the LLP, the Issuer and the Bond Trustee, substantially in the form set out in Schedule 6 to the Trust Deed
N Covered Bond Confirmation Terms	The standard set of confirmation terms relating to each N Covered Bond, substantially in the form set out in Schedule 6 to the Trust Deed as may be amended from time to time in accordance with the Trust Deed
N Covered Bondholder	The registered holder of an N Covered Bond as recorded as such in the Register by the Registrar
Negative Carry Factor	The meaning given on page 191 of this Prospectus
Net Stable Funding Ratio	The meaning given on page 92 of this Prospectus
New Company	The meaning set out in Condition 19.1 (*Substitution, Consolidation, Merger, Amalgamation or Transfer of the Issuer*) of the Terms and Conditions
New Entity	The meaning set out in Condition 19.3 (*Substitution, Consolidation, Merger, Amalgamation or Transfer of the Issuer*) of the Terms and Conditions
New Global Covered Bond or **NGCB**	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
New Loan	Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to (or, in the case of Scottish Loans, hold pursuant to a Scottish Declaration of Trust for) the LLP after the First Sale Date pursuant to the Mortgage Sale Agreement

New Loan Type	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
New Member	Any new member admitted to the LLP after the Programme Date
New Mortgage Sale Agreement	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
New Portfolio	The meaning given on page 228 of this Prospectus
New Portfolio Notice	A notice in the form set out in the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement
New Seller	Any member of the Group (other than TSB Bank plc) that is a "Connected Person" as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents and sells New Seller Loans and their Related Security to the LLP in the future pursuant to a New Mortgage Sale Agreement
New Seller Loans	Loans originated by a New Seller
n_i	The meaning given on page 117 of this Prospectus
Notice to Pay	The meaning given in Condition 9.1 (*Issuer Events of Default*) of the Programme Conditions
Observation Period	The meaning given on page 117 of this Prospectus
Offer Conditions	The terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower
Official List	Official List of the UK Listing Authority
OFT	The UK Office of Fair Trading, which from 1 April 2014 ceased to exist
Ombudsman	Financial Ombudsman Service under the FSMA and the CCA 2006
Optional Redemption Amount	The meaning (if any) given in the applicable Final Terms
Optional Redemption Date	The meaning (if any) given in the applicable Final Terms
Original Due for Payment Date	The meaning given in paragraph (a) of the definition of Due for Payment

OSA The meaning given on pages 38 and 48 of the Prospectus

Outstanding In relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than:

(a) those Covered Bonds which have been redeemed in full and cancelled pursuant to the Trust Deed and/or the N Covered Bond Conditions;

(b) those Covered Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Programme Conditions or in the case of an N Covered Bond, the N Covered Bond Conditions (if applicable) has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Covered Bondholders in accordance with Condition 13 (*Notices*) of the Programme Conditions or the equivalent provisions of the N Covered Bond Conditions) and remain available for payment against presentation (unless the relevant Covered Bonds are in NGCB form) of the relevant Covered Bonds and/or Receipts and/or Coupons;

(c) those Covered Bonds which have been purchased and cancelled in accordance with Conditions 6.9 (*Purchases*) and 6.10 (*Cancellation*) of the Programme Conditions and any equivalent provision in the N Covered Bond Conditions;

(d) those Covered Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 8 (*Prescription*) of the Programme Conditions or the equivalent provisions of the N Covered Bond Conditions;

(e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 10 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*) of the Programme Conditions or the equivalent provisions of the N Covered Bond Conditions;

(f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 10 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*) of the Programme Conditions or, in the case of an N Covered Bond, pursuant to the relevant N Covered Bond Conditions (if applicable);

(g) any Bearer Global Covered Bond to the extent that it shall have been exchanged for Bearer Definitive Covered Bonds or another Bearer Global Covered Bond pursuant to its provisions, the provisions of the Trust Deed and the Agency Agreement; and

PROVIDED THAT for each of the following purposes, the provisions of the trust presents and the Agency Agreement,

(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, Modification and Waiver*) of the Programme Conditions and paragraphs 2, 5, 6 and 8 of Schedule 4 (Provisions for Meetings of Covered Bondholders) to the Trust Deed;

(iii) any discretion, power or authority (whether contained in the trust presents or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Covered Bonds of any Series; and

(iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series,

(A) those Covered Bonds of the relevant Series (if any) which are for the time being held by or on behalf of any of the Issuer's Subsidiaries (including the LLP), the Issuer's holding company or any subsidiaries of such holding company as beneficial owner and (B) those N Covered Bonds in respect of which (i) a duly executed N Covered Bond Confirmation (incorporating the N Covered Bond Confirmation Terms) relating to the relevant Series of Covered Bond has not been executed and has not been delivered to the Registrar or (ii) where an N Covered Bond is proposed to be assigned, a duly executed N Covered Bond Assignment Agreement relating to the relevant Series of N Covered Bonds has not been executed and has not been delivered to the Registrar, shall (unless and until ceasing to be so held) be deemed not to remain outstanding provided further however that, where all of the Covered Bonds are held by or on behalf of the Issuer, such Covered Bonds shall be deemed to remain outstanding

p The meaning given on page 117 of this Prospectus

part Coupon sheet The meaning given on page 139 of this Prospectus

Partial Portfolio Part of any portfolio of Selected Loans

Paying Agents The Principal Paying Agent and any other paying agent

	appointed pursuant to the terms of the Agency Agreement
Payment Day	The meaning given in Condition 5.6 (*Payment Day*) of the Programme Conditions
Payment Holiday	A period during which a Borrower (who is not in arrears) 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
PCA	The meaning given on page 34 of this Prospectus
Permanent Global Covered Bond	The meaning given on page 97 of this Prospectus
pence and **p**	The meaning given on page 11 of this Prospectus
Perfection Event	The meaning given on page 174 of this Prospectus
Portfolio	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)
Portfolio Manager	The meaning given on page 196 of this Prospectus
Post-Enforcement Priority of Payments	The meaning given on page 224 of this Prospectus
Postponed Deferred Consideration	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
Potential Issuer Event of Default	The meaning given in Condition 14 (*Meetings of Covered Bondholders, Modification and Waiver*) of the Programme Conditions
Potential LLP Event of Default	The meaning given in Condition 14 (*Meetings of Covered Bondholders, Modification and Waiver*) of the Programme Conditions
PRA or **Prudential Regulatory Authority**	The Prudential Regulatory Authority of the United Kingdom
Pre-Acceleration Principal Priority of Payments	The meaning given on page 218 of this Prospectus
Pre-Acceleration Priority of Payments	The Pre-Acceleration Principal Priority of Payments or the Pre-Acceleration Revenue Priority of Payments, as applicable
Pre-Acceleration Revenue Priority of Payments	The meaning given on page 214 of this Prospectus
Preceding Business Day Convention	The meaning given in Condition 4.5(b)(iv) (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Programme Conditions
Pre-Maturity Liquidity Ledger	The ledger on the Transaction 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
Pre-Maturity Liquidity Test	The meaning given in *Credit Structure – Pre-Maturity Liquidity Test* on pages 208 and 209 of this Prospectus
Pre-Maturity Liquidity Test Breach Period	In respect of the Pre-Maturity Liquidity Test rating trigger of "A1(cr)", 6 months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds and in respect of the Pre-Maturity Liquidity Test rating trigger of "P-1(cr)", 12 months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds
Pre-Maturity Liquidity Test Date	Each London Business Day prior to the occurrence of an Issuer Event of Default and/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
Principal Amount Outstanding	In accordance with Condition 4.5(f) (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Programme Conditions in respect of a Covered Bond on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day
Principal Ledger	The ledger on the Transaction 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
Principal Paying Agent	Citibank, N.A., London Branch, or, if applicable, any successor principal paying agent
Principal Receipts	Any amount received and recorded as being received in respect of principal in respect of any Loan (including payments pursuant to any Insurance Policy 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, including, for the avoidance of doubt, payments in respect of amounts which previously resulted in an increased Capital Contribution in Kind
Priorities of Payments	The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts (other than any Swap Collateral Account) 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
Product Period	The meaning given on page 230 of this Prospectus
Product Switch	A variation to the financial terms and conditions applicable to a Loan other than: (a) any variation agreed with a Borrower to control or manage arrears on such Loan; (b) any variation in the maturity of the Loan; (c) any variation imposed by statute; or

(d) in the rate of interest payable;

(e) a switch from an interest-only payment basis to a repayment mortgage; or

(f) any variation in the frequency with which the interest payable in respect of the Loan is charged

provided that with respect to limb (d) above:

(i) any variation in the rate of interest payable to another rate of interest permitted under, or otherwise contemplated by, the relevant Mortgage Terms (including to a reversionary rate of the Seller) shall not be considered a Product Switch; and

(ii) any variation in the rate of interest payable to another rate of interest not permitted or otherwise contemplated by the relevant Mortgage Terms shall be considered a Product Switch

Programme £5 billion global covered bond programme established by the Issuer on the Programme Date

Programme Agreement 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

Programme Conditions The Conditions set out under the heading *Terms and Conditions of the Covered Bonds* and as set out in Schedule 1 to the Trust Deed

Programme Date 24 February 2017

Programme Resolution The meaning given to it in Condition 14 (*Meetings of Covered Bondholders, Modification and Waiver*) of the Programme Conditions

Properties in Possession Cover The properties in possession cover written by HDI Gerling 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 properties in possession policy or policies as may be issued from time to time in favour of the Seller

Property (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 **Properties** means all of them

Prospectus The meaning given on page 4 of this Prospectus

Prospectus Directive 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

Purchaser	Any third party or the Seller or, subject to the terms of the Mortgage Sale Agreement a New Seller to whom the LLP offers to sell Selected Loans
Put Notice	The meaning given in Condition 6.4 (*Redemption at the option of the Covered Bondholders (Investor Put)*) on page 130
Rate of Interest	The meaning given to it in the applicable Final Terms as further elaborated by Condition 4 (*Interest and other Calculations*) of the Programme Conditions
Rating Agency	Moody's and/or any other rating agency appointed by the Issuer as such in respect of the Programme
Rating Agency Confirmation	A confirmation in writing by the Rating Agency 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
RCB Regulations	Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended
RCB Sourcebook	Regulated Covered Bond Sourcebook, published on 6 March 2008, as amended, revised or supplemented from time to time
Reasonable, Prudent Mortgage Lender	A reasonably prudent residential mortgage lender lending to borrowers in England, Wales and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital
Receipt	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 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*) of the Terms and Conditions
Receiptholders	The holders of the Receipts
Receipts	The meaning given on page 110 of this Prospectus
Receiver	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
Record Date	The meaning given in Condition 5.4 (*Payments in respect of Registered Covered Bonds*) of the Programme Conditions
Redeemed Covered Bonds	The meaning given in Condition 6.3 (*Redemption at the option of the Issuer (Issuer Call)*) of the Programme Conditions
Reference Banks	In the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market selected by the Cash Manager
Reference Price	In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms

Reference Rate	In respect of Floating Rate Covered Bonds, EURIBOR or LIBOR in respect of the Specified Currency in each case for the relevant period, as specified in the applicable Final Terms
Register	The register of holders of the Registered Covered Bonds maintained by the Registrar
Registered Covered Bond	A Covered Bond in registered form
Registered Definitive Covered Bond	Each other Registered Covered Bond in definitive form issued or, as the context may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer, the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being substantially in the form set out in Part 8 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer and having the Terms and Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Programme Conditions (if applicable) by reference (where applicable to the Trust Deed) and having the relevant information supplementing, replacing or modifying the Programme Conditions attached thereto and having a form of transfer endorsed thereon
Registered Definitive Covered Bonds	The meaning given on page 109 of this Prospectus
Registered Global Covered Bonds	Global Covered Bonds in registered form substantially in the form set out in the Trust Deed
Registers of Scotland	The Land Register of Scotland and the General Register of Sasines
Registrar	Citibank, N.A., London Branch, in its capacity as registrar (and any successor registrar appointed in accordance with the Agency Agreement)
Regulated Covered Bonds	Covered Bonds that have been admitted to the register of regulated covered bonds maintained by the Authorities pursuant to the RCB Regulations
regulated market of the London Stock Exchange	The meaning given on page 1 of this Prospectus
Regulated Mortgage Contract	The meaning given on page 77 of this Prospectus
Regulation No. 11971	The meaning given on page 248 of this Prospectus
Regulation S	Regulation S under the Securities Act
Regulation S Covered Bond	A Covered Bond represented by a Registered Global Covered Bond or a Registered Definitive Covered Bond as the context may require
Related Security	In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the LLP pursuant to the Mortgage Sale Agreement (but excluding, for avoidance

	of doubt, the Properties in Possession Cover in respect of which the LLP and the Security Trustee have received Insurance Acknowledgements)
Relevant Date	The meaning given in Condition 7 (*Taxation*) of the Programme Conditions
relevant Dealer	The meaning given on page 1 of this Prospectus
Relevant Implementation Date	The meaning given on page 246 of this Prospectus
Relevant LLP Payment Period	The meaning given on page 182 of this Prospectus
Relevant Member State	The meaning given on page 5 of this Prospectus
Relevant Screen Page	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms
relevant Series of Covered Bonds	The meaning given on page 63 of this Prospectus
relevant Talon	The meaning given on page 139 of this Prospectus
Representations and Warranties	The representations and warranties set out in the Mortgage Sale Agreement
Required Current Balance Amount	The meaning given on page 193 of this Prospectus
Required Redemption Amount	The meaning given on page 194 of this Prospectus
Reserve Fund	The reserve fund that the LLP will be required to establish on the Transaction 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
Reserve Fund Required Amount	(a) If the Issuer's short term Counterparty Risk Assessment of the Issuer by Moody's is at least "P-1(cr)", nil or such other amount as the Cash Manager may, in its absolute discretion, deem appropriate and as TSB Bank plc and/or the Cash Manager shall direct the LLP from time to time; or (b) if the Issuer's short term Counterparty Risk Assessment of the Issuer by Moody's is lower than "P-1(cr)", 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) to (c) of the Pre-Acceleration Revenue Priority of Payments plus £600,000 or such higher amount as the Cash Manager shall, in its absolute discretion, direct the LLP from time to time where, X = the number of months between the dates on which the LLP is required to make payments under the Covered Bond Swap entered into in relation to a Series of Covered Bonds, or if no Covered Bond Swap has been entered into in relation to a Series

	of Covered Bonds, the number of months between the Interest Payment Dates in relation to such Series of Covered Bonds.
Reserve Ledger	The ledger on the Transaction Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts and (if so directed by the Seller) Cash Capital Contributions to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed
Reset Date	The meaning given in the ISDA Definitions
Responsible Persons	The meaning given on page 4
Revenue Ledger	The ledger on the Transaction Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed
Revenue Receipts	Any payment received in respect of any Loan or in respect of interest amounts or any fees in relation to 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 recoveries in respect of interest and fees payable from the proceeds of sale of the relevant Property but only after the full aggregate principal amount outstanding has been recovered in respect of the relevant Loan if such recoveries are identifiable by the Seller as relating to a Loan in the Portfolio) 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
RWAs	The meaning given on page 8 of this Prospectus
Sabadell	The meaning given on page 10 of the Prospectus
Sabadell Group	The meaning given on page 10 of the Prospectus
SABIS	The meaning given on page 48 of the Prospectus
SABIS Services	The meaning given on page 48 of the Prospectus
Sale Date	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
Sale Proceeds	The cash proceeds realised from the sale of Selected Loans and their Related Security
Scheduled Interest	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 (*Interest and other Calculations*) of the Programme Conditions (but excluding any additional amounts relating to premiums, default interest or interest upon interest (**Excluded Scheduled Interest 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 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 (*Taxation*) of the Programme Conditions
Scheduled Payment Date	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
Scheduled Principal	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 (*Final redemption*) and Condition 6.7 (*Early Redemption Amounts*) of the Programme Conditions (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (**Excluded 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
Scottish Declaration of Trust	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
Scottish Loan	A Loan secured by a Scottish Mortgage
Scottish Mortgage	A Mortgage over a Scottish Property
Scottish Sub-Security	Each standard security granted by the LLP in favour of the Security Trustee pursuant to the Deed of Charge
Scottish Supplemental Charge	Each assignation in security governed by Scots law granted by the LLP in respect of its beneficial interest in a Scottish Declaration of Trust or Scottish Declarations of Trust in favour of the Security Trustee pursuant to the Deed of Charge
Screen Rate Determination	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) (*Interest on Floating Rate Covered Bonds*) of the Programme Conditions

Secured Creditors	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 Swap Collateral Account Bank, the Back-Up Servicer Facilitator, the Back-Up Cash Manager Facilitator, 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
Secured Obligations	Any and all moneys, obligations and liabilities, whether actual or contingent, from time to time due or owing by the LLP to the Secured Creditors under Covered Bonds and/or the Transaction Documents which, under the Deed of Charge, the LLP covenants and undertakes to pay and discharge and all claims, demands or damages for breach of any such covenant, and references to Secured Obligations includes references to any of them
Securities Act	U.S. Securities Act of 1933, as amended
Security	The meaning given on page 205 of this Prospectus
Security Interest	Any mortgage, sub mortgage, standard security, charge, sub charge, pledge, lien (other than a lien arising in the ordinary course of business or by operation of law), assignation in security or other encumbrance or security interest howsoever created or arising
Security Trustee	Citicorp Trustee Company 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
Selected Loan Offer Notice	A notice from the LLP served on the Seller (in accordance with the terms of the Mortgage Sale Agreement) offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount
Selected Loan Repurchase Notice	A notice from the Seller (as applicable, and in accordance with the terms of the Mortgage Sale Agreement) served on the LLP accepting an offer set out in a Selected Loan Offer Notice
Selected Loans	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
Selection Date	The meaning given in Condition 6.3 (*Redemption at the option of the Issuer (Issuer Call)*) of the Programme Conditions
Self-Certified Loan	A loan marketed and underwritten on the premise that the applicants and/or intermediaries representing them were made aware prior to the relevant originator's underwriting assessment that income could be self-certified
Seller	TSB Bank plc in its capacity as Seller under the Mortgage Sale Agreement, and the expression "Seller" shall be deemed to include where applicable TSB Bank plc as the originator of the Loans transferred to TSB Bank plc under the Lloyds 2013 Part VII Transfer, and **Sellers** means, together, the Sellers and New

	Sellers
Seller Power of Attorney	A power of attorney to be provided by the Seller substantially in the form set out in schedule 6 (*Power of Attorney in favour of the LLP and the Security Trustee*) to the Mortgage Sale Agreement
Separation Agreement	The meaning given on page 41 of this Prospectus
Series	(i) With respect to N Covered Bonds, each N Covered Bond made out in the name of a specific N Covered Bondholder; and (ii) in any other case, a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions **Covered Bonds of the relevant Series**, **Covered Bondholders of the relevant Series** and related expressions shall be construed accordingly
Series Reserved Matter	In relation to Covered Bonds of a Series: (a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof; (b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made; (c) alteration of the majority required to pass an Extraordinary Resolution; (d) any amendment to the Covered Bond Guarantee or the Deed of Charge; (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

Servicer	TSB Bank plc in its capacity as servicer under the Servicing Agreement (and any successor servicer)
Servicer Termination Event	The meaning given on page 183 of this Prospectus
Servicing Agreement	The servicing agreement entered into on the Programme Date between the LLP, the Servicer, the Back-Up Servicer Facilitator and the Security Trustee (as same may be amended, restated, supplemented, replaced or novated from time to time)
Share Trustee	Intertrust Corporate Services Limited (registered number 03920255) in its capacity as share trustee together with any successor share trustee appointed from time to time
SONIA	The meaning given on page 95 of this Prospectus
SONIA reference rate	The meaning given on page 117 of this Prospectus
$SONIA_{i\text{-}pLBD}$	The meaning given on page 117 of this Prospectus
Specified Currency	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
Specified Denomination	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms, save that the minimum denomination of each U.S. Dollar denominated Covered Bond will be issued in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof
Specified Interest Payment Date	In respect of Floating Rate Covered Bonds the meaning (if any) given in the applicable Final Terms
Specified Period	In respect of Floating Rate Covered Bonds the meaning (if any) given in the applicable Final Terms
Specified Time	11.00 am (London time, in the case of determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR)
Stabilising Manager(s)	The meaning given on page 5 of this Prospectus
Standard Documentation	The standard documentation, a list of which is set out 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
standard security	A standard security as defined in Part II of the Conveyancing and Feudal Reform (Scotland) Act 1970
Standard Variable Rate	The Seller's discretionary rate capped at 2 per cent. above the Bank of England Base Rate, but otherwise administered, at the discretion of the Seller, by reference to the general level of interest rates and competitive forces in the UK mortgage market and/or the LLP Discretionary Rates, as the context may require
Sterling Equivalent	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

Stock Exchange The London Stock Exchange or any other or further stock exchange(s) on which any Covered Bonds may from time to time be listed or admitted to trading

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, 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" by Moody's or its equivalent by three other internationally recognised rating agencies; and

(c) Sterling denominated government and public securities, as defined from time to time by the FCA, provided that such investments have a remaining period to maturity of one year or less and which are rated at least "P-1" by Moody's or its equivalent by three other internationally recognised rating agencies,

provided that such Substitution Assets comply with the requirements of Regulation 2(1A) of the RCB Regulations and provided that the following conditions are met: (x) the substitution asset in question can be transferred to and by the LLP without the relevant transfer or agreement to transfer giving rise to a liability to any stamp duty, stamp duty reserve tax or other similar documentary or registration tax for which the LLP is, or may become liable, to account and (y) payments can be made to the LLP under or in respect of the substitution asset in question without any liability on the part of the payer (or any person by or through whom such payment is made) to withhold or otherwise to account for any tax unless the amounts payable to the LLP are in accordance with the documentation governing the relevant payments increased so that the LLP receives the amount which the LLP would have received absent the obligations to withhold or otherwise account for the relevant tax and if these conditions are not met, the extent to which they are not met is taken into account by the Cash Manager in determining the purchase price of the Substitution Asset in question

sub-unit In accordance with Condition 4.5(i) (*Business Day, Business*

	Day Convention, Day Count Fractions and other adjustments) of the Programme Conditions, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01
Supplemental Liquidity Available Amount	The meaning given on page 194
Supplemental Liquidity Event	The meaning given on page 212
Supplemental Liquidity Reserve Amount	The meaning given on page 191
Supplemental Liquidity Reserve Ledger	The meaning given on page 192
Supplementary Prospectus	The meaning given on page 15 of this Prospectus
Swaps	Any Covered Bond Swap together with any Cover Pool Swap, and each a **Swap**
Swap Agreements	Any Covered Bond Swap Agreements together with the Cover Pool Swap Agreement, and each a **Swap Agreement**
Swap Collateral	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
Swap Collateral Account	Any accounts in the name of the LLP (including the Custody Swap Collateral Account) held with, as at the Programme Date, the Swap Collateral Account Bank (or any other Swap Collateral Account Bank from time to time) into which Swap Collateral in respect of the Cover Pool Swap or a Covered Bond Swap may be deposited in accordance with the terms of the relevant Swap Agreement
Swap Collateral Account Bank	As at the Programme Date, HSBC Bank plc as well as any other swap collateral account banks appointed from time to time
Swap Collateral Account Bank Required Ratings	At least (i) a long-term, unsecured, unsubordinated and unguaranteed deposit rating of "A3" or (ii) a short-term, unsecured, unsubordinated and unguaranteed deposit rating of "P-2" by Moody's (or such other ratings that may be agreed between the parties to each Swap Collateral Bank Account Agreement, provided that a Rating Agency Confirmation has been obtained)
Swap Collateral Available Amounts	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
Swap Collateral Bank Account Agreement	The swap collateral bank account agreements entered into between the LLP, each Swap Collateral Account Bank, the Cash Manager and the Security Trustee (as the same may be amended,

	restated, varied, supplemented, replaced and/or novated from time to time) (including, for the avoidance of doubt, in the case of HSBC Bank plc the Bank Account Agreement), and any other swap collateral bank account agreements entered into from time to time between the LLP, any additional Swap Collateral Account Bank, the Cash Manager and the Security Trustee (in each case as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
Swap Collateral Excluded Amounts	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 relevant Swap Agreement and ultimately upon termination of the relevant Swap Agreement
Swap Provider Default	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 the relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event
Swap Provider Downgrade Event	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
Swap Providers	The Covered Bond Swap Providers and the Cover Pool Swap Provider, and each a **Swap Provider**
Swap Provider Tax Payment	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
Swaps	Any Covered Bond Swaps together with the Cover Pool Swap, and each a **Swap**
Talons	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 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*) of the Programme Conditions
TARGET2 System	In accordance with Condition 4.5(a)(ii) (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Programme Conditions, the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor system thereto
Tax Credit	The meaning given in the relevant Swap Agreement
Taxes	All present and future taxes, levies, imposts, duties, fees, deductions, withholdings or charges of any nature whatsoever

	and wheresoever imposed, levied, collected, withheld or assessed by or on behalf of any authority having power to tax, 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 Tax and Taxation shall be construed accordingly;
Temporary Global Covered Bond	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
Term Advance	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement
Terms and Conditions	The meaning given on page 101 of this Prospectus
Terms and Conditions or **Conditions**	Collectively, the terms and conditions of the Covered Bonds (as set out in Schedule 1 to the Trust Deed) as modified and/or supplemented by the Final Terms in relation to a particular Series of Covered Bonds, as the same may from time to time be modified in accordance with the Trust Deed and relevant terms and conditions in respect of N Covered Bonds
Third Party Amounts	Each of: (a) any fees received as a consequence of the early repayment of a Loan, and certain other fees charged by the Servicer to the Borrowers in respect of the servicing of the Loans; (b) payment of certain insurance premiums; (c) 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 related Borrower's account; or (d) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower of the Seller; which amounts shall be paid on receipt by the LLP to the Seller from moneys transferred to the Transaction Account or, at the direction of the Seller, be deemed to constitute a Cash Capital Contribution made by the Seller to the LLP
Title Deeds	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
Tracker Loan	A Loan subject to a variable interest rate linked to the Bank of England Base Rate plus or minus a margin, either for an initial fixed period or for the life of the Loan
Tranche	An issue of Covered Bonds (other than N Covered Bonds) which are identical in all respects (including as to listing and admission to trading)
Transaction Account	The account in the name of the LLP held with HSBC 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
Transaction Documents	(a) Mortgage Sale Agreement (b) each Scottish Declaration of Trust (c) Servicing Agreement (d) Asset Monitor Agreement (e) Intercompany Loan Agreement (f) LLP Deed (g) Cash Management Agreement (h) Cover Pool Swap Agreement (i) each Covered Bond Swap Agreement (j) Bank Account Agreement (k) Swap Collateral Bank Account Agreement (l) Corporate Services Agreement (m) 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) (n) Trust Deed (o) Agency Agreement (p) Programme Agreement (q) the Final Terms as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement (r) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement) (s) Master Definitions and Construction Agreement (t) 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
Transfer Agent	In relation to all or any Series of Registered Covered Bonds,

	Citibank, N.A., London Branch (or, in the case of N Covered Bonds, the Registrar), in its capacity as transfer agent or, if applicable, any successor transfer agent in relation to all or any Series of Registered Covered Bonds
Transfer Agents	The meaning given on page 109 of this Prospectus
Trust Deed	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)
Treaty	The meaning given on page 128 of this Prospectus
TSB Bank	TSB Bank plc
TSB Banking Group	TSB Banking Group plc, registered in England (no. 08871766)
TSB Discretionary Rates	The rates set by the Seller in relation to the applicable Discretionary Rate Loans beneficially owned by the Seller on the Seller's residential mortgage book
TSB Franchise	The meaning given on page 34 of this Prospectus
UCITS Directive	The meaning given on page 89 of this Prospectus
UK	The meaning given on page 1 of this Prospectus
UK Listing Authority	The FCA in its capacity as competent authority under the FSMA
UKAR	UK Asset Resolution Limited
Underpayment	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
Unfair Practices Directive	Directive 2005/29/EC of 11 May 2005 on unfair business-to-consumer commercial practices and amending Council Directive 84/450/ECC and others
UTCCR	The Unfair Terms in Consumer Contracts Regulations 1994 (SI 1994/3159) and the 1999 Regulations
Valuation Report	The valuation report or reports for mortgage purposes 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)
Valuer	An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers
Variable Rate Loan	A Loan which is subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage

	Conditions in accordance with the relevant Discretionary Rate (and shall, for the avoidance of doubt, exclude Fixed Rate Loans and Tracker Loans)
VAT	Value Added Tax
Yield Shortfall Test	The meaning given on page 183 of this Prospectus
Whistletree Portfolio	The meaning given on page 34 of this Prospectus
Zero Coupon Covered Bonds	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest

INDEX OF DEFINED TERMS

$ 11, 254
£ 11, 254
¥ 11, 254
€ 254
1999 Regulations 254
2010 PD Amending Directive 247
2013 Loan Conditions 230
2016 Act 159
2016 Act Regulations 159
30/360 122
30E/360 122
30E/360(ISDA) 123
360/360 122
Account Bank 254
Account Bank Required Ratings 254
Accrual Period 121
Accrued Interest 254
Act 242
Actual/360 122
Actual/365 (Fixed) 122
Actual/365 (Sterling) 122
Actual/Actual 122
Actual/Actual (ICMA 121
Actual/Actual (ISDA) 122
Additional Business Centre 255
adjusted 124
Adjusted Aggregate Loan Amount 188
Adjusted Current Balance 188
Adjusted Required Redemption Amount 195
Administration Fee 183
Advance Date 255
Agency Agreement 109, 245, 255
Agents 255
Alternative Base Rate 148, 255
AMF 248, 255
Amortisation Test 255
Amortisation Test Aggregate Loan Amount 192, 255
Amortisation Test Current Balance 192, 255
Amortised Face Amount 131, 255
applicable Final Terms 109, 255
Arranger 255
Arrears Adjusted Current Balance 189
Asset Coverage and Investor Report 255
Asset Coverage Test Breach Notice 256
Asset Monitor 256
Asset Monitor Agreement 256
Asset Monitor Report 256
Asset Percentage 191, 256
Asset Pool 256
Authorised Investments 256
Authorities 256
Available Principal Receipts 257
Available Revenue Receipts 257
Back-Up Cash Manager 59, 258
Back-Up Cash Manager Event 199
Back-Up Cash Manager Facilitator 258
Back-Up Servicer 58, 184, 258
Back-Up Servicer Event 184
Back-Up Servicer Facilitator 258
Bank Account 204
Bank Account Agreement 259
Bank Accounts 204
Bank Rate 118, 259
Banking Act 43, 259
Banking Consolidation Directive 161
Banking Reform Act 46
Base Rate Modification 148, 259
Base Rate Modification Certificate 148, 259
Basel III 42, 92, 259
BCBS 92, 259
Bearer Covered Bond 110
Bearer Covered Bonds 259
Bearer Definitive Covered Bond 259
Bearer Definitive Covered Bonds 109
Bearer Global Covered Bond 97
Bearer Global Covered Bonds 97, 259
Belmont decision 91
Benchmark Regulation 93
Benchmarks Regulation 3
Bond Basis 122
Bond Trustee 109, 259
Borrower 260
Broken Amount 260
BRRD 42
Business Day 120
Business Day Convention 121, 260
c 11
Calculation Agent 115, 260
Calculation Agent(s) 109
Calculation Amount 128, 260
Calculation Date 260
Calculation Period 260
Capital Account Ledger 260
Capital Contribution 260
Capital Contribution in Kind 260
Capital Distribution 260
Capital Requirements Directive 161, 261
Capital Requirements Regulation 37, 261
Cash Capital Contribution 261

Cash Management Agreement.....261
Cash Manager 261
Cash Manager Termination Event 199
CBTL 81
CCA 56, 261
CCA 2006 261
cent.....11
Certificate of Title.....261
CET1.....37
Charged Property 205
Clearing Obligation.....95
Clearing Systems 261
Clearstream, Luxembourg.....97, 111, 261
CMA 45, 85, 261
CML.....261
Code 124
Collateral Obligation.....95
Collateralised GIC 261
Collateralised GIC Account.....261
Collateralised GIC Provider.....261
Collateralised Guaranteed Investment Contract 261
Collection Account 261
Collection Account Bank.....261
Commission's proposal 64
Common Depositary 97, 262
Common Safekeeper.....97, 262
Companies Act.....262
Compensation Sum 81
Compounded Daily SONIA.....116, 262
CONC 262
Conditions.....296
Conduct Indemnity.....41
Consumer Credit Directive 262
Corporate Services Agreement 262
Corporate Services Provider 204, 262
Counterparty Risk Assessment 262
Coupon.....262
Couponholders.....110, 263
Coupons 110
Cover Pool Swap.....264
Cover Pool Swap Agreement.....264
Cover Pool Swap Early Termination Event 200, 264
Cover Pool Swap Provider.....264
Covered Bond 263
Covered Bond Guarantee.....113, 263
Covered Bond Swap 263
Covered Bond Swap Agreement.....202, 263
Covered Bond Swap Early Termination Event 203, 263
Covered Bond Swap Provider.....263
Covered Bond Swap Rate 263
Covered Bondholder 111, 264
Covered Bondholders.....109, 264
Covered Bondholders of the relevant Series 291
Covered Bonds 1, 109
Covered Bonds of the relevant Series.....291
CPUTR 85
CRA 265
CRA Regulation 3, 29, 65
CRD II 42
CRD III 42
CRD IV 42
Current Balance 265
current balance determination date 265
Custodian 240, 265
Custody Swap Collateral Account.....265
Customer Files.....265
d 117
Day Count Fraction.....121, 265
Dealer.....1, 26, 265
Dealers 1, 26, 265
Deed of Charge 110, 266
Defaulted Loan 266
Deferred Consideration.....266
Definitive Covered Bond.....266
Definitive Covered Bonds 109
Deposit Non-Reserved Amounts 191
Deposit Set-off Balance.....190
Designated Account.....126
Designated Bank.....126
Designated Maturity 115, 266
Designated Member.....186, 266
Designated Members 186
Designated Mortgages Amount 191
Determination Date.....266
Determination Period.....123
DGSD 46
Directors 266
Discretionary Rate 266
Discretionary Rate Loans 230, 266
Distribution Compliance Period 266
distributor.....7, 101
d_o.....117
DPA 266
Due for Payment.....266
Due for Payment Date 267
Earliest Maturing Covered Bonds.....267
Early Redemption Amount.....268
Early Repayment Charge.....231
Early Repayment Charges 268
EBA 42
ECL.....36
EEA 7, 10, 101
Eligibility Criteria.....173
eligible property.....176
EMIR 69, 143
EMMI 93

English Loan 268
Equity Release Loan 268
ESMA 65
EU 8, 10, 268
EURIBOR 93, 268
euro 128, 254
Euro 254
euro cent 11
Eurobond Basis 122
Euroclear 97, 111, 268
European Market Infrastructures Regulation 69, 143
Excess Proceeds 135, 268
Exchange Date 97, 268
Exchange Event 98, 99, 268
Excluded Scheduled Interest Amounts 268, 288
Excluded Scheduled Principal Amounts 268, 289
Extended Covered Bonds 223
Extended Due for Payment Date 268
Extension Determination Date 269
Extraordinary Resolution 269
FATCA 269
FCA 1, 10, 269
FCA Handbook 160
FCs 95
FIEA 247
Final Maturity Date 269
Final Redemption Amount 269
Final Terms 2, 269
Financial Conduct Authority 269
Financial Services Act 248, 269
Financial Services Authority 270
financial statements 11
First Sale Date 269
Fixed Coupon Amount 269
Fixed Rate Covered Bonds 269
Fixed Rate Loans 230, 269
Fixed/Floating Rate Covered Bonds 269
Flexible Draw Capacity 191
Flexible Loan 269
Flexible Loan Drawing 269
Floating Rate 115
Floating Rate Convention 121
Floating Rate Covered Bonds 270
Floating Rate Option 115, 270
Following Business Day Convention 121
foreign passthru payments 242
FOS 33, 270
FPC 159
FSA 10, 75, 159, 270
FSA 2012 160
FSB 163
FSCS 46, 270
FSCS Limit 190
FSMA 1, 10, 270
FTT 64
Further Advance 270
GBP 11
General Prohibition 160
Global Covered Bond 109, 270
Group 8, 10, 270
Guarantee Priority of Payments 220
Guaranteed Amounts 270
Guaranteed Amounts Due Date 169, 271
H.M. Treasury 271
Hard Bullet Covered Bonds 27, 209, 271
HMRC 271
Holder 264
holder of Covered Bonds 111, 264
holding company 271
Holdings 22, 271
Homeowner Variable Rate 271
House Price Index 271
House Price Indexed Valuation 271
i 117
IASB 36
ICSDs 205
IFRS 11, 36
IGAs 243
in Arrears 255
Index 7
Index Owner 7
Indexed Valuation 271
Initial Advance 272
Initial Portfolio 228
Insolvency Act 272
Insolvency Event 272
Instalment Amounts 272
Instalment Covered Bonds 273
Instalment Dates 273
Insurance Acknowledgement 273
Insurance Claim Proceeds 273
Insurance Mediation Directive 246
Insurance Policies 273
Insurance Policy 273
Intercompany Loan 273
Intercompany Loan Agreement 273
Intercompany Loan Ledger 273
Interest Amount 119, 273
Interest Commencement Date 273
Interest Determination Date 273
Interest Payment Date 114, 273
Interest Period 123, 273
Interest Rate Shortfall 182
Interest Rate Shortfall Test 182
Interest-Only Loan 229
Investor Put 130
Investor's Currency 93
ISDA 274

ISDA Definitions 115
ISDA Master Agreement 274
ISDA Rate 115, 274
Issue Date 109, 274
Issue Price 274
Issuer 1, 10, 23, 109, 274
Issuer Acceleration Notice 134
Issuer Event of Default 134
Issuer Subordinated Loan 186
Issuer-ICSDs Agreement 205
Issuer's 2016 Annual Report and Accounts ..14
Issuer's 2017 Annual Report and Accounts ..14
Italian Banking Act 248, 274
Japanese ¥ 11, 254
Japanese yen 11, 254
JPY 254
Latest Valuation 274
LBD 117
Lead Manager 274
Ledger 274
Lending Criteria 233, 274
LIBOR 93, 274
Liquidation Member 166, 274
Lloyds 2013 Part VII Transfer 53, 275
Lloyds Bank 34
Lloyds Banking Group 275
LLP 1, 109, 166, 275
LLP Acceleration Notice 136, 275
LLP Accounts 275
LLP Deed 186, 275
LLP Event of Default 136
LLP Management Board 275
LLP Payment Date 275
LLP Payment Period 275
LLPA 60, 239
LLP's 2016 Annual Financial Statements 14
LLP's 2017 Annual Financial Statements 14
Loan 275
Loan Conditions 230
Loan Repurchase Notice 276
Loan-to-Value Ratio 276
London Banking Day 117
London Business Day 276
London Stock Exchange 1, 276
Long Maturity Covered Bond 125, 276
Margin 276
Master Definitions and Construction Agreement 110, 276
Maximum Rate of Interest 276
Maximum Redemption Amount 276
MCCB 277
MCD 78
MCD Order 78
MCOB 77, 162, 277
Member 186, 277
Member State 10, 78
Members 186
MH/CP Documentation 277
MiFID II 1, 101
MiFID Product Governance Rules 7
Minimum Rate of Interest 277
Minimum Redemption Amount 277
MMR 77
Modified Following Business Day Convention 121
Monthly Payment 277
Monthly Payment Day 277
Moody's 1, 277
Mortgage 277
Mortgage Account 277
Mortgage Code 277
Mortgage Conditions 277
Mortgage Regulation Date 75
Mortgage Sale Agreement 277
Mortgage Terms 278
MREL 42
N Covered Bond 278
N Covered Bond Assignment Agreement ..278
N Covered Bond Conditions 278
N Covered Bond Confirmation 278
N Covered Bond Confirmation Terms 278
N Covered Bondholder 278
Negative Carry Factor 191
New Company 153
New Entity 154
New Global Covered Bond 278
New Loan 278
New Loan Type 279
New Member 279
New Mortgage Sale Agreement 279
New Portfolio 228
New Portfolio Notice 279
New Rating Criteria 144
New Regime 162
New Seller 279
New Seller Loans 279
NFC+s 95
NFC-s 95
NGCB 97, 278
n_i 117
not adjusted 124
Notice to Pay 135
Observation Period 117
Offer Conditions 279
offer of Covered Bonds to the public 247
Official List 1, 279
OFT 279
Ombudsman 279
Optional Redemption Amount 279
Optional Redemption Date 279

Original Due for Payment Date 266
OSA 280
Outstanding.....280
Overpayments 231
p 11
part Coupon sheet 139
Partial Portfolio.....195, 281
Paying Agents.....109, 281
Payment Day.....127
Payment Holiday.....282
Payment Holidays 232
PCA.....34
PCBS.....163
pence 11
Perfection Event.....174
Permanent Global Covered Bond 97
Portfolio 228, 282
Portfolio Manager 196
Post-Enforcement Priority of Payments.....224
Postponed Deferred Consideration 282
Potential Issuer Event of Default 147
Potential LLP Event of Default.....147
PRA.....10, 282
PRA Rulebook 160
PRC.....159
Pre-Acceleration Principal Priority of Payments.....218
Pre-Acceleration Priority of Payments 282
Pre-Acceleration Revenue Priority of Payments.....214
Preceding Business Day Convention 121
Pre-Maturity Liquidity Ledger.....282
Pre-Maturity Liquidity Test 209
Pre-Maturity Liquidity Test Breach Period 283
Pre-Maturity Liquidity Test Date.....283
PRIIPs Regulation.....7, 101
Principal Amount Outstanding.....123, 283
Principal Ledger.....283
Principal Paying Agent 109, 283
Principal Receipts 283
Priorities of Payments 283
Product Period.....230
Product Switch.....283
Programme.....1, 284
Programme Agreement 244, 284
Programme Conditions 284
Programme Date 284
Programme Resolution.....142
Properties 284
Properties in Possession Cover 284
Property.....284
Prospectus 4, 101
Prospectus Directive 1, 101, 247, 284
Prudential Regulatory Authority.....282
Purchaser.....285
Put Notice 131
RAO.....76
Rate of Interest.....128, 285
Rating Agency 285
Rating Agency Confirmation.....66, 152, 285
RCB Regulations 237, 285
RCB Sourcebook 88, 135, 237, 285
Reasonable, Prudent Mortgage Lender.....285
Receipt.....285
Receiptholders 110, 285
Receipts 110
Receiver.....285
Record Date 126
Redeemed Covered Bonds.....130
Reference Banks 285
Reference Price.....285
Reference Rate.....148, 286
Register.....126, 286
Registered Covered Bond 110, 286
Registered Definitive Covered Bond.....286
Registered Definitive Covered Bonds 109
Registered Global Covered Bond 98
Registered Global Covered Bonds.....286
Registers of Scotland 286
Registrar.....109, 286
regulated market of the London Stock Exchange 1
Regulated Mortgage Contract.....76
Regulation No. 11971.....248
Regulation S 2, 286
Regulation S Covered Bond 286
Regulation S Covered Bonds.....246
Related Security.....286
Relevant Date 133
relevant Dealer.....1
Relevant Financial Centre time 115
Relevant Implementation Date 246
Relevant LLP Payment Period.....182
Relevant Loans 173
Relevant Member State.....5, 246
Relevant Regulator 159
Relevant Regulators.....159
Relevant Screen Page 287
relevant Series of Covered Bonds.....63
relevant Talon 139
Remuneration Code 163
Renting Homes Act.....85
Repayment Loan.....229
Repossession Act.....86
Representations and Warranties 287
Required Current Balance Amount.....193, 287
Required Redemption Amount 194
Reserve Fund 287
Reserve Fund Required Amount 287
Reserve Ledger.....288

Reset Date 115, 288
Responsible Persons 4, 288
Revenue Ledger 288
Revenue Receipts 288
RWAs 8, 288
Sabadell 10, 288
Sabadell Group 10, 288
SABIS 288
SABIS Services 288
Sale Date 288
Sale Proceeds 288
Scheduled Interest 288
Scheduled Payment Date 289
Scheduled Principal 289
Scottish Declaration of Trust 289
Scottish Loan 289
Scottish Mortgage 289
Scottish Sub-Security 289
Scottish Supplemental Charge 289
Screen Rate Determination 289
Secured Creditors 290
Secured Obligations 290
Securities Act 2, 245, 290
Security 205
Security Interest 290
Security Trustee 109, 290
Selected Loan Offer Notice 290
Selected Loan Repurchase Notice 290
Selected Loans 290
Selection Date 130
Self-Certified Loan 290
Seller 290
Seller Power of Attorney 291
Sellers 290
Separation Agreement 41
Series 110, 291
Series Reserved Matter 291
Servicer 292
Servicer Termination Event 183
Servicing Agreement 292
Share Trustee 292
Solvency II 92
SONIA 95, 117, 292
SONIA reference rate 117, 292
$SONIA_{i\text{-}pLBD}$ 117, 292
Specified Currency 292
Specified Denomination 292
Specified Interest Payment Date 292
Specified Period 292
Specified Time 292
Stabilising Manager(s) 5
Standard Documentation 292
standard security 292
Standard Variable Rate 292
sterling 11
Sterling 254
Sterling Equivalent 292
Sterling LIBOR 293
Stock Exchange 147, 293
Subscription Agreement 134
Subsidiary 293
Substitution Assets 293
sub-unit 124, 293
Supplemental Liquidity Available Amount 194
Supplemental Liquidity Reserve Amount ... 191
Supplemental Liquidity Reserve Ledger 192
Supplementary Prospectus 15
Swap 294, 295
Swap Agreement 294
Swap Agreements 294
Swap Collateral 294
Swap Collateral Account 294
Swap Collateral Account Bank 294
Swap Collateral Account Bank Required Ratings 294
Swap Collateral Available Amounts 294
Swap Collateral Bank Account Agreement 294
Swap Collateral Excluded Amounts 295
Swap Provider 295
Swap Provider Default 295
Swap Provider Downgrade Event 295
Swap Provider Tax Payment 295
Swap Providers 295
Swaps 294, 295
Systems and Procedures Indemnity 41
Talons 110, 295
TARGET2 System 121, 295
Tax Credit 295
Taxes 295
Temporary Global Covered Bond 97, 296
Term Advance 296
Terms and Conditions 101, 109, 296
Third Party Amounts 296
Title Deeds 296
Tracker Loan 297
Tracker Rate Loans 230
Tranche 110, 297
Transaction Account 297
Transaction Documents 297
Transfer Agent 297
Transfer Agents 109
Treaty 128
Trust Deed 109, 298
TSB 156
TSB Bank 10, 298
TSB Banking Group 10, 298
TSB Discretionary Rates 298
TSB Franchise 34, 298
U.S. 10
U.S. Dollars 11, 254

U.S.$ 11, 254
UCITS Directive 89, 237
UK 1, 10
UK Listing Authority 1, 298
UKAR 298
Underpayment 298
Underpayments 231
Unfair Practices Directive 85, 298
US Dollars 254
UTCCR 82, 298
Valuation Report 298
Valuer 298
Variable Rate Loan 298
VAT 299
Whistletree Portfolio 34, 299
Yen 254
Yield Shortfall Test 183
Zero Coupon Covered Bonds 299

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