



**TSB BANK PLC**

*(incorporated with limited liability in Scotland with registered number SC095237)  
(LEI Number 549300XP222MV7P3CC54)*

**£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 has been approved as a base prospectus by the Financial Conduct Authority (the **FCA**), as competent authority under Regulation (EU) 2017/1129 as it forms part of the UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**) (the **UK Prospectus Regulation**). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Approval by the FCA should not be considered as an endorsement of the Issuer and/or the LLP or of the quality of the Covered Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

Application has been made to the FCA for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the FCA (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 main market of the London Stock Exchange which is a "UK regulated market" for the purposes of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of the UK domestic law by virtue of the EUWA (**UK MiFIR**) (the **UK regulated market of the London Stock Exchange**).

This Prospectus is valid for 12 months from its date in relation to Covered Bonds which are to be admitted to trading on a regulated market in the United Kingdom (the **UK**). The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.

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 UK and is registered under Regulation (EC) No. 1060/2009 as it forms part of UK domestic law by virtue of the EUWA (the **UK CRA Regulation**). Moody's is included in the list of credit rating agencies published by the FCA on its website in accordance with the UK CRA Regulation. Moody's is not established in the EEA and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings issued by Moody's have been endorsed by Moody's Deutschland GmbH in accordance with the CRA Regulation. Moody's Deutschland GmbH is established in the EEA and registered under the CRA Regulation. As such, Moody's Deutschland GmbH is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA 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 UK 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 FCA has neither approved nor reviewed information contained in this Prospectus in connection with any N Covered Bonds and as such N Covered Bonds shall not form part of this Prospectus.

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 conditions.**

**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), 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**), or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States or other relevant jurisdiction and the Covered Bonds may not be offered, sold or delivered, directly or indirectly within the U.S. or to, or for the account or 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 any applicable state or local securities law in accordance with all applicable state or local securities laws. Covered Bonds that are in bearer form are subject to U.S. tax law requirements. Subject to certain exceptions, these Covered Bonds may not be offered, sold or delivered within the United States or to U.S. persons (as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder). 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. 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 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). Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation.

Amounts payable on Floating Rate Covered Bonds may be calculated by reference to either EURIBOR or SONIA as specified in the relevant Final Terms. As at the date of this base prospectus, the administrators of EURIBOR and SONIA are not included in FCA's register of administrators under Article 36 of Regulation (EU) No 2016/1011 as it forms part of UK domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**).

The transitional provisions in Article 51 of the UK Benchmarks Regulation apply, such that European Money Markets Institute as the administrator of EURIBOR is not currently required to obtain authorisation/registration and SONIA does not fall within the scope of the EU Benchmarks Regulation by virtue of Article 2 of that Regulation.

**Arranger for the Programme**  
**Lloyds Bank Corporate Markets**

**Dealers**  
**Banco de Sabadell, S.A.**  
**Lloyds Bank Corporate Markets**

The date of this Prospectus is 29 April 2021

This Prospectus has been approved by the FCA as a base prospectus for the purposes of Article 8 of the UK Prospectus Regulation 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 of each of the Responsible Persons the information contained in this Prospectus is in accordance with the facts and the Prospectus does not omit anything likely to affect its import. 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 UK 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](http://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.

Other than in relation to the documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference*"), the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the FCA.

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 UK 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 UK, the EEA (including The Netherlands, the Republic of Italy, Germany and the Republic of France) and Japan: see "*Subscription and Sale and Transfer and Selling Restrictions*".

In this Prospectus, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

This Prospectus has been prepared on the basis that any offer of Covered Bonds in the UK and any Member State of the EEA will be made pursuant to an exemption under the FSMA and Regulation (EU) 2017/1129 (the **Prospectus Regulation**), respectively, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly, any person making or intending to make an offer of Covered Bonds in the UK or a Member State of the EEA, 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 section 85 of the FSMA or Article 3 of the Prospectus Regulation (as applicable) or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation or Article 23 of the Prospectus Regulation (as applicable), in each case, in relation to such offer.

Neither the Issuer nor the relevant Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in 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 and/or other 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, (3) Covered Bonds can be used as repo-eligible securities, (4) other restrictions apply to its purchase or pledge of any Covered Bonds and (5) the Covered Bonds may be treated as liquid assets. Financial institutions should consult their legal and/or other 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 licence. 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 Directive 2014/65/EU (as amended or superseded **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 as amended or superseded (the **MiFID Product Governance Rules**), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise none of the Arranger, the Dealers and any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

#### UK MiFIR Product Governance/Target Market

The Final Terms in respect of any Covered Bonds will include a legend entitled "UK MiFIR 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) 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 UK MiFIR Product Governance Rules, any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise none of the Arranger, the Dealers and any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR 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 (EU) 2016/97 (as amended or superseded) (the **Insurance Distribution Directive**), 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 as amended or superseded (the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making the Covered Bonds available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making the Covered Bonds available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

#### **Prohibition of sales to UK 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 United Kingdom (**UK**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No. 600/2014 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making the Covered Bonds available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK 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; any impact of the transition from interbank offered rates (IBORs) to alternative reference rates; 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 and other benefits including but without limitation as a result of any acquisitions, disposals and other strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (the EU) and as a result of such exit and the potential for one or more countries to exit the EU or 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; risks related to climate change; changes in laws, regulations, accounting standards or taxation, including as a result of a further Scottish independence referendum 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 EU, the U.S. or elsewhere including the implementation of key legislation and regulation together with any resulting impact on the future structure of the Group; the transition from interbank offered rates to alternative reference rates; 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; and 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 the European Economic Area;

**EU** is to the 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 EU or the EEA (as applicable);

**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 2020 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 Accounting Standards issued by the International Accounting Standards Board in conformity with the requirements of the Companies Act 2006 (**IAS**). The financial statements of the Issuer for the year ending 31 December 2021 will be prepared in accordance with applicable law and the International Accounting Standards as adopted by the UK (**UK IAS**).

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; and references to **Japanese yen, Japanese ¥** or **¥** are to the lawful currency of Japan.

In this Prospectus, unless the contrary intention appears, a reference to a law or a provision of law is a reference to that law or provision as extended, amended or re-enacted.

## TABLE OF CONTENTS

Principal Characteristics of the Programme.....	14
Documents Incorporated by Reference.....	16
Structure Overview .....	18
Overview of the Programme .....	25
Risk Factors .....	33
Form of the Covered Bonds.....	102
Form of Final Terms .....	106
Terms and Conditions of the Covered Bonds .....	116
Use of Proceeds.....	163
TSB Bank plc.....	164
The LLP .....	174
Summary of the Principal Documents .....	176
Credit Structure.....	214
Cashflows.....	219
The Portfolio .....	234
Description of the UK Regulated Covered Bond Regime .....	243
Description of Limited Liability Partnerships .....	245
Book-Entry Clearance Systems .....	246
UK Mortgage Regulation.....	248
Taxation .....	263
Subscription and Sale and Transfer and Selling Restrictions .....	265
General Information.....	271
Glossary .....	274

## PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Series of Covered Bonds, the applicable Final Terms.

This Overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No. 2019/980 and Delegated Regulation (EU) No. 2019/980 as it forms part of UK domestic law by virtue of the EUWA.

Words and expressions defined in "Form of the Covered Bonds" and "Terms and Conditions of the Covered Bonds" shall have the same meanings in this Overview.

<b>Issuer:</b>	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.
<b>Guarantor:</b>	TSB Covered Bonds LLP
<b>Regulated Covered Bonds:</b>	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
<b>Nature of eligible property:</b>	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
<b>Location of eligible residential property underlying Loans:</b>	England, Wales or Scotland
<b>Maximum Current Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:</b>	75.0 per cent.
<b>Maximum Asset Percentage:</b>	94.0 per cent.
<b>Asset Coverage Test:</b>	Yes, see further " <i>Summary of the Principal Documents – LLP Deed – Asset Coverage Test</i> "
<b>Statutory minimum overcollateralisation:</b>	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
<b>Statutory interest cover test:</b>	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
<b>Amortisation Test:</b>	Yes, see further " <i>Summary of the Principal Documents – LLP Deed – Amortisation Test</i> "
<b>Reserve Fund:</b>	Yes, see further " <i>Credit Structure – Reserve Fund</i> "
<b>Extended Maturities:</b>	Available
<b>Hard Bullet Option:</b>	Available
<b>Asset Monitor:</b>	PricewaterhouseCoopers LLP
<b>Asset Segregation:</b>	Yes

***Namenschuldverschreibungen***  
**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 2020 including the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2020, together with the audit report thereon, as set out on pages 23 to 78 and 79 to 86, respectively (the **Issuer's 2020 Annual Report and Accounts**); and
- (ii) The Issuer's Annual Report and Accounts 2019 including the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2019, together with the audit report thereon, as set out on pages 18 to 73 and 74 to 80, respectively;

### **Other documents incorporated by reference:**

- (i) The Member's Report and audited Financial Statements of the LLP for the financial period ended 31 December 2020, together with the audit report thereon (the **LLP's 2020 Annual Financial Statements**);
- (ii) The Member's Report and audited Financial Statements of the LLP for the financial period ended 31 December 2019, together with the audit report thereon (the **LLP's 2019 Annual Financial Statements**);
- (iii) The terms and conditions of the Covered Bonds set out on pages 105 to 145 (inclusive) of the Prospectus dated 24 February 2017 and prepared by the Issuer and the Guarantor in connection with the Programme; and

The terms and conditions of the Covered Bonds set out on pages 109 to 154 (inclusive) of the Prospectus dated 1 November 2018 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 (which for the avoidance of doubt means any parts not listed in the cross-reference list above) 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.

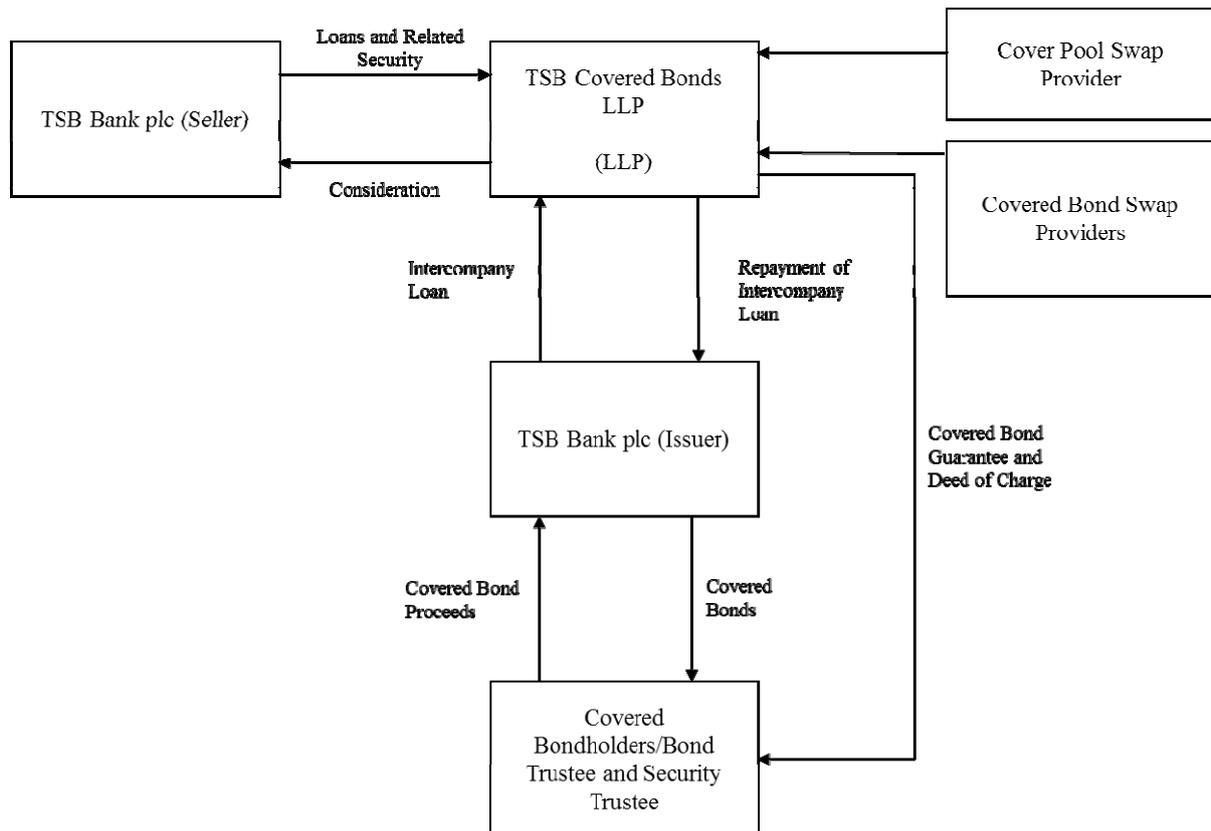
Copies of the documents incorporated by reference in this Prospectus will be available for viewing (i) at the registered office of the Issuer at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, (ii) via the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html) or (iii) on the website of the Issuer at [www.tsb.co.uk/investors/debt-investors](http://www.tsb.co.uk/investors/debt-investors). Copies will also be filed at the National Storage Mechanism ([www.Hemscott.com/nsm.do](http://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 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*" 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.

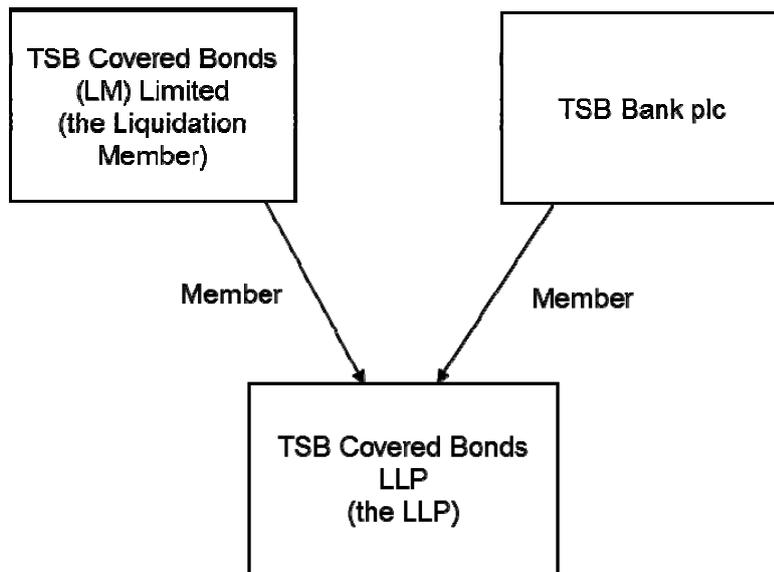
- *Amortisation Test:* Following the service of a Notice to Pay (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other 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.

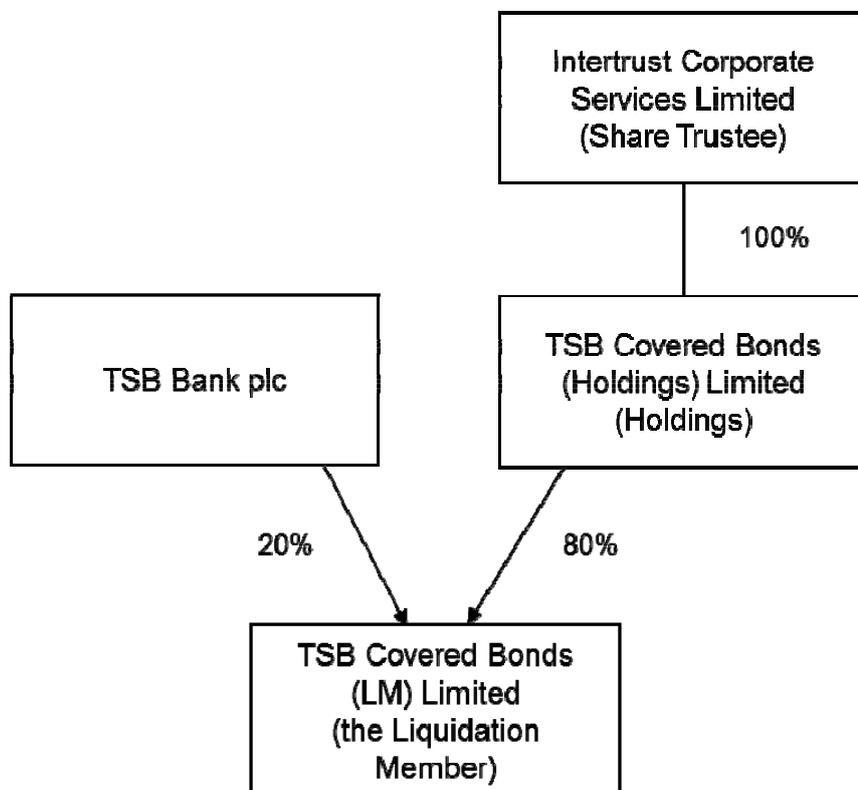
#### **Ownership Structure of TSB Covered Bonds LLP**

- 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 <b>Issuer</b> ) 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:	<p>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, <i>inter alia</i>, 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.</p> <p>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.</p> <p>For a more detailed description of the LLP, see "<i>The LLP</i>" below.</p>
LLP Legal Entity Identifier (LEI):	2138008QGA8JKVUBM807
Seller:	<p>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.</p> <p>For a more detailed description of the Seller, see "<i>TSB Bank plc</i>" below.</p>

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, <i>inter alia</i> , 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, <i>inter alia</i> , 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*".

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 SONIA 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 1 Bartholomew Lane, London EC2N 2AX 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 1 Bartholomew Lane, London EC2N 2AX 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 <b>Dealer</b> and together the <b>Dealers</b> ).
Certain restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. See " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " below.
Programme size:	Up to £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 " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " below.
Specified Currency:	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer, the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms).
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 " <i>Form of the Covered Bonds</i> ". 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: <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified</li> </ul>

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 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 by the Issuer 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 amounts in respect of 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 <i>pari passu</i> without any preference among themselves and (save for any obligations required to be preferred by law) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.
Covered Bond Guarantee:	Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that a Notice to Pay or an LLP Acceleration Notice has been served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.
Ratings:	<p>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.</p> <p>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 UK and registered under the UK CRA Regulation (and endorsed by a credit rating agency established in the EU and registered under the EU CRA) will be disclosed in the Final Terms. For more information see "<i>Risk Factors – Risks Relating to the Covered Bonds – Ratings of the Covered Bonds</i>" in this Prospectus.</p>
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 UK regulated market of the London Stock Exchange.
Clearing:	<p>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.</p> <p>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</p>

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 and Transfer 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 Netherlands, the Republic of Italy, Germany and the Republic of France), the UK 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.*

*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.*

### **1 RISK FACTORS RELATING TO THE ISSUER AND THE GROUP**

#### **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. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

In addition, UK and global economic conditions may be severely adversely affected by other factors, including (but not limited to) any natural disasters (including flooding) or leaving the EU (Brexit) or widespread health crises or the fear any of such crises at such time (such as COVID-19 or other epidemic infectious diseases). This in turn could affect the relevant Group's ability to fulfil its obligations under the Covered Bonds.

#### **1.2 *The Group faces risks arising from the impact of COVID-19***

The COVID-19 outbreak and the measures put in place by the UK government, and other governments around the world, to manage and control the health risks associated with the pandemic has caused, and continues to cause significant disruption to normal business and economic activity. This has had, and continues to have, a material impact on businesses and individuals in the UK and around the world and the economic environments in which they operate. Whilst the UK government has announced a roadmap to the end of restrictions in the

UK, this remains subject to several conditions and therefore the length of time that the health control measures, and associated restrictions, will remain in place remains unclear (within the UK and globally). There are a number of risk factors associated with the outbreak and the UK government's response to it (including, amongst others, conduct, regulatory, operational, credit, fraud, financial crime and financial risks). Each of those risks and the pandemic's significant impact on economies could have a material adverse impact on, amongst other things, the profitability, capital and liquidity of financial institutions such as the Group.

As the Group's customer base is predominantly based in the UK, it will be significantly exposed to the condition of the UK economy. The UK entered 2021 in a deep economic downturn and the depth and length of the downturn remains uncertain. The actions taken by the UK government and the Bank of England provide a view on the potential severity of downturn and post recovery environment, which from a commercial, regulatory and risk perspective could be significantly different to past crises and persist for a prolonged period. Concerns remain as to whether these policy tools will counter anticipated macro-economic risks arising from the pandemic.

In particular, the current and potential future impacts of the economic downturn include a decrease in UK house prices, increased levels of unemployment, increased individual and business insolvencies, a lower interest rate environment for a longer period of time (with the possibility of negative interest rates) and a change in consumers' disposable income (for further detail, see the risk factors entitled "*The Group faces risks related to volatility in UK house prices*", "*The Group faces risks associated with interest rate levels and volatility*" and "*The Group is exposed to risks relating to high levels of unemployment*"). Each of these factors could have a material impact on a customer's behaviour. As a result of the COVID-19 outbreak, the Group's customers may face difficulty in paying amounts due on their mortgages and unsecured lending products or reduce their level of spending as a result of illness or inability to work as a result of job loss or impact on income. This could lead to a decrease in transaction volumes (and associated income) and lower levels of lending together with increased defaults. Those outcomes and/or low (or negative) interest rates will negatively impact the net interest income of the Group. It is also possible that the easing of COVID-19 measures could lead to a surge in consumer activity, driving inflation and interest rates higher. This could then lead to higher mortgage or other debt repayments thereby increasing pressure on customers who remain in financial stress.

Schemes have been initiated by the UK government to provide financial support to parts of the economy and individuals most impacted by the COVID-19 outbreak. These include, amongst others, payment holidays in relation to mortgages and other consumer credit, a repossession moratorium, the Coronavirus Job Retention scheme (and subsequent replacement schemes), and lending schemes initiated to support business through the pandemic such as the Bounce Back Loan Scheme (the **BBLs**) and the Coronavirus Business Interruption Loan Scheme (the **CBILs**). Further schemes may be developed by the UK government to provide additional financial support to the economy and individuals even as the UK government moves to bring an end to restrictions on normal economic activity in the UK. The full impact of the pandemic on the Group's customers and therefore the impact on the Group remains unclear at this stage, but the credit risk is likely to increase in the near term. The further impact caused by any change or adaptation to or withdrawal of any support measures put in place through the UK government is also uncertain but could also increase complexity for the Group (for further detail, see the risk factor entitled "*The Group faces risks from any tightening of monetary policy in the UK*"). The Group participated in the CBILs and the BBLs and, although the loans made by the Group under those schemes are subject to certain guarantees by the UK government, there is a risk that the Group may be unable to successfully claim under the guarantee, if, for example, it is discovered that all terms and conditions under the guarantee scheme were not met by the Group at the time of origination of the lending. Any adverse changes in the credit risk of the Group's customers or

counterparties could lead to increased defaults, provisions and impairments over time which could have a material adverse impact on the Group's financial position.

If the ongoing economic consequences of the pandemic cause the wholesale funding markets to be disrupted, or investor appetite for holding securities in the financial sector or, more particularly, the Group decreases either due to the economic volatility caused by the pandemic or the Group's financial position, the Group may not be able to access capital (which may be required due to increasing impairments) or other funding at an acceptable cost or otherwise on acceptable terms. The economic impact of the pandemic may change customer behaviour. Whilst customer deposits have increased during the course of the pandemic, changes in the way customers use their deposits (particularly where such changes lead to a reduction in the deposits), an increase in payment holidays or rising defaults following the end of the pandemic could in turn result in liquidity stress and/or increased pressure on liquidity management. If the Group is unable to manage its capital or liquidity position, it would have a material adverse impact on the Group's business, financial condition and results of operations (for further detail see the risk factor entitled "*The TSB franchise business is subject to risks relating to the cost and availability of liquidity and funding*").

Many of the risks outlined above could negatively impact the Issuer's respective credit ratings (for further detail see the risk factor entitled "*The Group is exposed to the risk of a reduction in its credit rating*"). COVID-19 and the health control and support measures put in place by the UK government have the potential to increase the Group's exposure to conduct and compliance and operational risks (including cyber, fraud, operational resilience, people and third party resilience). A significant move to remote working, the implementation of new processes and increased demands for customer support could lead to errors or delays in decision making causing detriment to the customer (for further detail, see the risk factor entitled "*The Group faces risks associated with its operations' compliance with a wide range of laws and regulations*"). Remote working and changes in customer behaviour, including increased reliance on digital processes and transactions also exposes the Group to an increased risk of fraud and cyber-attack (for further detail, see the risk factor entitled "*The Group is exposed to operational risks related to systems and processes*" and "*The Group is exposed to risks relating to the management of data*").

The impact of COVID-19 (including many of the risks outlined above) could also impact the Group's third party suppliers which could consequently increase the risks faced by the Group in relation to those third party suppliers (for further detail, see the risk factor entitled "*The Group's reliance and service arrangements with third party suppliers and affiliates exposes the Group to a range of potential operational and regulatory risks*").

### 1.3 *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.

#### 1.4 *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 significant decline in house prices could have a material adverse effect on the Group's business and potentially on its ability to implement its strategy. 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.

#### 1.5 *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. Prior to the COVID-19 outbreak, unemployment in the UK had fallen steadily, and was no longer "high" by historical standards. However, post COVID-19 unemployment is exhibiting an upward trend and this adds to the risks faced by the Group from the labour market. During the COVID-19 pandemic, the UK government has provided support to the UK workforce including through the Coronavirus Job Retention Scheme and its replacement, the Job Support Scheme, and the Self-Employed Income Support Scheme. These schemes have provided unprecedented income support to certain employees and self-employed individuals. The UK government has announced that there will be a phased reduction in the percentage of the salary/grant paid by the UK government under these schemes until they cease in September 2021. There is a risk that the changes and/or termination of those schemes could lead unemployment to rise in the coming months.

Higher levels of unemployment have historically resulted, for example, in a decrease in new mortgage borrowing, reduced deposit growth 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 obligations under the Covered Bonds.

#### 1.6 *The Group is exposed to the risk of a reduction in its credit rating*

Credit ratings are an important reference for market participants in evaluating the Group and its products, services and securities. The Group's financial performance has been and will continue to be affected by general political and economic conditions in the UK, Eurozone and elsewhere. Adverse developments in relation to these conditions in the UK or global financial markets could cause the Group's earnings and profitability to decline.

The Issuer's credit ratings are based on the Group's financial strength and outlook, the assumed level of UK government support for the Group in a crisis, the strength of the UK government, and the condition of the financial services industry and market generally. In the event of adverse developments in respect of any of these factors, there can be no assurance that the Issuer will maintain its current rating. Any reduction in the credit rating of Sabadell could also negatively impact the credit rating of the Issuer. Credit rating agencies conduct an

ongoing review which can result in changes to the Issuer's credit ratings and outlooks, the Covered Bonds, the UK banking sector and/or the UK government. Credit ratings agencies may also revise the methodologies applicable to the Issuer. If any of the credit rating agencies perceives there to be adverse changes in the factors affecting the Issuer's credit rating, such credit rating agency may downgrade, suspend or withdraw its credit rating. A credit downgrade, suspension or withdrawal could result in additional collateral postings, cash outflow and increased borrowing costs. It could also constrain access to wholesale funding from capital markets on commercially acceptable terms or limit the range of counterparties willing to enter into transactions with the Group. Such a downgrade, suspension or withdrawal could weaken the Issuer's competitive position in certain markets, all of which could have a material adverse impact on the Group's business, financial position and results of operations. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

#### 1.7 *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 Bank of England published a review of negative interest rates in its August 2020 Monetary Policy Report. The Governor of the Bank of England confirmed that the introduction of negative interest rates is one of many tools under consideration to steer the economy towards its 2 per cent. inflation rate target. The Bank of England has subsequently

issued a survey across the banking industry to assess the operational readiness of incumbents for the potential introduction of negative interest rates and in its Monetary Policy Committee in February 2021. Whilst reiterating that it should not be taken as a signal that the Bank of England intended to set a negative bank rate in the future, the Bank of England requested that the PRA engage with PRA-regulated firms to ensure they commence preparations in order to be ready to implement a negative bank rate in the 6 months following that meeting. On 4 February 2021, the PRA sent a 'Dear CEO' letter (the "**PRA Dear CEO Letter**") confirming that it would now engage with firms with respect to the development of tactical solutions with the aim of having firms put themselves in a position to be able to implement a negative bank rate at any point after six months from the date of the PRA Dear CEO Letter. The effect of negative interest rates 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. In addition, the Group's capital position could come under pressure due to margin compression and a potential reduction in structural hedge income. There would also be various technical and legal issues to contend with, which might require the Group to make changes to its information technology system and redraft legal contracts.

#### 1.8 *The Group faces risks from any tightening of monetary policy in the UK*

Monetary policy in the UK has been highly accommodative in recent years, supported by the Bank of England and Her Majesty's Treasury with the following schemes: Funding for Lending (which closed in February 2018), Help to Buy (Help to Buy ISA scheme closed in November 2019) and the Term Funding Scheme (which closed in February 2018). These were followed by a number of financial measures in response to the COVID-19 pandemic; all of which are backed by a government guarantee, including the COVID Corporate Financing Facility (CCFF) to support larger firms, the CBILS for small and medium sized enterprises, the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and the BBLs. In addition, the Term Funding Scheme with additional incentives for SMEs (TFSME) was launched in 2020 as an additional economic support measure.

After such a long period of stimulus, there is uncertainty over the timing and impact of any change to, or withdrawal of, the support measures. Any change or reduction in the support provided could lead to weaker than expected growth, higher borrowing costs in the wholesale markets, higher interest rates for borrowers, high levels of unemployment, reduced business and consumer confidence, adverse changes to the level of inflation, falling property prices and contracting gross domestic product. These potential implications could all lead to an increase in customer delinquency rates, default rates or other changes in customer behaviour, all of which 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.

#### 1.9 *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 financial technology (**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 marketplace. Although the proliferation of switching incentives in the marketplace 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. The Competition and Markets Authority (the CMA) launched the UK open banking initiative (**Open Banking**) in 2016 which has the aim of increasing transparency and fairness in the UK banking and financial services market. Open Banking requires financial institutions including the Issuer, to provide (subject to the customer having provided consent) transactional information to registered third party organisations and also to make public and openly share product information, customer satisfaction scores and other service level indicators. The ability for customers to be able to access and share this information could change the competitive landscape; the regulator could mandate third party access for further products such as loans, insurance or mortgages allowing customers to easily compare products, and third parties could offer switching services to move products on customers' behalf on a regular basis. Open Banking may introduce new viable competitors to the market who have a different business model which may attract customers away from the Issuer. The speed and scope of change to the competitive landscape will depend in part on how quickly and to what extent the Group and others implement Open Banking.

The Group may also make use of Open Banking either by developing its own proposition or working with a third party to do so. The implementation of any new offering could expose the Group to operational and third party risks (see the risk factors entitled "*The Group is exposed to operational risks related to systems and processes*", "*The Group is exposed to risks relating to the management of data*" and "*The Group's reliance and service arrangements with third party suppliers and affiliates exposes the Group to a range of potential operational and regulatory risks*").

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.

#### 1.10 *The Group is subject to the emerging risks associated with climate change*

The risks associated with climate change are coming under an increasing focus, both in the UK and internationally, from governments, regulators and large sections of society. These risks include: physical risks, arising from climate and weather-related events of increasing severity and/or frequency; and transition risks resulting from the process of adjustment towards a lower carbon economy and liability risks arising from the Group, third party suppliers or customers experiencing litigation or reputational damage as a result of sustainability issues or inadequate compliance with any disclosure requirements.

Physical risks from climate change arise from a number of factors and relate to specific weather events and longer term shifts in the climate. The nature and timing of extreme weather events are uncertain but they are increasing in frequency and their impact on the economy is predicted to be more acute in the future. The potential impact on the economy includes, but is not limited to, lower GDP growth, changes in patterns of employment and significant changes in asset prices (including housing stock) and profitability of certain industries. The physical risks could impact customer premises which could impact the value of the property and for business customers could lead to the disruption of business activity. In

addition, the Group's premises and resilience may also suffer physical damage due to weather events leading to increased costs for the Group.

The move towards a low-carbon economy will also create transition and liability risks, due to potential significant and rapid developments in the expectations of policymakers, regulators and society resulting in policy, regulatory and technological changes which could impact the Group. These risks may cause the impairment of asset values, impact the creditworthiness of clients of the Group, and lead to customers being property prisoners and/or impact defaults among retail customers (in both cases, including through the ability of customers to repay their mortgages, as well as the impact on the value of the underlying property), which could result in currently profitable business deteriorating over the term of agreed facilities.

In line with the PRA's S33/19 statement, the Group is required to embed its approach to managing climate related financial risks by the end of 2021 on a proportional basis. It is anticipated that the Group will become subject to further requirements and best practice to emerge as government, regulatory and industry focus on this area continues to intensify and mature. If the Group does not adequately embed the risks associated with climate change into its risk framework to appropriately measure, manage and disclose the various financial and operational risks it faces as a result of climate change, or fails to adapt its strategy and business model to the changing regulatory requirements and market expectations on a timely basis, this could have an adverse impact on the Group's results of operations, financial condition and prospects.

In July 2020, the Issuer set an ambition to become net zero by 2030 in its Scope 1 and 2 emissions under the Greenhouse Gas Protocol. In January 2021, the Group committed to set targets in line with the Science Based Targets Initiative which commits the Group to developing a pathway to reduce its Scope 3 emissions under the Greenhouse Gas Protocol. Achieving this goal will require the Group to build a plan to address controllable carbon emissions by reducing emissions from the Group's operations, supply chain, and product base together with investment in accredited offsetting schemes. If the expenditure required to meet this ambition is substantial this could have an impact on the financial performance of the Group. In addition, any failure by the Group to achieve its ambition could cause reputational damage to the Group.

#### 1.11 *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 third parties and affiliates.

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. 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 services may not function in the manner anticipated and necessary to deliver the required outcomes for customers. Any weakness in these systems or processes (including digital services to the Issuer's customers and back office processing) or a failure or inability to prevent, effectively recover, and be resilient to material incidents could have an adverse effect on the Group's results and on its ability to deliver appropriate customer outcomes during the affected period. This could lead to customer detriment, losses through rectifications, remediation costs and reputational damage. As the Issuer's customers' reliance upon cash reduces the potential impact of these risks increases. 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.

In addition, any breach in security of the Group's systems (or systems provided by or on behalf of third party providers of affiliates that support the services to the Group), for example from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, result in the disclosure of confidential information and loss of data, result in increased fraudulent activity on customer accounts and customer detriment (leading to increased costs of remediation) and create significant financial and/or legal and/or regulatory exposure and the possibility of damage to the Group's reputation and/or brand.

In order to maintain adequate services and increase both traditional and digital product offerings to the Issuer's customers and to be able to maintain or improve the operating systems of the Issuer, the Group will need to successfully deliver changes to its services, systems and processes. The Group is subject to the risk that it may fail to deliver such changes or may deliver defective changes to the production services or processes of the Group which could result in disruption to existing services provided to customers and to the Group's operating and support systems and services. This risk is increased by the complexity of interlinked systems required to carry out banking services and could lead to business interruption, customer detriment, increased costs and regulatory investigation, intervention or sanction.

Any actual or perceived inadequacies, weaknesses or failures in the Group's systems or processes or data management could have a material adverse effect on the Group's business.

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

1.12 *The Group is exposed to risks relating to the management of data*

The Group receives, stores, processes and controls large amounts of data including personal data of its employees, third party suppliers and customers. The Group is subject to the risk that it may fail to maintain effective and robust controls in relation to the collection, storage, retention, use aggregation and reporting of data. Any weakness or failure in such controls could expose the Group to the risk that personal data (including customer personal data) is lost, misused, misinterpreted, incorrect or not available. Inadequate controls could also increase the Group's exposure to cybercrime groups and malware attack (for further detail, see the risk factor entitled '*The Group is exposed to operational risks related to systems and processes*'). Any inadequacy in data management could lead to a breach of data protection regulations or laws, customer detriment, incorrect reporting, losses through rectifications, regulatory sanction or fines and reputational damage. In particular, any failure to manage data properly could also lead to a breach of the General Data Protection Regulation (which has been supplemented in the UK by the Data Protection Act 2018 and was onshored in the UK through the EUWA, with adjustments as provided in the Data Protection, Privacy and Electronic Communications (Amendments etc.) (EU Exit) Regulations 2019) and lead to regulatory intervention and sanction (including significant fines) which could materially adversely affect the reputation and financial performance of the Group.

1.13 *The Group's reliance on services arrangements with third party suppliers and affiliates exposes the Group to a range of potential operational and regulatory risks*

Third party providers and certain affiliates provide critical IT and operational services such as infrastructure services (including data centres, management and maintenance), enterprise services (including desktop, printing, help desk), business services (including payments functionality, telephony, branch and digital) and operational services (including transactional and marketing print, facilities management and logistics), together with maintenance services for the Group's underlying software and account management services. There will be ongoing reliance on third party providers and their subcontractors to continue to provide these key services to the Group. Relying on these third party providers and affiliates to provide these services is a source of operational and regulatory risk. The Group has recently embarked on an extensive transition to direct relationships with many of the providers of services which

were previously provided indirectly via a consolidated service provided by Sabadell Information Systems S.A.U and Sabadell Information Systems Limited (together, **SABIS**). This transition has reduced the number of suppliers ultimately supporting the Group in providing these services. The completion of this transition changed the nature of the risk faced by the Group, from reliance upon SABIS providing the consolidated services indirectly to the Group via numerous different providers with whom the Group did not have a direct relationship, to the risk that the Group is now directly responsible for providing the services and managing the direct relationships with a reduced number of third parties who support the Group with the provision of the services.

Events impacting the third party providers' and affiliates' ability to honour their contractual commitments to Group, such as human errors, events of force majeure, insolvency or other triggers for their recovery or resolution or any failure of the underlying systems or infrastructure used by the third party providers or their subcontractors, could result in significant disruption (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 services provided by third party providers could cause material damage to the Group's business. The Group may be required to take steps to protect the integrity of its operational systems, thereby increasing its operational costs. In addition, any problems caused by the third party providers or the affiliates could adversely affect the Group's ability to deliver products and services to customers and otherwise conduct its business which could lead to customer inconvenience or harm (whether actual or potential), reputational damage and regulatory investigations and intervention.

While the financial performance of third parties does not have a direct impact on the performance of the Group, any catastrophic deterioration in third parties' business, financial condition or results of operations, could jeopardise the Group's ability to continue to operate and ultimately meet its regulatory threshold conditions. The provision of the services by third party providers or affiliates is vital to the Group's ability to operate its business. If third party suppliers were unable to continue to meet their obligations under the contracts or any other relevant arrangements, either due to an industry-wide dislocation or to circumstances particular to a third party provider or affiliate, the consequences to the Group could be severe.

SABIS remains a supplier of IT services to the Group, but on a materially reduced scale. 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, the Group's resolution plans do include a number of solutions, should Sabadell's financial performance impact on its subsidiaries, including provisions in the contractual arrangements to ensure perpetual use of SABIS-owned software and, where Group elects to terminate the contractual arrangements, the service agreement provides the possibility of contracts and other assets transferring to the Group, or (subject to Sabadell's consent) allows the Group to acquire SABIS UK.

Replacing these third party providers or affiliates could also entail significant delays and expense. Further, the operational and regulatory risk the Group faces as a result of these arrangements may be increased to the extent that it restructures such arrangements. Any restructuring could involve significant expense to the Group and entail significant delivery and execution risk which could have a material adverse effect on the Group's operations, financial condition and prospects.

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

#### 1.14 *The Group is exposed to reputational risk*

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 or regulatory scrutiny or intervention. 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. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds. 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.

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

Liquidity and funding are key areas of focus for the TSB Franchise (as defined below) business and the UK financial services industry as a whole. While the Group's current funding is primarily obtained through 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 Bank of England's TFSME (see the risk factor entitled "*The Group faces risks from any tightening of monetary policy in the UK*"). 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 to ultimately replace TFSME funding or 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.

1.16 *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. Ineffective hedging strategies could further impact the Group's profit margins on its various products. 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 asset 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 personal current account (PCA) and variable savings balances form a significant part of the Group's funding. The Group makes the assumption that these balances will have a maturity longer than overnight and they are currently invested, along with free reserves, in a rolling series of swaps that match these assumptions. A portion of PCAs and free reserves are considered to have a maturity of at least 10 years and have been invested in longer term 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.

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

Substantially all of the TSB Franchise business relates 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, including the Issuer's operations, this concentration of retail credit risk could cause the Group to experience greater losses than its less concentrated competitors.

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.

1.18 *The Group is exposed to risks from dealing with intermediaries*

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.

1.19 *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, (**Lloyds Bank**), the Issuer and TSB Banking Group plc (the **Separation Agreement**), the Issuer and TSB Banking Group benefit from an indemnity in respect of losses arising from acts or omissions pre-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 the Company on 25 June 2014 (the **Admission**) 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 plc and its associated and subsidiary undertakings (the **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 the Issuer 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. The Issuer is also under a general obligation to mitigate losses that might fall within the scope of the Conduct Indemnity – this limitation becomes increasingly relevant as more time elapses between the Admission and the date of any claim, given the level of opportunity that the Issuer may have had to remedy any underlying issues.

In addition, the Issuer, and consequently the Group, 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 their 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.

1.20 *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, the Issuer 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 (together, 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. The Issuer is also under a general obligation to mitigate losses that might fall within the scope of the Systems and Procedures Indemnity. This limitation becomes increasingly relevant as more time elapses between the Admission and the date of any claim, given the level of opportunity that the Issuer may have had to remedy any underlying issues.

In addition, the Issuer and consequently, the Group, 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 their 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 RISKS RELATING TO THE LEGAL AND REGULATORY ENVIRONMENT IN WHICH THE GROUP OPERATES** *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:

- continued high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians; 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, or alleged harm to customers, 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; the PRA, Bank of England and FCA continues to focus on the operational resilience of firms and financial markets infrastructures;

- 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 the Group's own business or reputation could be impacted where it has engaged a third party and there is a failure in the processes, security or systems of such third party; 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.

In April 2018, the Group experienced issues with its IT system, including availability and functionality issues following the data migration to the SABIS platform, which led to a significant increase of customer complaints and negative press coverage. The Board of Directors of the Issuer asked Slaughter and May to carry out an independent review, and the final report was published in November 2019. The joint FCA/PRA regulatory investigation that was announced in June 2018 is still on-going and it is not yet possible to determine its outcome.

During 2020, management and the FCA commenced a review of support treatments offered to some customers who are, or were, in arrears and being serviced by the Issuer's collections and recoveries department. While not yet complete, this has identified an indicative early view of potentially impacted customers over a period from 2013 to 2020 who may have suffered either financial loss or distress and inconvenience. The assessment of the potential cost of customer redress, including compensatory interest, and related operational costs are estimated to lie within a range of £53.1 million to £57.4 million and are dependent on the assumed rates of redress and range of remediation strategies deployed. A provision of £55.0 million has been recognised and is expected to be utilised over the next two to three years. As the assessment of the potential costs of redress continues to take place, estimating the amount of the provision requires judgement, particularly with respect to the number of customers who may have been affected, the estimated financial loss suffered by customers and the estimated rates of redress. It is not yet possible to conclude whether there will be any further regulatory intervention and therefore no costs for an estimated regulatory penalty have been recognised in the 2020 financial statements of the Group.

Legal and regulatory actions pose a number of risks to the Group, including substantial monetary damages or fines. Provisions included within the published financial statements of the Group for ongoing legal or regulatory matters have been recognised, in accordance with IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets"), as the best estimate of the expenditure required to settle the obligation as at the reporting date. Such estimates may be material, difficult to quantify and uncertain. Amounts which the Group is eventually liable to pay may be materially different to the amount of provisions set aside to cover such risks, or existing provisions may need to be materially increased to cover such risk or in response to changing circumstances.

Provisions have not been taken where no obligation has been established, whether associated with a known or potential future litigation (including as a result of claims management activity), regulatory or FOS matter. Accordingly, an adverse decision in any such matters could result in significant losses to the Group which have not been provided for. Such losses would have an adverse impact on the Group's business, financial condition and results of operations.

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 the Issuer 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 above) given to the Issuer and TSB Banking Group by Lloyds Bank under the Separation Agreement, this indemnity may not cover all impacts of such historical conduct issues. There is no equivalent indemnity from Cerberus Capital Management.

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.

## 2.2 *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 Pillar 2 requirements, buffer requirements and capital ratios and leverage and liquidity requirements at all times. The Group's borrowing costs and regulatory capital, leverage and liquidity requirements could be affected by these prudential regulatory developments, which include (i) the legislative package comprising the amended Capital Requirements Directive (2013/36/EU) (the **CRD**) and Capital Requirements Regulation (575/2013) (**CRR**) (collectively, the **CRD IV**), each as implemented in the UK and as they form part of domestic law by virtue of the EUWA, implementing the proposals of the Basel Committee on Banking Supervision (known as **Basel III**) and other regulatory developments impacting capital, leverage and liquidity positions and (ii) the Bank Recovery and Resolution Directive 2014/59/EU (the **BRRD**), as implemented in the UK and as it forms part of domestic law by virtue of the EUWA, which established an EU-wide framework for the recovery and resolution of credit institutions and investment firms. The CRD requirements, to the extent they were in force and applicable, were implemented in the UK before the UK's exit from the EU; the UK framework was then amended to reflect the UK's exit from the EU. The CRR again to the extent that it was in force and applicable, was onshored in the UK by the Capital Requirements (Amendment) (EU Exit) Regulations 2018 and the Capital Requirements (Amendment) (EU Exit) Regulations 2019 (in each case as amended). The implementation of various banking reform initiatives (see "*Supervision and Regulation - EU Banking Reforms*") and any future unfavourable regulatory developments could have a material adverse effect on the Group's business, results of operations and financial condition. Further, as well as being subject to UK regulation, as its parent is Sabadell, the Company and the Group are also impacted indirectly by the Banco de España and, at a corporate level, by the ECB (following the introduction of the Single Supervisory Mechanism in November 2014). Following Brexit, these regimes could diverge over time and it is possible the Company and the Group may be required to comply with both regulatory regimes. These factors in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

### *Capital requirements under CRD IV*

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks with many of the measures taking 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. Following its implementation, CRD IV has been further amended and additional changes are anticipated to implement the outstanding Basel III standards. CRD IV requirements adopted in the United Kingdom may change, as well as changes to the way in which the Prudential Regulation Authority (the **PRA**) continues to interpret and apply these requirements to UK banks (including as regards individual model approvals or otherwise). For example, the Financial Policy Committee and the Prudential Regulation Committee have announced that they will conduct a review of the UK leverage ratio framework, expected to be completed in summer 2021, which may result in amendments to, among others, the leverage ratio reporting and disclosure requirements for UK banks. Additionally, the PRA is currently consulting on the implementation of some of the remaining Basel standards. 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 (for further detail, see the risk factor entitled "*The Group is subject to the risk of having insufficient capital resources and/or not meeting liquidity requirements*"). 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 on a case-by-case basis. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities". Although the provisions of the BRRD transposed into UK law relating to MREL took effect from 1 January 2016, the Bank of England is able to determine an appropriate transitional period for an institution to reach its end-state MREL. The Bank of England's Statement of Policy entitled "*The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)*" published in June 2018 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 (as defined). The Bank of England set out in the paper what the prospective MREL requirements might be. UK resolution entities which are not global or domestic systemically important banks will be required to meet an interim MREL of 18 per cent. of their Risk Weighted Assets and, from 1 January 2023 (subject to a review by the Bank of England originally by the end of 2020 but which has now been delayed until the end of 2021), if bail-in is the appropriate resolution strategy for them, a UK resolution entity would be required to meet an external 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 its Supervisory Statement SS16/16 of December 2017, the PRA confirmed that capital cannot be 'double-counted' towards capital and leverage buffers and MREL.

In respect of resolution entities which form part of a resolution group, the Statement of Policy states that for internal MREL (a category the Group falls in), the above requirement will be multiplied with a scalar (75 per cent. – 90 per cent. scaling adjustment to the MREL requirement that would otherwise apply). For ring fenced banks, the scale is likely to be 90 per cent. 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 per cent. to 90 per cent. range.

On 7 May 2020, the Bank of England announced that 2021 MREL requirement would reflect the PRA's policy changes to Pillar 2A capital setting announced on the same date. The Bank of England released a discussion paper on 18 December 2020 regarding its approach to setting MREL as a first stage of its expected MREL review and indicated that the review will complete in 2021, not 2020 as initially planned. The Bank of England confirmed in this discussion paper that it considers it appropriate for mid-tier credit institutions to be given a longer timeframe within which to meet higher MREL requirements, and confirmed its view that for global or domestic systemically important banks a bail-in resolution strategy remains appropriate and its commitment that such firms be resolvable by 2022.

The BRRD and MREL requirements adopted in the United Kingdom may change, whether as a result of further changes to the way in which the Bank of England continues to interpret and apply these requirements to UK banks or otherwise.

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 further 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. 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 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 from the definition of "banking group company" 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 and only after certain conditions have been met. In June 2018, the Bank of England published a document containing its statement of policy on valuation capabilities to support resolvability. In July 2019, the Bank of England also published a policy statement that set out the final version of a statement of policy on the Bank of England's approach to assessing resolvability which it expects firms to be compliant with by the relevant deadline.

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 (such as a relevant Covered Bond Swap Provider) and/or certain group companies 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.

#### *Financial Services (Banking Reform) Act 2013*

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. 1 January 2019 marked the date by which the largest UK banking groups were required to have implemented the 'ring-fencing' – or separation – of their UK retail business from their international and investment banking business. The Group is within the scope of application of the ring-fencing obligations. In its business plan for 2018/19, published in April 2018, the PRA stated that "in the coming year" it would begin a programme of activities to test the effectiveness of the arrangements put in place by banks to meet their ring-fencing obligations. This would include an examination of the policies, governance and control arrangements. HM Treasury has appointed an independent panel to review the operation of the ring-fencing regime. The Terms of Business of the independent panel published on 2 February 2021 state that the panel should aim to finalise its written report to HM Treasury within one year of the beginning of the reviews.

The Group's structure, governance arrangements, business and reporting models, operations, costs and financing arrangements could be affected by amendments to the Banking Reform Act or to the secondary legislation and rules, supervisory statements and other materials implementing the ring-fencing regime, or by a finding that the arrangements it has put in place do not meet the expectations of the PRA. This could result in the Group incurring additional costs or otherwise affect the Group's reputation, business, financial condition, results of operation and relations with customers. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

### 2.3 *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, HM 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 and/or failures in customer servicing or causing customer harm, and/or failures to identify vulnerable customers and offer appropriate support to and to act in accordance with all regulatory requirements and guidance in respect of vulnerable customers, which may all result in disciplinary action (including significant fines) or requirements to amend sales or servicing 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;
- the continued focus on the operational resilience of firms; the FCA, and the PRA have indicated that operational resilience is at least as important as financial resilience. On 15 December 2020, the PRA published a 'Dear CEO' letter noting that operational risk remains a key priority for the PRA in 2021 and firms should continue to prepare for operational disruptions and ensure that risk and control frameworks are operating effectively. In March 2021, the PRA published policy statement PS6/21 which contains its final policy on expected standards for operational resilience and which comes into force on 31 March 2022 and has a phased implementation period. Firms will be expected to consider how they will meet those standards and ensure compliance with the amendments to the relevant Parts of the PRA Handbook. In addition, the FCA reiterated that operational resilience was one of its four priority areas for supervision of retail banks in its 'Dear CEO' letter published on 5 February 2021 (the **FCA Dear CEO Letter**) and published its own policy statement PS21/3 containing its final policy on expected standards for operational resilience which, like PS6/21, comes into force on 31 March 2022 and has a phased implementation period;
- the other priority areas of FCA supervision of retail banks as set out in the FCA Dear CEO Letter including ensuring fair treatment of borrowers (including those in financial difficulties), ensuring good governance and oversight of customer treatment and outcomes during business change, and minimising fraud and other forms of financial crime;
- 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 and the Group's own business or reputation could be impacted where it has engaged a third party and there is a failure in the processes, security or systems of such third party.

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.

#### 2.4 *The Group must comply with anti money laundering, anti bribery and sanctions regulations*

The Group is subject to laws and regulations that are in place to prevent financial crime, including money laundering, the facilitation of bribery and corruption and the financing of terrorism, as well as the circumvention of applicable sanctions regimes. Monitoring compliance with anti money laundering, anti bribery rules and sanctions regulations 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. The Group maintains appropriate policies and standards to comply with financial crime laws and regulations and sanctions regulations; however, this alone cannot 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.

2.5 *The Group is subject to the risk of having insufficient capital resources and/or not meeting liquidity requirements*

If the Group fails, or is perceived to be likely to fail, to meet its minimum regulatory capital, liquidity or MREL requirements (including in connection with any stress tests performed by the Bank of England or other authorities), then it may be subject to regulatory interventions and sanctions. Any actual or perceived failure to meet regulatory requirements or actual or perceived weakness in financial position compared to other institutions could give rise to a loss of confidence from customers, counterparties and investors. Consequently, customers may withdraw deposits and counterparties and investors may not wish to transact with the Group or may only be willing to do so on less favourable terms meaning the sources of capital and funding could become more expensive, unavailable, or constrained. This may impact the Group's business operations, strategic opportunities and, in turn, future growth potential.

A shortage of capital could arise due to various factors which are not all within the control of the Group. Those factors include the Group being required to hold an increased amount of capital either due to an increased level of risk faced by the Group or changes in law and regulation (including changes to the current minimum capital requirements or changes to how the Group is required to calculate its capital or the risk weightings applied to its assets). It is also possible that capital held by the Group could be reduced by increased costs of liabilities and/or reduced asset values arising due to the crystallisation of risks including credit risk, regulatory risk, legal risk, conduct risk and operational risk.

The various actions the Group may take to address a shortage of capital includes implementing measures to reduce leverage exposures and/or risk weighted assets or raising additional capital. Such actions and their associated costs may impact the profitability of the Group, which in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

2.6 *The Group is subject to the potential impacts of 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. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds. Further, the UK's departure from the European Union has resulted in uncertainty around the future regulatory environment in the UK and it is possible that the laws and regulations applicable to financial services in the UK could diverge from those in the European Union over time. See further "*The Group is exposed to risks related to any political and economic changes as a result of the withdrawal of the UK from the European Union*".

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 (2014/49/EU) (the **EU DGSD**) was adopted and EU Member States (which included the UK at the relevant time) had until 3 July 2015 to implement most of it into national law. The EU 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 its members and national schemes are to be funded through regular contributions before the event (*ex-ante*) to the deposit guarantee schemes. Under the EU DGSD, in case of insufficient *ex-ante* funds, the deposit guarantee scheme will collect immediately 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 EU DGSD requirements were implemented in the UK before the UK's exit from the EU, with further clarification provided through The Deposit Guarantee Scheme and Miscellaneous Provisions (Amendment) (EU Exit) Regulations 2018.

Amongst other compensation, the FSCS provides for a qualifying temporary high balance deposit protection, up to £1 million, for up to six months from when the amount was first deposited 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 1 January 2017. It is possible, as a result of the EU 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. In November 2018, the FSCS published its strategy outlining its priorities for the 2020s, which set out four strategic priorities (Prepare, Protect, Promote and Prevent) for the next few years. The FSCS will set out further details each year in its plan and budget.

In June 2017, the PRA published a policy statement relating to residential mortgage risk-weights, including proposals to align firms' 'internal ratings based' (**IRB**) modelling approaches for residential mortgage risk-weighted assets, and sets out a number of modifications to the IRB modelling methodologies for residential mortgages. The PRA has set the expectation for firms to update IRB models by the end of December 2021. On 14 May 2020, the PRA published a policy statement on probability of default and loss given default estimation for credit risk (PS11/20). In PS11/20, the PRA provides feedback to its September 2019 consultation paper (CP21/19) which consulted on proposals to implement the EBA's regulatory products that relate to the probability of default and loss given default estimation. The provisions in this policy will take effect on 1 January 2022. The PRA also published a consultation paper on 30 September 2020 (CP 14/20) which sets out proposals to introduce new expectations on the IRB approach for UK mortgage risk weights. The purpose of these proposals is to address the prudential risks stemming from inappropriately low IRB UK mortgage risk weights, to narrow differentials between the IRB and standardised approach UK mortgage risk weights, and to limit future divergence. The PRA considers that this would support competition between firms on the different approaches. This consultation closed on 30 January 2021.

#### *CRD V and CRR II*

In November 2016, the European Commission (**EC**) published a package of proposed amendments to CRD IV/CRR and **CRR II**, respectively). Following the EC's proposals, CRD V and CRR II entered into force on 27 June 2019. CRD V applied from 29 June 2020 and CRR II will largely apply from 28 June 2021.

The amendments seek to implement some of the remaining aspects of Basel III and reforms which reflect EC findings on the impact of CRD IV on bank financing of the EU and UK economies. Certain of the proposed changes such as new market risk rules, standardised approach to counterparty risk, details on the leverage ratio and net stable funding requirements and the tightening of the large exposures limit will particularly impact capital requirements.

The final capital framework to be established in the European Union and the United Kingdom under CRD V/CRR II differs from Basel III in certain areas. In December 2017, the Basel Committee finalised further changes to the Basel III framework which include amendments to the standardised approaches to credit risk and operational risk and the introduction of a capital floor. In January 2019, the Basel Committee published revised final standards on minimum capital requirements for market risk.

The arrangements were originally to take effect from 1 January 2022, with some standards subject to five-year phase-in arrangements, but this was extended in June 2020 to apply from 1 January 2023 as part of the European Union's response to the COVID-19 pandemic. The UK has indicated that it is committed to implementing international standards and will adjust the UK implementation timetable to reflect the delay. On 16 November 2020, the PRA confirmed in a joint statement with HM Treasury and the FCA that the above statement still applies in respect of the outstanding Basel III standards, save that it is targeting an implementation date of 1 January 2022 for those Basel III reforms which make up the UK equivalent to the outstanding elements of the CRR included in CRR II.

The changes may have an impact on incentives to hold the Covered Bonds for investors that are subject to CRD V and CRR II and, as a result, they may affect the liquidity and/or value of the Covered Bonds.

2.7 *The Group is exposed to risks related to any political and economic changes as a result of the withdrawal of the UK from the European Union*

The United Kingdom (UK) left the European Union (EU) on 31 January 2020 at 11pm, and the transition period has ended on 31 December 2020 at 11pm. As a result, the Treaty on the European Union and the Treaty on the Functioning of the European Union have ceased to apply to the UK. The UK is also no longer part of the European Economic Area (EEA). On 24 December 2020, an agreement in principle was reached in relation to the EU-UK Trade and Cooperation Agreement (the **Trade and Cooperation Agreement**), to govern the future relations between the EU and the UK following the end of the transition period. The Trade and Cooperation Agreement was signed on 30 December 2020 and has provisional application until the EU and the UK complete their ratification procedures. The European Parliament is required before the Council of the European Union can conclude the Trade and Cooperation Agreement. At the request of the EU, the provisional application has been extended from 28 February 2021 to 30 April 2021 to allow for the legal-linguistic revision. The Trade and Cooperation Agreement does not create a detailed framework to govern the cross-border provision of regulated financial services from the UK into the EU and from the EU into the UK.

The European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020) and secondary legislation made under powers provided in this Act ensure that there is a functioning statute book in the UK. While the UK introduced a temporary permission regime to allow EEA firms to continue to do business in the UK for a limited period of time, once the passporting regime fell away, the majority of EEA states have not introduced similar transitional regimes. The Trade and Cooperation Agreement is only part of the overall package of agreements reached on 24 December 2020. Other supplementing agreements included a series of joint declarations on a range of important issues where further cooperation is foreseen, including financial services. The declarations state that the EU and the UK will discuss how to move forward with equivalence determinations in relation to financial services. It should be noted that even if equivalence

arrangements for certain sectors of the financial services industry are agreed, market access is unlikely to be as comprehensive as the market access that the UK enjoyed through its EU membership.

Prospective investors should also note that the regulatory treatment, including the availability of any preferential regulatory treatment, of the Covered Bonds may be affected (as to which, please refer to the risk factors entitled “*Regulatory treatment of Covered bonds*”).

It is difficult to determine what the precise impact of the new relationship between the UK and the EU will be on general economic conditions in the UK, including any implications for the UK sovereign ratings, ratings of the Issuer and the relevant transaction parties, the performance of the UK housing market.

In addition, following the UK withdrawal from the EU, future UK political developments 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.

Although the Issuer is a UK regulated, ring fenced bank, 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 and/or liquidity of the Covered Bonds in the secondary market.

## 2.8 *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. At the same time the UK government is focused on identifying regulatory divergence opportunities which would improve the UK’s international competitiveness.

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;
- regulatory changes and market developments in relation to benchmark reform and risk-free rates;
- 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 or 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 (particularly resulting from the UK's withdrawal from the European Union; see further "*The Group is exposed to risks related to any political and economic changes as a result of the withdrawal of the UK from the European Union*"), 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.

2.9 *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 United Kingdom change UK IAS, the standards that will that govern the preparation of the financial statements of the Issuer for the year ending 31 December 2021. 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.

The IASB may make 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. This in turn could affect the Issuer's ability to fulfil its obligations under the Covered Bonds.

The Group's accounting policies 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.

## 2.10 *Devolution of certain tax powers to the Scottish Parliament*

The Scotland Act 2016 passed control of certain aspects of income tax to the Scottish Parliament by giving it the power to raise or lower the rate of income tax and thresholds for non-dividend and non-savings income of Scottish residents. The power of the Scottish Parliament to control income tax 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 the relevant Issuer's ability to fulfil its obligations under the Covered Bonds. To date, the exercise of the tax powers has resulted in some Scottish tax payers paying more income tax than taxpayers elsewhere in the UK (and some paying less) but the differences are not particularly significant.

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.

## **3 RISKS RELATING TO THE COVERED BONDS**

### 3.1 *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.

### 3.2 *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.

### 3.3 *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.

#### 3.4 *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.

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.

#### 3.5 *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 a 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.

### 3.6 *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 in the EEA, unless such ratings are issued by a credit rating agency established in the EEA 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 third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country 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). 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.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Covered Bonds changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Covered Bonds may have a different regulatory treatment, which may impact the value of the Covered Bonds and their liquidity in the secondary market. 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.

### 3.7 *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.

### 3.8 *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.

### 3.9 *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.

### 3.10 *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.

### 3.11 *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.

### 3.12 *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 the then prevailing rate on its Covered Bonds.

3.13 *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.

3.14 *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.

3.15 *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.

3.16 *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 overcollateralisation 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.

### 3.17 *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.

### 3.18 *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, including whether and how such eligibility may be impacted by the UK withdrawal from the EU and the UK no longer being part of the EEA.

### 3.19 *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.

### 3.20 *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 the Covered Bondholder's 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.

### 3.21 *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.

## 4 **RISKS RELATING TO THE REGULATION OF THE COVERED BOND REGIME**

### 4.1 *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 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.

#### 4.2 *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 and 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.

At the end of 2019, the European Parliament and the Council finalised the legislative package on covered bond reforms made up of a new covered bond directive (Directive (EU) 2019/2162) and a new regulation (Regulation (EU) 2019/2160), which entered into force on 7 January 2020 with the deadline for application of 8 July 2022 (both texts have relevance for the EEA and are to be implemented in due course in EEA Member States). The new covered bond directive replaces article 52(4) of the UCITS Directive, establishes a revised common base-line for issue of covered bonds for EU regulatory purposes (subject to various options that Member States may choose to exercise when implementing the new directive through national laws). The new regulation will be directly applicable in the EU from 8 July 2022 and it amends article 129 of the Capital Requirements Regulation (Regulation (EU) No. 575/2013) (**EU CRR**) (and certain related provisions) and further strengthens the criteria for covered bonds that benefit from preferential capital treatment under the EU CRR regime. In

the UK, the Financial Conduct Authority confirmed that it intends to implement the EU covered bond reforms in the UK and it is expected that a consultation on the proposed amendments will be published in the course of 2021. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

In addition, preferential regulatory treatment under article 129 of the EU CRR is no longer available in respect of the Covered Bonds after 31 January 2020, as from that point the UK has left the EU and is no longer part of the EEA. Furthermore, the Covered Bonds will not be grandfathered under the EU covered bond reforms, once these become applicable. The Covered Bonds may be eligible as Level 2A assets under Delegated Regulation (EU) 2018/1620 (as amended), provided equivalence requirements are met, as to which no assurances are made and prospective investors should therefore make themselves aware of the changes in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds.

## **5 RISKS RELATING TO THE PORTFOLIO**

### **5.1 *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.

### **5.2 *Regulatory considerations in relation to the Loans***

The Loans are subject to certain risks relating to the law and regulation of mortgages in the United Kingdom, including in relation to the legal and regulatory considerations relating to the Loans and their Related Security, changes in law and/or regulation, the possibility of complaints by Borrowers in relation to terms of the Loans and in relation to the policies and procedures of the Seller. If any of these risks materialise they could have an adverse effect on the Seller, the Issuer or the LLP and could adversely affect the ability of the Issuer to make payments on the Covered Bonds or, if applicable, the LLP's ability to make payments on the Covered Bond Guarantee.

Further detail on certain considerations in relation to the regulation of mortgages in the UK is set out in the section headed "*UK Mortgage Regulation*" below and certain specific risks are set out below:

*Regulated Mortgage Contracts.* 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 the FCA or PRA rules, 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 with that authorised person (or exercise analogous rights in Scotland). Any such set-off in respect of the Loans

may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee. Further detail is included in the section headed “*UK Mortgage Regulation*” below.

*Regulation of buy-to-let Mortgages.* The exercise of supervisory and enforcement powers by the FCA may adversely affect the Issuer's ability to make payment on the Covered Bonds when due, particularly if the FCA orders remedial action in respect of past conduct. In addition for those buy-to-let Mortgages regulated by the CCA, non-compliance with certain provisions of the Consumer Credit Act 1974, as amended (the **CCA**) may render a regulated credit agreement totally unenforceable or unenforceable without a court order or an order of the appropriate regulator, or may render the borrower not liable to pay interest or charges in relation to the period of non-compliance. This may adversely affect the Issuer's ability to make payment on the Covered Bonds when due. Further detail is included in the section headed “*UK Mortgage Regulation*” below.

*Guidance Issued by the Regulators.* Guidance issued by the regulators has changed over time and it is possible that it may change in the future. No assurance can be given that any changes in legislation, guidance or case law as it relates to the Portfolio will not have a material adverse effect on the Seller, the LLP and/or 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 Loans. Any such changes (including changes in regulators' responsibilities) may also adversely affect the Issuer's operating results, financial condition and prospects. Further detail is included in the section headed “*UK Mortgage Regulation*” below.

*Unfair Relationships.* 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 Mortgage 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 Mortgage Loans, and the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee. Further detail is included in the section headed “*UK Mortgage Regulation*” below.

*Distance Marketing.* The Financial Services (Distance Marketing) Regulations 2004 allow, in certain specified circumstances, a borrower to cancel a credit agreement it has entered into with lenders without provision of certain required information. If a significant proportion of the Loans are treated as being cancellable under these regulations, there could be an adverse effect on the LLP's receipts in respect of the Loans affecting the LLP's ability to make payments on the Covered Bond Guarantee.

*UTCCR and CRA.* The broad and general wording of The Unfair Terms in Consumer Contracts Regulations 1994 (SI 1994/3159) and the 1999 Regulations (the **UTCCR**) and the Consumer Rights Act 2015 (the **CRA**) 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 Loans entered into between 1 July 1995 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 Bond Guarantee, including by way of non-recovery of a Mortgage Loan by the Seller or the LLP, a claim made by the Borrower or the exercise by the Borrower of a right of set-off arising as a result of a term of a loan being found to be unfair (and therefore not binding on the consumer) may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

If any term of the Loans entered into on or after 1 October 2015 is found to be unfair for the purpose of the CRA, this may reduce the amounts available to meet the payments due in respect of the Covered Bond Guarantee. 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 and/or 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 Loans. Further detail in relation to both the UTCCR and the CRA is included in the section headed “*UK Mortgage Regulation*” below.

*Consumer Protection from Unfair Trading Regulations 2008*: the CPUTR prohibits certain practices which are deemed unfair within the terms of the CPUTR. Breach of the CPUTR may lead to liability for misrepresentation or breach of contract in relation to the underlying credit agreements, which may result in irrecoverable losses on amounts to which such agreements apply and which may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee. Further detail in relation to the CPUTR is included in the section headed “*Information relating to the regulation of Mortgages in the UK – Consumer Protection from Unfair Trading Regulations 2008*” below.

*Financial Ombudsman Service*: Under the FSMA, the Financial Ombudsman Service (the **Ombudsman**) is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction. 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 a borrower. Given the way the Ombudsman makes its decisions, 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. Further detail is included in the section headed “*Information relating to the regulation of Mortgages in the UK – Financial Ombudsman Service*” below.

*Mortgage repossessions and payment deferrals*. The protocols for mortgage repossession and the Mortgage Repossessions (Protection of Tenants etc) Act 2010 may have adverse effects in relation to the ability of the Seller to repossess properties in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee. Further detail is included in the section headed “*UK Mortgage Regulation*” below.

Investors should note the FCA Payment Deferral Guidance and Tailored Support Guidance described in the section entitled “*Mortgages and coronavirus: FCA guidance for firms*” below and that from 1 April 2021, subject to any relevant government restrictions on repossessions, mortgage lenders/administrators may enforce repossession as long as they act in accordance with the Tailored Support Guidance, MCOB 13 and relevant regulatory and legislative requirements. Action to seek possession should be a last resort and should not be started unless all other reasonable attempts to resolve the position have failed.

*Breathing Space Regulations*: The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020 are due to come into force on 4 May 2021 (the **Breathing Space Regulations**). The Breathing Space Regulations will give eligible individuals the right to legal protection from their creditors (including almost all enforcement action) during a period of breathing space. The Breathing Space Regulations applies to mortgage arrears which are uncapitalised at the date of the application under the Breathing Space Regulations. Whilst the scheme is designed to support customers to find a solution for problem debt, there is a risk that for some customers this will only delay in the initiation of enforcement action in respect of the Loans which may result in lower recoveries and may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee. Further detail is included in the section headed “*UK Mortgage Regulation*” below.

*Changes to mortgage regulation and to the regulatory structure in the United Kingdom may adversely affect payments on the Covered Bonds*. It is possible that further changes may be made to the FCA's MCOB rules as a result of these reviews and other related regulatory reforms. To the extent that the new rules do apply to any of the Loans, failure to comply with these rules may entitle a Borrower to claim damages for loss suffered or to set off the amount

of the claim against the amount owing under the Loan. Any such claim or set-off may affect the LLP's ability to make payment in full on the Covered Bond Guarantee when due. Further detail is included in the section headed "*UK Mortgage Regulation - Changes to mortgage regulation and to the regulatory structure in the United Kingdom*" below.

*Future changes to mortgage regulation.* Additionally, 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. Further detail is included in the section headed "*UK Mortgage Regulation*" below.

### 5.3 *The COVID-19 pandemic may have negative effects on the Portfolio*

The world is currently experiencing an outbreak of a novel coronavirus (known as COVID-19) which is having severe health, as well as unpredictable economic, effects across the world. Concern about the effects of COVID-19 and the effectiveness of measures being put into place by global governmental bodies as well as by private enterprises to contain and mitigate its spread have adversely affected economic conditions and capital markets globally, and have led to increased volatility and declines in financial markets and severe economic downturns in many countries, including the United Kingdom. Such downturns may reduce the market value of affected properties in such regions, the ability to sell a property in a timely manner and/or negatively impact the ability of a Borrower to make timely payment of interest and repayments of principal on their Loans. While at the time of this Prospectus, it is difficult to predict the extent of the effect that COVID-19 may have from a public health perspective and the pre-emptive measures that may be adopted with a view to further containing its spread (such as travel bans, quarantine, elective or mandatory self-isolation and temporary business shut-downs), governments and national regulators have already implemented a number of measures and issued guidance to alleviate certain pandemic-related concerns. Please also refer to the risk factor titled "*The Group faces risks arising from risks relating to the impact of COVID-19*".

As a result of such factors, a mortgage lender may offer, or be required through government regulation to offer, a range of forbearance options (which in themselves may be temporary or permanent in nature and may include, without limitation, the suspension of monthly payments due under Loans) to support Borrowers who are facing financial difficulty or may potentially face financial difficulties (as to which see "*COVID-19 Payment Deferrals*" below).

Despite the existence of certain government support schemes, such as the Coronavirus Job Retention Scheme and the Self-Employment Support Scheme, unemployment may rise substantially as a result of the impact of COVID-19 on the UK economy. There is a further risk that unemployment will increase substantially once these schemes, along with other government support or furlough measures, are phased out or reduced, with resulting reductions in consumer spending. These pressures may in turn negatively impact the ability of a Borrower to make timely payment of interest and repayments of principal on their Loans.

### 5.4 *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 section 6.1 "*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*". 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.

#### 5.5 *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 if 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.

#### 5.6 *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.

5.7 *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.

5.8 *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.

5.9 *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.

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.

#### 5.10 *COVID-19 Payment Deferrals*

A Borrower may request from the Legal Title Holder or the Servicer (on behalf of the Legal Title Holder) a payment deferral as a result of the direct or indirect impact of the COVID-19 pandemic (as at the date of this Prospectus, limited up to a six month period, with such deferrals available in certain circumstances for payments up to 31 July 2021 only if the Borrower had a payment deferral prior to 31 March 2021) (a **COVID-19 Payment Deferral**). Investors should note in this regard, the FCA Payment Deferral Guidance and the Tailored Support Guidance described in the section entitled "Mortgages and coronavirus: FCA guidance for firms" and the payment deferral measures outlined therein.

A **COVID-19 Payment Deferral Loan** is any Loan which is subject to a payment deferral or payment holiday as a result of the direct or indirect impact of the COVID-19 pandemic (a **COVID-19 Payment Deferral**) following a successful application by the customer. COVID-19 Payment Deferral Loans will not be classified as being "in arrears" unless arrears have accumulated outside of the COVID-19 Payment Deferral. Whether or not a COVID-19 Payment Deferral will be granted is subject to the prevailing policies and procedures of the Legal Title Holder and Servicer which may be amended from time to time to reflect the FCA COVID-19 Guidance, applicable law, regulation and other regulatory guidance. Further, the FCA in the FCA COVID-19 Guidance requires the Legal Title Holder and Servicer to act in a manner consistent with the FCA COVID-19 Guidance. The FCA makes it clear in the FCA COVID-19 Guidance that it expects lenders of both owner-occupied and buy to let mortgage loans to act in a manner consistent with the guidance. In accordance with the FCA COVID-19 Guidance, any COVID-19 Payment Deferral Loan will not, as a result of the COVID-19 Payment Deferral, be considered in arrears (or further in arrears) or be subject to a debt restructuring process. See further section entitled "*Mortgages and coronavirus: FCA guidance for firms*".

Due to the impact on timing and quantum of payments in respect of COVID-19 Payment Deferral Mortgage Loans, increased levels of such loans may result in a reduction of funds available to the LLP to meet its obligations under the Covered Bond Guarantee. The total number of Borrowers who may seek to avail themselves of a mortgage payment deferral in the future, and therefore the impact of the measures set out in the FCA COVID-19 Guidance and the Additional Guidance on the performance of the Loans in the Portfolio, is not known as at the date of this Prospectus. If the timing of the payments, as well as the quantum of such payments, in respect of the Loans is adversely affected, this may result in a reduction of funds available to the LLP to meet its obligations under the Covered Bond Guarantee.

There can be no assurance that the FCA, or other UK government or regulatory bodies, will not take further steps in response to the COVID-19 outbreak in the UK which may adversely affect the performance of the Mortgage Loans.

#### 5.11 *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.

#### 5.12 *Buy to Let Loans*

A New Portfolio may include Mortgage Loans which are loans taken out by a borrower intended for residential letting purposes (**Buy-to-Let Mortgage Loans**). The Borrower's ability to service such Buy-to-Let Mortgage Loans will depend on the Borrower's ability to lease the relevant Properties on appropriate terms. There can be no assurance that each such Property will be the subject of an existing tenancy when the relevant Loan is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Loan and/or that the rental income from such tenancy will be sufficient (whether or not there is any default of payment in rent) to provide the Borrower with sufficient income to meet the Borrower's interest obligations or principal repayments in respect of the Loan.

The Coronavirus Act 2020 put measures in place in England for the period from 26 March 2020 until 30 September 2020 that provide that where landlords issued notices seeking possession, in the period from 26 March 2020 to 28 August 2020, the notice period had to be for three months. The Coronavirus Act 2020 (Residential Tenancies: Protection from Eviction) (Amendment) (England) Regulations 2020, made in exercise of powers conferred by the Coronavirus Act 2020, came into force on 29 August 2020 (the **English Regulations**). The English Regulations apply in England only. The English Regulations modify certain provisions of the Coronavirus Act 2020 to give tenants in England greater protection from eviction over the winter by requiring landlords to provide tenants with six months' notice in all bar those cases raising other serious issues such as, but not limited to, those involving, (in certain circumstances): anti-social behaviour (including rioting), domestic abuse, fraud and rent arrears to the value of over six months' rent. The English Regulations provide that this six month notice period will be required starting from 29 August 2020 until 31 March 2021. The Coronavirus Act 2020 (Residential Tenancies: Protection from Eviction) (Amendment) (England) Regulations 2021 came into force on 31 March 2021 and will extend this period to 31 May 2021.

Further, from 27 March 2020, any possession claims in the system or about to go into the system were affected by a 90 day suspension of possession hearings and orders, such suspension of possession hearings and orders was extended until 23 August 2020 on 25 June 2020 and was extended by a further four weeks until 20 September 2020 on 21 August 2020. New CPR Practice Direction 55C (**PD 55C**) is in force from 20 September 2020 until 31 July 2021. PD 55C sets out the steps required to reactivate stayed possession claims, as well as procedural changes applying both to existing possession claims and the issue of new claims. Different requirements apply under PD 55C depending on when the relevant possession claim was first issued.

In Wales, new regulations have been made under Schedule 29 to the Coronavirus Act 2020, that temporarily extend the minimum notice periods landlords must give to tenants with

assured and assured shorthold tenancies. A six month notice period applied to notices issued between 24 July 2020 and 28 September 2020 under section 8 of the Housing Act 1988, except those that specified grounds 7A or 14 (relating to anti-social behaviour). A three month notice period continued to apply to notices that specified grounds 7A or 14. A six month notice period applied to notices issued on or after 24 July 2020 under section 21 of the Housing Act 1988. Schedule 29 is temporarily amended so that a landlord serving a notice on or after 24 July 2020 will be required to provide extended notice during the remainder of relevant period, which, in accordance with Public Health (Protection From Eviction) (No.2) (Wales) (Coronavirus) Regulations 2021, currently ends on 30 June 2021.

The Coronavirus (Scotland) Act 2020 amended the Private Housing (Tenancies) (Scotland) Act 2016 such that various mandatory grounds for eviction, including the landlord's intention to sell the property, are now discretionary, to allow the First Tier Tribunal flexibility in dealing with eviction cases during the pandemic. The minimum notice period remains 28 days where the tenant no longer occupies the property, but otherwise the notice period has been extended from 84 days to three or six months, depending on the grounds for eviction. In addition, in assessing whether it is reasonable to make an eviction order on the grounds of rent arrears during the period when the Act is in force, the First Tier Tribunal must consider the extent to which the landlord has complied with pre-action requirements before applying for the eviction order. The Act will be in place until 30 September 2021. There are similar provisions for assured and other tenancies. Delays to landlords seeking possession of a Property may result in less rental income being available to meet the Borrower's repayment obligations in respect of the Loans.

Upon enforcement of a Mortgage in respect of a Property which is the subject of an existing tenancy, the Servicer may serve notice to the tenant to obtain vacant possession of the Property, nevertheless the Servicer may only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which the relevant Servicer could realise upon enforcement of the Mortgage and the sale of the Property. In such a situation, amounts received in rent may not be sufficient to cover all amounts due in respect of the Loan. However, enforcement procedures in relation to such Mortgages (excluding any Scottish Mortgages) include appointing a receiver of rent, in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Loan. Under Scots law, a receiver cannot be appointed under a standard security (the Scottish equivalent to a legal mortgage) and the only enforcement which may be carried out under a standard security is a full enforcement of the security (i.e. it cannot be enforced selectively by, for instance, attaching to rental income). Accordingly, in Scotland, any attempt to secure the rental flows will depend upon the enforcement of the standard security.

Since April 2017 the UK Government has been implementing a phased restriction on the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest). With effect from 6 April 2020 there is no deduction available for finance costs from rental income and instead all rental income is only eligible for a tax credit at the basic rate of income tax (20 per cent.).

On 11 March 2020, the government announced that it would introduce a 2 per cent. SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland with effect from 1 April 2021. This will apply in addition to the 3 per cent. additional rate that applies to the purchase of additional residential properties described above.

A higher rate of stamp duty land tax (SDLT) (and Welsh land transactions tax (WLTT)) applies to the purchase of additional residential properties (such as buy-to-let properties). The current additional rate is 3 per cent. above the current SDLT and WLTT rates. The Scottish

Government announced similar plans with effect from the same date in respect of land and buildings transaction tax (**LBTT**) (broadly speaking, the equivalent in Scotland to SDLT). The current additional rate is four per cent above the current LBTT rates.

The introduction of these measures may adversely affect the private residential rental market in England, Wales and Scotland in general and (in the case of the restriction of income tax relief) the ability of individual Borrowers of Buy-to-Let Mortgage Loans to meet their obligations under those Mortgage Loans.

5.13 *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.

5.14 *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.

5.15 *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.

5.16 *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.

5.17 *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;
- 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; 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.

5.18 *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 the 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.

## **6 RISKS RELATED TO CHANGES TO PROGRAMME STRUCTURE AND TRANSACTION DOCUMENTS**

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

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

- (i) 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
- (ii) 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.

Pursuant to the terms of the Trust Deed and the Deed of Charge, the Bond Trustee and the Security Trustee shall, 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 for the purposes of, *inter alia*:

- enabling the Issuer or the LLP to satisfy the relevant requirements which apply to it under (i) the European Market Infrastructure Regulation (EU) 648/2012 (**EU EMIR**) (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from supervisory regulation) and/or (ii) the European Market Infrastructure Regulation (EU) 648/2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from supervisory regulation) as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK EMIR**) as applicable;
- allowing the Issuer to maintain compliance with the RCB Regulations in respect of the Programme and the Covered Bonds;
- enabling the Covered Bonds to qualify as Covered Bonds under (i) 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, 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, complying with or implementing or reflecting updated criteria of one or more of the Rating Agencies;

- 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;
- allowing one or more additional rating agencies to be appointed in respect to one or all Series of Covered Bonds;
- enabling the Covered Bonds to be (or to remain) listed on the Stock Exchange;
- enabling the Issuer or any of the other transaction parties to comply with FATCA;
- 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;
- 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;
- allowing 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
- 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 conditions set out in Condition 14.2 (*Modifications and Waivers*), the Trust Deed and the Deed of Charge are met. Please see Condition 14.2 (*Modifications and Waivers*) of the "*Terms and Conditions of the Covered Bonds*".

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.

6.2 *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 section 6.1 "*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 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 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.

### 6.3 *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.

6.4 *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.

6.5 *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.

#### 6.6 *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 or 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.

## 7 **RISKS RELATING TO RELIANCE ON COUNTERPARTIES**

### 7.1 *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.

## 7.2 *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 SONIA, 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.

### 7.3 *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 SONIA 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.

#### 7.4 *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.

## 8 **MACRO-ECONOMIC AND MARKET RISK**

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

Interest rates and indices which are deemed to be “benchmarks” (including Euro Interbank Offered Rate (**EURIBOR**) and Sterling Overnight (**SONIA**)) are the subject of ongoing national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds referencing such a benchmark.

Under regulation (EU) 2016/1011 (the **EU Benchmarks Regulation**), which applies since 1 January 2018 in general, new requirements apply with respect to the provision of a wide range of benchmarks (including EURIBOR), the contribution of input data to a benchmark and the use of a benchmark within the European Union. In particular, the EU Benchmarks Regulation, among other things, (i) requires 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) prevents 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). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **UK Benchmarks Regulation**) among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Covered Bonds linked to or referencing a benchmark in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Investors should be aware that the euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR or SONIA. The guiding principles indicate, among other things, that continuing to reference EURIBOR or SONIA in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system.

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.

On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the UK Financial Conduct Authority confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcements**). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On 5 March 2021, the FCA officially confirmed the dates for the future cessation or loss of representativeness of global LIBOR benchmarks. This will be effective after 31 December 2021 for sterling, euro, yen and Swiss franc LIBOR settings and after 30 June 2023 for most U.S. dollar settings.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to SONIA over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021 (as further described under *“The market continues to develop in relation to SONIA as a reference rate for Floating Rate Covered Bonds”* below).

Separate workstreams are underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (**€STR**) as the new risk free rate. €STR has been published by the ECB in October 2019. In addition, on 21 January 2019, the euro risk-free rate working group published a set of guiding principles for fallback provisions in new euro-denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro-area financial system. Further, on 24 July 2020, the European Commission (“**EC**”) made a formal proposal to the European Parliament and the European Council to amend the EU Benchmark Regulation which would, amongst other things, give the EC the power to impose a statutory replacement rate where a benchmark whose cessation would result in significant disruption in the functioning of financial markets in the European Union ceases to be published. The proposal notes that, in determining the appropriate statutory replacement rate, the EC would have regard to the recommendations of the various risk-free rate working groups. Policy around benchmark

reform continues to progress. On 15 February 2021, the euro risk-free rates working group (the “**Working Group**”) published the results of its public consultation with market participants, which showed widespread support for the fallback triggers proposed by the Working Group.

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. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations could have a material adverse effect on the value of and return on any Covered Bonds linked to, referencing or otherwise dependent (in whole or in part) upon, a benchmark.

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 EURIBOR and SONIA) 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 EURIBOR or SONIA is discontinued or is otherwise unavailable and an amendment as described in paragraph (c) below has not been made at the relevant time, then the rate of interest on the Floating Rate 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 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 EURIBOR or SONIA was available;
- (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 EURIBOR or SONIA to an alternative base rate under certain circumstances broadly related to EURIBOR or SONIA dysfunction or discontinuation and subject to certain conditions being satisfied including with respect to Covered Bondholder consent in part, 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 this risk factor may become; and
- (d) if EURIBOR, SONIA 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 fallback 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 Loans, the Covered Bonds and/or the Swap Agreements due to applicable fallback 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 EURIBOR, SONIA 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 EURIBOR, SONIA 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 EURIBOR, SONIA 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.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, or any of the international or national reforms and the possible application of the benchmark replacement provisions of the Covered Bonds in making any investment decision with respect to the Covered Bonds.

## 8.2 *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 Sterling Overnight Index Average (**SONIA**) as a reference rate in the capital markets and its adoption as an alternative to Sterling London Inter Bank Offered Rate (**LIBOR**). In particular, market participants and relevant working groups continue to explore alternative reference rates based on SONIA, including various ways to produce term versions of SONIA (which seek to measure the market's forward expectation of an average SONIA rate over a designated term, as it is an overnight rate). 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. In addition, the methodology for determining any overnight rate index by reference to which the Rate of Interest in respect of certain Covered Bonds may be calculated could change during the life of the Covered Bonds. Furthermore, the Issuer may in future issue Covered Bonds referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA-referenced Covered Bonds issued under the Programme. The nascent development of Compounded Daily SONIA as an interest reference rate for the Eurobond markets, as well as continued development of SONIA-based rates for such market and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA-referenced Covered Bonds issued under the Programme from time to time.

Furthermore, interest on Covered Bonds which reference Compounded Daily SONIA 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 Compounded Daily SONIA to estimate reliably the amount of interest which will be payable on such Covered Bonds, and some investors may be unable or unwilling to trade such Covered Bonds without changes to their IT systems, both of which could adversely impact the liquidity of such Covered Bonds. Further, in contrast to LIBOR-based securities, if Covered Bonds referencing Compounded Daily SONIA become due and payable as a result

of an event of default under Condition 9 (*Events of Default, Acceleration and Enforcement*), the rate of interest payable for the final Interest Period in respect of such Notes shall only be determined immediately prior to the date on which the Covered Bonds become due and payable and shall not be reset thereafter.

In addition, the manner of adoption or application of SONIA reference rates in the Eurobond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Covered Bonds referencing SONIA.

Further, if SONIA does not prove to be widely used in securities such as the Covered Bonds, the trading price of such Covered Bonds linked to SONIA may be lower than those of Covered Bonds linked to indices that are more widely used. Investors in such Covered Bonds may not be able to sell such Covered Bonds at all or may not be able to sell such Covered Bonds at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

Investors should consider these matters when making their investment decision with respect to any such relevant Covered Bonds.

### 8.3 *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 continue to develop. The Covered Bonds and the Covered Bond Guarantee have not been, and will not be, registered under the Securities Act or any other the securities laws or “blue sky” laws of any state or other jurisdiction of the United States and 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.

### 8.4 *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.

## **9 LEGAL AND REGULATORY RISK FACTORS**

### **9.1 *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.

### **9.2 *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.

### **9.3 *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 below under section 9.5 "*Fixed charges may take effect under English law as floating charges*".

#### 9.4 *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 "*Summary of the Principal Documents – Deed of Charge*"). In certain circumstances, including the occurrence of certain insolvency (or certain pre-insolvency) events in respect of the LLP, the ability to realise the Security may be delayed and/or the value of the Security impaired. In particular, it should be noted that significant changes to the UK insolvency regime have been enacted under the Corporate Insolvency and Governance Act 2020 which received Royal Assent on 25 June 2020 and came into effect on 26 June 2020. The changes include, among other things: (i) the introduction of a new moratorium regime that certain eligible companies can obtain which will prevent creditors taking certain action against the company for a specified period; (ii) a ban on operation of or exercise of ipso facto clauses preventing (subject to exemptions) termination, variation or exercise of other rights under a contract due to a counterparty entering into certain insolvency or restructuring procedures; and (iii) a new compromise or arrangement under Part 26A of the Companies Act 2006 (the Restructuring Plan) that provides for ways of imposing a restructuring on creditors and/or shareholders without their consent (so-called cross-class cram-down procedure), subject to certain conditions being met and with a court adjudicating on the fairness of the restructuring proposal as a whole in determining whether or not to exercise its discretionary power to sanction the Restructuring Plan. While the Issuer and the LLP are expected to be exempt from the application the new moratorium regime and the ban on ipso facto clauses, there is no guidance on how the new legislation will be interpreted and the Secretary of State may by regulations modify the exceptions. For the purposes of the Restructuring Plan, it should also be noted that there are currently no exemptions, but the Secretary of State may by regulations provide for exclusion of certain companies providing financial services and the UK government has expressly provided for changes to the Restructuring Plan to be effected through secondary legislation, particularly in relation to the cross-class cram-down procedure. It is therefore possible that aspects of the legislation may change. While the transaction structure is designed to minimise the likelihood of the LLP becoming insolvent and/or subject to pre-insolvency restructuring proceedings, no assurance can be given that any modification of the exceptions from the application of the new insolvency reforms referred to above will not be detrimental to the interests of the Covered Bondholders and there can be no assurance that the LLP will not become insolvent and/or the subject of insolvency or pre-insolvency restructuring proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including English insolvency law or the laws affecting the creditors' rights generally) 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 Sections 174A, 176ZA and 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy expenses of the insolvency proceeding, the claims of Secured Creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors or creditors who otherwise take priority over floating charge recoveries. 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.

#### 9.5 *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

9.6 *Liquidation expenses payable on floating charge realisation will reduce amounts available to satisfy the claims of secured creditors of the Issuer and/or the LLP*

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 England and Wales Rules 2016 (as amended) as applied to the LLP by virtue of the Insolvency (Miscellaneous Amendments) Regulations 2017.

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.

9.7 *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.

#### 9.8 *Impact of UK EMIR and EU EMIR on Swap Agreements*

The derivatives markets are subject to extensive regulation in a number of jurisdictions, including in the UK pursuant to Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories as it forms part of UK domestic law by virtue of the EUWA (**UK EMIR**), and in Europe pursuant to Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (**EU EMIR**), each as amended from time to time. UK EMIR and EU EMIR establish certain requirements for OTC derivatives contracts, including (i) a mandatory clearing obligation for certain classes of OTC derivatives contracts (the **Clearing Obligation**), (ii) margin posting, daily valuation and other risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty (the **Risk Mitigation Requirements**) and (iii) certain reporting and record-keeping requirements.

Under UK EMIR and EU EMIR, counterparties can be classified as (i) financial counterparties (**FCs**) (which includes a sub-category of small FCs) and (ii) non-financial counterparties whose positions, together with the positions of all other non-financial counterparties in its "group" (as defined in UK EMIR and EU EMIR), in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold (**NFC+s**). Whereas FCs (excluding small FCs) and NFC+ entities must clear OTC derivatives contracts that are

entered into on or after the effective date for the relevant Clearing Obligation, such obligation does not apply in respect of NFC- entities. OTC derivatives contracts entered into by NFC+ and FC entities (and/or third country equivalent entities) with each other that are not cleared by a central counterparty may be subject to the relevant margining requirement and the relevant daily valuation obligation under UK EMIR and EU EMIR. On the basis that the LLP is an NFC- for the purposes of UK EMIR and a third country equivalent to an NFC- (a TCE NFC-) for the purposes of EU EMIR, OTC derivatives contracts that are entered into by the LLP are not subject to the Clearing Obligation or any margining requirements under UK EMIR and EU EMIR.

OTC derivatives contracts that are not cleared by a central counterparty are also subject to certain other Risk Mitigation Requirements, including arrangements for timely confirmation of OTC derivatives contracts, portfolio reconciliation, dispute resolution and arrangements for monitoring the value of outstanding OTC derivatives contracts. These requirements are already in effect. In order to comply with certain of these Risk Mitigation Requirements, the LLP includes appropriate provisions in each Swap Agreement and the related Transaction Documents.

If the LLP's counterparty status changes to an NFC+ or FC for the purposes of UK EMIR and/or a third country equivalent to an NFC+ or FC (a **TCE NFC+** or a **TCE FC** respectively) for the purposes of EU EMIR, this may result in the application of the relevant Clearing Obligation or (more likely) the relevant margining requirements and the relevant daily valuation obligation under the Risk Mitigation Requirements (the **Margin Obligation**), as it seems unlikely that any of the Swap Agreements would be a relevant type of OTC derivatives contract that would be subject to the Clearing Obligation under UK EMIR and EU EMIR to date. It should also be noted that the relevant Margin Obligation should not apply in respect of swaps entered into prior to the relevant application date, unless such a swap is materially amended on or after that date. Where the relevant swap counterparty is a UK entity, an exemption from the Clearing Obligation under UK EMIR and a partial exemption in respect of the Margin Obligation under UK EMIR may be available in respect of the Cover Pool Swaps and Covered Bond Swaps, provided that the applicable conditions are satisfied.

The applicable conditions require that:

- (a) the Cover Pool Swaps and the Covered Bond Swaps are used only to hedge interest rate or currency mismatches under the covered bonds; and
- (b) the arrangements under the covered bonds adequately mitigate counterparty credit risk with respect to the Cover Pool Swaps and the Covered Bond Swaps concluded by the LLP in connection with the covered bonds,

and with respect to the partial exemption from the Margin Obligation only:

- (c) the netting set does not include OTC derivative contracts unrelated to the cover pool of the covered bonds; and
- (d) the covered bond to which the OTC derivative contract is associated meets the requirements of paragraphs (1), (2) and (3) of Article 129 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment funds amending Regulation (EU) 648/2012 as it forms part of UK domestic law by virtue of the EUWA.

Arrangements under covered bonds shall be considered to adequately mitigate counterparty credit risk, where the OTC derivative contracts concluded by the relevant covered bond entity in connection with the covered bonds comply with all of the following criteria:

- (i) those OTC derivative contracts are registered or recorded in the cover pool of the covered bond in accordance with national legislation on covered bonds;

- (ii) those OTC derivative contracts are not terminated in case of resolution or insolvency of the covered bond issuer or the cover pool;
- (iii) the counterparty to the OTC derivative contract concluded with covered bond issuers or with cover pools for covered bonds ranks at least *pari passu* with the covered bond holders, except where the counterparty to the OTC derivative contract concluded with covered bond issuers or with cover pools for covered bonds is the defaulting or the affected party, or waives the *pari passu* rank; and
- (iv) the covered bonds are subject to a regulatory collateralisation requirement of at least 102%.

Pursuant to the partial exemption in respect of the Margin Obligation, initial margin does not need to be posted or collected, but the LLP would be required to collect variation margin in the form of cash from its swap counterparty under in-scope Swap Agreements and return cash collected when due. If it was necessary and possible for the LLP to rely on this partial exemption, this requirement may increase the costs of entering into Swap Agreements for the LLP.

The exemption from the Clearing Obligation and partial exemption from the Margin Obligation are only likely to become relevant should the status of the LLP change from an NFC- to an NFC+ or FC under UK EMIR and, if clearing is applicable, should the Cover Pool Swaps and Covered Bond Swaps be regarded as a type that is subject to the relevant Clearing Obligation. Should the status of the LLP change from a TCE NFC- to a TCE NFC+ or TCE FC under EU EMIR and the relevant swap counterparty is an EU entity, from an EU EMIR perspective, there are no covered bond exemptions available to the LLP.

If the LLP's counterparty status as an NFC- for the purposes of UK EMIR and/or TCE NFC- for the purposes of EU EMIR changes and the LLP is unable to rely on the relevant conditional exemptions, this may adversely affect the ability of the LLP to continue to be party to Swap Agreements (possibly resulting in restructuring or termination of the Swap Agreements) or to enter into Swap Agreements, thereby negatively affecting the ability of the LLP to hedge certain risks. This may also reduce the amounts available to make payments with respect to the Covered Bonds.

UK EMIR and EU EMIR may, *inter alia*, lead to more administrative burdens and higher and/or additional costs and expenses for the LLP, which may in turn reduce the amounts available to make payments with respect to the Covered Bonds. Further, if any party fails to comply with the applicable rules under UK EMIR and/or EU EMIR, it may be liable for a fine. If such a fine is imposed on the LLP, this may also reduce the amounts available to make payments with respect to the Covered Bonds.

## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without receipts, interest coupons and/or talons attached, or registered form, without receipts, interest coupons and/or talons attached. Bearer Covered Bonds will be issued outside the United States to non-U.S. persons in reliance on Regulation S, and Registered Covered Bonds may be issued outside the United States to non-U.S. persons in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S, or otherwise in private transactions, pursuant to an exemption from, or in a transaction not subject to the registration requirements under the Securities Act and any applicable state or local securities laws.

### **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 SA/NV (**Euroclear**) and Clearstream Banking, S.A. (**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 depository (the **Common Depository**) 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 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 a 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, which will be sold to non-U.S. persons outside the United States, 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 a 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.

### **Transfer of Interests**

Interests in a Registered Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bond with written certification from the transferor in accordance with the provisions of the Agency Agreement. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

### **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.

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 each 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 or superseded, **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.

**UK MiFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of each 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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No. 600/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) 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; (ii) a customer within the meaning of Directive 2016/97/EC (as amended or superseded, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, (the **Prospectus Regulation**). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended or superseded) (the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making the Covered Bonds available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making the Covered Bonds available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**IMPORTANT – PROHIBITION OF SALES TO UK 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 United Kingdom (**UK**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client, as defined in

point (8) of Article 2 of Regulation (EU) No. 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **EUWA**); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the **FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No. 600/2014 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No. 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making the Covered Bonds available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making the Covered Bonds available to any retail investor in the UK may be unlawful under the UK 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 [●] 2021 [and the supplement[s] to it dated [●] [and [date]] which [together] constitute[s] a base prospectus (the **Prospectus**) for the purposes of Regulation (EU) 2017/1129 (the **Prospectus Regulation**) and UK Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **EUWA**) (the **UK Prospectus Regulation**) This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation and the UK Prospectus Regulation 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 published on the website of the London Stock Exchange and is available for viewing at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH and the Issuer's website ([www.tsb.co.uk/investors/debt-investors](http://www.tsb.co.uk/investors/debt-investors)), 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 [●] 2021 [and the supplement[s] to it dated [●] [and [date]] which [together] constitute[s] a base prospectus (the **Prospectus**) for the purposes of Regulation (EU) 2017/1129 (the **Prospectus Regulation**) and UK Prospectus Regulation (Regulation (EU) 2017/1129) as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**) (the **UK Prospectus Regulation**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation and the UK Prospectus Regulation 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]]. The Prospectus and the Terms and Conditions are published on the website of the London Stock Exchange and are available for viewing at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH and the Issuer's website ([www.tsb.co.uk/investors/debt-investors](http://www.tsb.co.uk/investors/debt-investors)), 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 Covered Bond Guarantee:	[●]/Interest Payment Date falling in or nearest to [●]/[Not Applicable]
10	Interest Basis:	[[●] per cent. Fixed Rate] [[Compounded Daily SONIA]/[[●] [[●] [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 Specified 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:	[[Compounded Daily SONIA]/ [[●]-month] 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:	[●]
	– Overnight Rate:	[Applicable/Not Applicable/[●]]
	– Index Determination	[Applicable/Not Applicable/[●]]
	– Relevant Number:	[[5 / [●]] [[London Banking Days]/[TARGET Business Days]/[Not Applicable]
	– Observation Method:	[Not Applicable/Lag/Lock-out/Shift]
	– Observation Look Back Period:	[[●] London Banking Days] /[Not Applicable]
	– Lock-Out Date	[[●]/[London Business Days] /[TARGET Business 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	<b>Zero Coupon Covered Bond Provisions</b>	[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** [●] per Calculation 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:

## 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 depository 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 Signed on behalf of TSB Covered Bonds LLP

By:  
Duly authorised

By:  
Duly authorised

## PART B — OTHER INFORMATION

### 1 LISTING

- (i) Admission to trading: Application [is expected to be made/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 main market and to be listed on the Official List of the Financial Conduct Authority with effect from or about [●]
- (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: [●]

(endorsed by Moody's Deutschland GmbH)

Moody's Investor Service Ltd. is established in the UK and are registered in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the **UK CRA Regulation**).

*[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*

### 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 USE OF PROCEEDS

[Reasons for offer [●]]

Estimated Net Proceeds [●]

Estimated Total Expenses [●]

### 6 U.S. SELLING RESTRICTIONS

Regulation S Category 2 [TEFRA C rules apply]/[TEFRA D rules apply]/[TEFRA rules not

applicable]

7 **OPERATIONAL INFORMATION:**

- (i) ISIN: [●]
- (ii) CFI: [[●], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]
- (iii) FISN: [[●], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/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 [●]
- (viii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Covered Bonds which are to be held under the NSS] and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] / [No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Covered Bonds]. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for

Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met]]

- (ix) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]  
*(If the Covered Bonds clearly do not constitute “packaged” products or the Covered Bonds do constitute “packaged” products and a key information document will be prepared in the EEA, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)*
- (x) Prohibition of Sales to UK Retail Investors: [Applicable/Not Applicable]  
*(If the Covered Bonds clearly do not constitute “packaged” products or the Covered Bonds do constitute “packaged” products and a key information document will be prepared in the UK, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)*

8 **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.

9 **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 the Financial Conduct Authority] pursuant to Article 36 of the UK Benchmarks Regulation / [As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the UK Benchmarks 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 by appointment during usual business hours at the registered office of the Principal Paying Agent (at the Principal Paying Agent's option, such inspection may be provided electronically).

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 by appointment 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 (at the Principal Paying Agents option, such copies may be provided electronically). 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 by appointment at the office of the Principal Paying Agent (at the Principal Paying Agents option, such copies may be provided electronically) or can be viewed online at the Issuer's website [www.tsb.co.uk/investors/debt-investors](http://www.tsb.co.uk/investors/debt-investors)). 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 depository or common safekeeper (as the case may be) for, Euroclear Bank SA/NV (**Euroclear**) or Clearstream Banking, S.A (**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 sub-paragraph (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 EURIBOR for a currency, the first day of that Interest Period.

For the purposes of this sub-paragraph (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, and the Reference Rate in respect of the Floating Rate Covered Bonds is specified as being a rate other than SONIA, 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 Euro-zone interbank 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 Euro-zone interbank 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 4, 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***

#### **Compounded Daily SONIA (Non-Index Determination)**

Where **Screen Rate Determination** and **Overnight Rate** are specified as "Applicable", the Reference Rate is specified as being "Compounded Daily SONIA, ", and **Index Determination** is specified as "Not Applicable" in the applicable Final Terms, the following provisions shall apply and 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 (if any), as 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).

**Compounded Daily SONIA** means, in relation to an Interest Period, the rate of return of a daily compound interest investment (with the daily Sterling Overnight Index Average as the 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) on the Interest Determination Date (i) as further specified in the applicable Final Terms or (ii) in accordance with the following formula, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[ \prod_{i=1}^{d_0} \left( 1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

**d** means the number of calendar days in (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) the relevant SONIA Observation Period;

**d<sub>0</sub>** means (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) for any Interest Period, the number of London Banking Days in the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) for any SONIA Observation Period, the number of London Banking Days in the relevant SONIA Observation Period;

**i** means a series of whole numbers from 1 to *d<sub>0</sub>*, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day (where in the applicable Final Terms “Lag” or “Lock-out” is specified as the Observation Method) in the relevant Interest Period or (where in the applicable Final Terms “Shift” is specified as the Observation Method) the SONIA Observation 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<sub>i</sub>**, 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;

**p** means (save as specified in the applicable Final Terms) the number of London Banking Days included in the **Observation Look-Back Period** specified in the applicable Final Terms;

**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);

**SONIA<sub>i-pLBD</sub>** means:

- (a) where in the applicable Final Terms “Lag” is specified as the Observation Method, (save as specified in the applicable Final Terms) in respect of any London Banking Day *i* falling in the relevant

Interest Period, the SONIA reference rate for the London Banking Day falling  $p$  London Banking Days prior to such day;

- (b) where in the applicable Final Terms “Lock-out” is specified as the Observation Method, (save as specified in the applicable Final Terms) during each relevant Interest Period, the SONIA reference rate for each London Banking Day  $i$  falling in the relevant Interest Period, except that in respect of each London Banking Day  $i$  falling on or after the “Lock-out date” specified in the applicable Final Terms (or, where no “Lock-out date” is specified, five London Banking Days prior to each relevant Interest Payment Date) until the end of each relevant Interest Period, the SONIA reference rate determined in accordance with paragraph (a) above in respect of such “Lock-out date”; or
- (c) where in the applicable Final Terms “Shift” is specified as the Observation Method, (save as specified in the applicable Final Terms)  $SONIA_i$ , where  $SONIA_i$  is, in respect of any London Banking Day  $i$  falling in the relevant SONIA Observation Period, the SONIA reference rate for such day; and

**SONIA 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).

**Compounded Daily SONIA (Index Determination)**

Where **Screen Rate Determination**, **Overnight Rate** and **Index Determination** are specified as "Applicable" and the **Reference Rate** is specified as being “Compounded Daily SONIA” in the applicable Final Terms, the following provisions shall apply and 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 (if any), as 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).

**Compounded Daily SONIA** means, in relation to an Interest Period, the rate of return of a daily compound interest investment (with the daily Sterling Overnight Index Average as the 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) on the Interest Determination Date: (i) as further specified in the applicable Final Terms; or (ii) by reference to the screen rate or index for compounded daily SONIA rates administered by the administrator of the SONIA reference rate that is published or displayed by such administrator or other information service from time to time on the relevant Interest Determination Date, as further specified in the applicable Final Terms (the "**SONIA Compounded Index**"); or (iii) and in accordance with the following formula, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\text{Compounded Daily SONIA Rate} = \left( \frac{\text{SONIA Compounded Index}_{\text{End}}}{\text{SONIA Compounded Index}_{\text{Start}}} - 1 \right) \times \frac{365}{d}$$

where:

**d** means the number of calendar days from (and including) the day in relation to which SONIA Compounded Index<sub>Start</sub> is determined to (but excluding) the day in relation to which SONIA Compounded Index<sub>End</sub> is determined;

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

**Relevant Number** means the number specified as such in the applicable Final Terms (or, if no such number is specified, five);

**SONIA Compounded Index<sub>Start</sub>** means, with respect to an Interest Period, the SONIA Compounded Index determined in relation to the day falling the Relevant Number of London Banking Days prior to the first day of such Interest Period; and

**SONIA Compounded Index<sub>End</sub>** means, with respect to an Interest Period, the SONIA Compounded Index determined in relation to the day falling the Relevant Number of London Banking Days prior to (A) the Interest Payment Date for such Interest Period, or (B) such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period).

If the relevant SONIA Compounded Index is not published or displayed by the administrator of the SONIA reference rate or other information service by 5.00 p.m. (London time) (or, if later, by the time falling one hour after the customary or scheduled time for publication thereof in accordance with the then-prevailing operational procedures of the administrator of the SONIA reference rate or of such other information service, as the case may be) on the relevant Interest Determination Date, the Compounded Daily SONIA Rate for the applicable Interest Period for which the SONIA Compounded Index is not available shall be “Compounded Daily SONIA” determined as set out under the section entitled Compounded Daily SONIA (Non-Index Determination) above and as if **Index Determination** were specified in the applicable Final Terms as being “Not Applicable”, and for these purposes: (i) the "Observation Method" shall be deemed to be “Shift” and (ii) the “Observation Look-Back Period” shall be deemed to be equal to the Relevant Number of London Banking Days, as if those alternative elections had been made in the applicable Final Terms.

If, in respect of any London Banking Day in the relevant Observation Period or the relevant Interest Period (as the case may be), 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 becomes due and payable in accordance with Condition 9 (*Events of Default, Acceleration and Enforcement*), 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 sub-paragraph (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 4, 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 5.4 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 5.5, 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 5.6 (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 Terms and 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) above 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 Condition 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 Condition 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 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 the event that any such withholding or deduction is required from a payment by, or on behalf of, 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 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 despatched in the Specified Currency remains uncashed at the end of the period of five years from the Relevant Date in respect of such payment.

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

Condition 5 (*Payments*) or any Talon which would be void pursuant to Condition 5 (*Payments*).

## 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 paragraph (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 Bondholders, 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 paragraphs (a) and (b) below, and the Bond Trustee and the Security Trustee shall in the case of paragraphs (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 (i) Regulation (EU) 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories as it forms part of UK domestic law by virtue of the EUWA (**UK EMIR**) and/or (ii) Regulation (EU) 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (**EU EMIR**), as applicable, 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 the 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 EURIBOR, SONIA 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) above 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 EURIBOR, SONIA (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 this Condition 14.3:
  - (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 19) 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 19 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 19 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 19) 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) 131 260 0264.

### 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 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. In 2020 the Issuer implemented a strategy to take direct management of suppliers of IT services which significantly reduced the scope of the services provided by companies within the Sabadell Group.

### STRATEGY

TSB Bank's three-year growth strategy, introduced in November 2019, helped it navigate the challenges of 2020. TSB Bank's goal is to restore its competitiveness through a stronger focus on serving customers more effectively, and to deliver its renewed business purpose of "Money Confidence. For everyone. Every Day".

The strategy is built on three pillars: customer focus; simplification and efficiency, and operational excellence:

#### *Customer focus*

TSB Bank has identified the 'Aspiring Middle' (being working families, individuals for whom money is a constant balancing act, and variable income customer groups) as its target segment of the market and will aim to build the bank to meet their need for money confidence. These customers have a wealth of unmet needs and present clear opportunities where TSB can help make a difference.

TSB Bank will invest in digital solutions, products and services that will help deliver its renewed business purpose, as well as reshaping the size of its branch network to ensure it meets the changing needs of customers.

#### *Simplification and efficiency*

Becoming a more technology-enabled and innovative business means transforming to be simpler and faster. TSB Bank's new IT platform has a strong foundation to build upon for the future with multi-cloud and data capabilities, using data driven insights and analytics to improve customer experiences for its target segment.

#### *Operational excellence*

TSB Bank is focused on creating a resilient and sustainable business that delivers operational excellence. The strategy is underpinned by strong governance framework and oversight, backed by an experienced management team.

### **CURRENT OPERATIONS AND PRINCIPAL ACTIVITIES**

TSB Bank's business is of a fully functioning UK bank with a multi-channel, national distribution model, including 443 branches (as at 31 December 2020) with coverage across England, Scotland and Wales and a full digital (internet and mobile) and telephony capability. In September 2020, TSB Bank announced further changes to its branch network, including the closure of 153 branches in 2021. These changes will mean that TSB Bank expects to have 290 branches at the end of 2021. These plans were already within TSB Bank's existing strategy, but TSB Bank accelerated the pace of delivery as consumer behaviour changed during the COVID-19 pandemic.

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. For further information see Risk Factor entitled "*The Conduct Indemnity may not cover all potential losses arising as a result of conduct-related 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.

##### *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***

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***

The unsecured lending products offered to customers by TSB Bank consist of unsecured personal loans, credit cards and PCA 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.

#### *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. During 2020, the business banking portfolio increased significantly as a result of lending under the Government's BBLs and CBILS schemes to support business through the COVID-19 crisis. Those loans are guaranteed by the UK government, with the British Business Bank responsible for all administration in connection with such guarantees, including the administration of the guarantee claims portal in respect thereof.

### **5. *Insurance products***

TSB Bank offers general insurance products, underwritten by Aviva Insurance Limited, through its branch, digital and telephony channels.

## 6. *Interim Financial Statements*

The Issuer does not publish interim financial statements.

## REGULATION

As a financial institution, the Group is subject to extensive financial services laws, regulations, administrative actions and policies in the UK and each 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 continues to be adopted in regions that directly or indirectly affect the Group's business, including in the UK Spain and the EU.

### 1. *UK Regulators*

TSB Bank falls under the ambit of UK banking regulators and regulations.

#### *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 £350,000 for complaints about acts or omissions by firms which took place on or after 1 April 2019 or £160,000 for complaints about acts or omissions by firms which took place before 1 April 2019 and which are referred to the FOS after 1 April 2019 or £150,000 if the complaint took place and was referred to FOS prior to 1 April 2019. From 1 April 2020 onwards, both award limits are automatically adjusted each year in line with inflation, as measured by the Consumer Prices Index (CPI). The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate.

#### *The Lending Standards Board*

The Lending Standards Board (formerly the Banking Code Standards Board) is responsible for monitoring and enforcing compliance with overseeing the Standards of Lending Practice (which replaced the voluntary Lending Code on 1 October 2016). The standards relate to certain for both personal and business customers). The Standards of Lending Practice for personal customers cover six main areas: financial promotions and communications; product sales; account maintenance and servicing; money management; financial difficulty; and, customer vulnerability across key lending (current account overdrafts, loans and credit cards, loans and chargecards) to consumers, micro-enterprises and charities with an income of less than £1 million. The Standards of Lending Practice for business customers apply in their entirety to business customers, which at the point of lending have a non-complex ownership structure, and an annual turnover of less than £6.5 million. Certain parts of the standards apply to business with an annual turnover between £6.5million and £25million. The standards cover nine main areas: product information; product sale; declined applications; product execution; credit monitoring; financial difficulty; business support units, portfolio management; and, vulnerability for products including loans, overdrafts, commercial mortgages, credit cards, and chargecards.

## **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) or purporting to do so 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 (as defined in FSMA) 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 the 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.

For more information see "*Risk Factors – Risks Relating to the legal and regulatory environment in which the Group operates – The Group is subject to substantial and changing prudential regulation*" above.

#### *Recovery and resolution*

The Banking Act provides for a special resolution regime under which designated authorities have extended tools to deal with the failure (or likely failure) of, among other, deposit-taking institutions. Please refer to the section of the Prospectus entitled "*Risk Factors – Risks Relating to the legal and regulatory environment in which the Group operates – The Group is subject to substantial and changing prudential regulation*" above.

### *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 legal and 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 legal and regulatory environment in which the Group operates*" above.

### *Senior Managers Regime and Remuneration*

The Banking Reform Act includes certain provisions regarding the regime for conduct of individuals performing a senior management function (who also need to be pre-approved by regulators) and employees who could pose a risk of significant harm to a firm or its customers (who do not need regulatory pre-approval but are subject to certification by the firm itself), which started coming into force on 25 July 2014 (the last provision having come into force on 7 March 2017). 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 has a substantial impact on, among other firms, 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 is based. A CRR firm is subject to both chapter 19D of the Systems and Controls sourcebook (SYSC) of the FCA Handbook (the **FCA Remuneration Code**) and the remuneration part of the PRA Rulebook (the **PRA Remuneration Code**). The requirements of the Codes are supplemented by a variety of guidance, supervisory statements and opinions not only from the PRA and FCA, but also from the European Banking Authority. The general principle of the Codes is that firms must ensure that their remuneration policies and practices are consistent with and promote sound and effective risk management. Compliance with the other principles in the Codes is effectively judged by reference to this general principle. Sanctions that are available to the PRA and FCA for breach of the Codes include private warnings (including imposing restrictions on the way in which a firm structures its remuneration in the future), fines and, in the most serious cases of persistent and significant breach, the PRA and FCA are able to use public censure or, ultimately, variation or cancellation of a firm's authorisation. 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.

### *Financial Services Compensation Scheme and the EU Deposit Guarantee Scheme Directive*

#### FSCS

The Group is responsible for contributing to the FSCS in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Please refer to the section of the Prospectus entitled “*Risk Factors – Risks Relating to the legal and regulatory environment in which the Group operates* – above for more details.

#### EU DGSD

Please refer to the section of the Prospectus entitled “*Risk Factors – Risks Relating to the legal and regulatory environment in which the Group operates* – above for more details.

### *Competition regulation*

TSB is subject to EU (as it forms part of UK domestic law by virtue of the EUWA) 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 have been introduced according to the timetable set out in the CMA Order 2017. TSB is subject to, and has implemented 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 routinely undertakes studies, inquiries and investigations on the banking and insurance sector market (including studies in respect of mortgages, overdrafts, high cost credit and the retail banking business model).

In 2016, the FCA issued a call for input on high-cost credit and review of the high-cost short-term credit (HCSTC) price cap in 2016. The FCA decided to maintain the HCSTC price cap, with a commitment to review the level within three years (originally by July 2020, but this work appears to have been delayed in the wake of the Covid-19 pandemic). The FCA also continued to review both sector-wide issues and concerns about certain high-cost credit products (overdrafts, rent-to-own, home-collected credit and catalogue credit), implementing price caps where appropriate. In relation to overdrafts, the FCA introduced significant reforms to its rules in June 2019 and published a policy statement on overdraft pricing and competition remedies in October 2019. The overdraft pricing rules came into force on 6 April 2020. In July 2019, the FCA and the CMA entered into memoranda of understanding in relation to consumer protection and competition powers.

While the outcome of such initiative and studies and the scope any future initiatives and/or studies is inherently uncertain, they may ultimately result in the application of behavioural and/or structural remedies by the regulator.

### 3. *Directors of the Issuer*

The directors of the Issuer, the business address of each of whom is 20 Gresham Street, London EC2V 7JE, and their respective principal outside activities, where significant to the Group, are as follows:

<b>Name</b>	<b>Principal outside activities</b>
<b>Richard Meddings</b> <i>Chairman</i>	Non-executive Director, Credit Suisse Non-executive Director, HM Treasury Trustee, Teach First
<b>Debbie Crosbie</b> <i>Chief Executive Officer</i>	
<b>Ralph Coates</b> <i>Chief Financial Officer</i>	
<b>David Vegara</b> <i>Non executive Director</i>	Sabadell Chief Risk Officer and Executive Board Member, Banco de Sabadell, S.A. Member of the Supervisory Board at the Hellenic Corporation of Assets & Participations S.A. Trustee of Fundació Pasqual Maragall (not-for-profit organisation)
<b>Tomás Varela</b> <i>Non executive Director</i>	
<b>Andy Simmonds</b> <i>Independent Non executive Director</i>	Non-executive Director, EFG Private Bank Ltd Non-executive Chairman, ICBC Standard Bank plc
<b>César González-Bueno</b> <i>Non executive Director</i>	Chief Executive Officer, Banco de Sabadell, S.A.
<b>Lynne Peacock</b> <i>Senior Independent Non executive</i>	Non-executive Director, Serco plc

<b>Name</b>	<b>Principal outside activities</b>
<i>Director</i>	Non-executive Director, Royal Mail plc Chair of the Board of Trustees of Learning Disability Network London Limited
<b>Mark Rennison</b> <i>Independent Non executive Director</i>	Non-executive Director, Royal London Non-executive Director, Homes England
<b>Elizabeth (Libby) Chambers</b> <i>Independent Non executive Director</i>	Non-executive Director, Provident Financial Group plc Non-executive Director, Tilney Smith & Williamson Limited Senior Advisor to Searchlight Capital Partners and its portfolio companies
<b>Adam Banks</b> <i>Independent Non executive Director</i>	Member of the Advisory Board, Pollinate International Advisor to the Board, Euroclear UK&I

On 24<sup>th</sup> March 2021, Richard Meddings announced his intention to step down as chairman of TSB. He will continue to lead the Board until a successor is appointed.

César González-Bueno and David Vegara are executive board members of Banco de Sabadell, S.A. As such, David Vegara, and César González-Bueno have a potential conflict of interest in circumstances where the interests of the Issuer 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 1 Bartholomew Lane, London EC2N 2AX. 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	1 Bartholomew Lane, London EC2N 2AX
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	1 Bartholomew Lane, London EC2N 2AX	Corporate Director
Intertrust Directors 2 Limited	1 Bartholomew Lane, London EC2N 2AX	Corporate Director
Pavi Helena Whitaker	1 Bartholomew Lane, London EC2N 2AX	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
Pavi Helena Whitaker	1 Bartholomew Lane, London EC2N 2AX	Company Secretary, Director
Susan Iris Abrahams	1 Bartholomew Lane, London EC2N 2AX	Director
Ian Hancock	1 Bartholomew Lane, London EC2N 2AX	Director

Daniel Marc Richard Jaffe      1 Bartholomew Lane, London EC2N 2AX      Director

Wenda Margaretha Adriaanse      1 Bartholomew Lane, London EC2N 2AX      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:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities outside the LLP</b>
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
Annabel Murday	20 Gresham Street, London EC2V 7JE	Head of Liquidity and Market Risk Oversight of TSB Bank plc
Gina Amies	20 Gresham Street, London EC2V 7JE	Managing Counsel, Treasury Legal 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 2020 have been audited by the LLP's auditors and have been prepared in accordance with generally accepted accounting principles under international accounting standards. The LLP's audited accounts for the year ended 31 December 2020 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 "*Summary of the Principal Documents – 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 paragraph (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 0.18 per cent. greater than the SONIA Spot Rate 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 assignments of such Scottish Loans pursuant to the Mortgage Sale Agreement. Such beneficial interest (as opposed to the legal title) cannot be registered or recorded in the Registers of Scotland. As a result, legal title to all of the Loans and their Related Security will remain with the Seller until legal assignments or assignments (as appropriate) are effected by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignment (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described in the paragraph below.

The assignments, assignments, transfers or conveyances (as appropriate) of the Loans and their Related Security (or, where specified, the Selected Loans and their Related Security) to the LLP shall be perfected by the Seller (or, as the case may be, the LLP or the Security Trustee pursuant to powers granted under the Seller Power of Attorney) on or before the 20th London Business Day after the 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 and section 4 of the Land and Buildings Transaction Tax (Scotland) Act 2013) and Section 4(1) of the Land Transaction Tax and Anti-Avoidance of Devolved Taxes (Wales) Act 2017);
- 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) above 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 (i), the Cash Management Agreement), the Servicer will undertake in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

- (a) keep records and books of account on behalf of the LLP in relation to the Loans and their Related Security;
- (b) keep any records necessary for the purposes of all Taxation, including, without limitation, VAT;
- (c) 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;
- (d) 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;
- (e) 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;

- (f) 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;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) 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;
- (k) 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;
- (l) 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
- (m) 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 0.18 per cent. plus the SONIA Spot Rate published on the final London Business Day in the previous Calculation Period (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 (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 (i) the Reserve Ledger on the Transaction Account so that they may be applied as Available Revenue Receipts (except where provided otherwise) or (ii) the Revenue Ledger so that they may be otherwise applied as Available Revenue Receipts, including in circumstances where the LLP is required to make payments to the Covered Bond Swap Provider as a consequence of a negative interest rate or where a shortfall in Available Revenue Receipts occurs as a consequence of any forbearance measure implemented by the Seller. Any Cash Capital Contributions made by a Member will also be recorded on the Capital Account Ledger in accordance with the Cash Management Agreement. Any amounts credited to the Revenue Ledger in accordance with paragraph (ii) above may be applied by the Cash Manager as Available Revenue Receipts on any LLP Payment Date or to provide for payment on any such other date as the Seller may require.

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 "*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 "*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 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*" 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 (as reasonably determined by the Cash Manager) on the relevant Calculation Date) 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 "*Cashflows – 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*" 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:

$$\text{the Principal Amount Outstanding of the relevant Series of Covered Bonds} \times (1 + \text{Negative Carry Factor} \times (\text{days to maturity of the relevant Series of Covered Bonds} / 365))$$

**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 paragraph (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 "*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 SONIA 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 SONIA. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Loans in the Portfolio; and
- (b) SONIA 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 SONIA 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 SONIA 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 (*Redemption for taxation reasons*) and 6.5 (*Redemption due to illegality or invalidity*), 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 SA/NV 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 Regulated 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) below 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 (e)(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 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*" 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 thereof.

### *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 (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 paragraphs (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 – Legal and regulatory 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 – Risks Relating to the Portfolio – The COVID-19 pandemic may have negative effects on the Portfolio*", "*Limited description of the Portfolio*", "*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 "*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. The Seller also offers loans to first-time buyers where the fixed rate of interest decreases by a certain percentage each year during the fixed rate period.
- **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, at the end of an initial fixed rate 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 changes to the cost of our lending to residential mortgage customers or changes to laws and regulations. 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 "*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 "*Summary of the Principal Documents – 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.

The Early Repayment Charge provisions may vary between products and may change from time to time. The Borrower may be given the right to repay early and may be given a larger repayment allowance in relation to some mortgage products.

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 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 the qualifying conditions.

The qualifying conditions include the following (among others):

- A maximum Indexed LTV of 75 per cent when the repayment holiday is granted;
- The Loan must have been open for at least 12 months with no further borrowing in the last 6 months; and
- 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).

Investors should note the FCA Payment Deferral Guidance and Tailored Support Guidance described in the section entitled "Mortgages and coronavirus: FCA guidance for firms" and the payment deferral measures outlined therein.

### ***Restructurings***

The Seller offers a range of forbearance options to support customers in or facing financial difficulty based on their individual circumstances, including: term extension, reduced payment plan, temporary suspension of principal repayments or a temporary suspension of instalments. Payment plans are reviewed regularly with Borrowers, and the Seller does not alter an agreed plan until such plan is reviewed with the Borrower, unless the Borrower requests a change or there is a significant change in circumstances.

### ***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 adopts a system based approach to lending assessments. 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". Where the decision is "refer" a manual assessment is undertaken. Mortgage underwriting decisions are subject to internal monitoring by the Seller, 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 "*Summary of the Principal Documents – Mortgage Sale Agreement – Eligibility Criteria*

" and "*Summary of the Principal Documents – 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 (123 years for all new build properties) 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 "*Summary of the Principal Documents – 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 (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 80. 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 loan will only be granted if the property is acceptable security in its existing condition.

In response to the COVID-19 pandemic the Seller has recently had periods of time where it has not lent to the maximum LTV of 95 per cent. In certain scenarios, the Seller may in the future have periods where it also does not lend to the maximum LTV of 95 per cent.

**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). 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, 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)*

Sole applicants who have 25 percent or more shareholding or joint applicants with a combined 25 percent or more shareholding will be treated as if self-employed.

Normally such applicants must have been self-employed for at least two years. Underwriters may accept less within their discretion.

Underwriters have discretion to accept other income.

In response to the COVID-19 pandemic the Seller has temporarily made changes to its lending criteria on accepting employed income received via the government furlough scheme payments, adjusting the use of other income types (in particular overtime bonus and commission) and self-employed evidence requirements.

## **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, employers reference, accountants 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.

Prior to the implementation of the Mortgage Market Review in 2014, the Seller waived income verification for certain customers, under the “fast track” process based upon the applicant’s credit score among other factors.

The Seller is proposing to introduce a new automatic income verification procedure. This would be provided by a third party, who would collate the relevant income information from customers and return it to the Seller.

## **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. The process for credit scoring is fully automated, however if certain issues are raised by the process, the Seller may review these results and manually underwrite the loan. Credit scoring applies statistical analysis to relevant 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 appeal 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 Issuer.

### ***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 QBE 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 £50 is past its due date and has not been paid by the Borrower. Once this amount has not been paid the customer will receive an initial arrears letter from the Seller. If the Borrower has not made at least one full contractual payment, the status of the account is reported to Credit Reporting Agencies.

The Seller will notify the relevant Borrower 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. 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. The Issuer also required to publish certain transaction documents relating to the programme. The information to be published by the Issuer can be found at [www.tsb.co.uk/investors/debt-investors](http://www.tsb.co.uk/investors/debt-investors). 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 – Risks relating to the Regulation of the Covered Bond Regime – 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 generally 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 depository 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.

## UK MORTGAGE REGULATION

In the United Kingdom, regulation of residential mortgage business 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) are regulated activities 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.

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.

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 lender provided credit to an individual or trustee, (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage on land (or, in Scotland, first ranking standard security) (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. The current definition of a Regulated Mortgage Contract is such that if a mortgage contract was entered into on or after 21 March 2016, the contract will be a Regulated Mortgage Contract if, at the time it is entered into, the following conditions are met: (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by a mortgage on land; (c) at least 40% of that land 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. In relation to a contract entered into before 23:00 on 31 December 2020, 'land' means land in the United Kingdom or within the territory of an EEA State and in relation to a contract entered into on or after 23:00 on 31 December 2020, 'land' means land in the United Kingdom.

A related person (in relation to a borrower, or in the case of credit provided to trustees, a beneficiary of the trust) is (1) that person's spouse or civil partner; (2) a person (whether or not of the opposite sex) whose relationship with that person has the characteristics of the relationship between husband and wife; or (3) that person's parent, brother, sister, child, grandparent or grandchild (a **Related Person**).

Credit agreements which were originated before 21 March 2016, which were regulated by the CCA, which are not exempt agreements within the meaning of article 60B(3) of the RAO by virtue of article 60D of the RAO 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 "*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 taking necessary steps for the purposes of 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. There is a risk that failure by a relevant entity to comply with the financial promotion regime may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

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). 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. Under Article 62 of the RAO, 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 (beginning with the day on which such agreement terminates) in which to do so.

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 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.

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.

## **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 secured by a first or subsequent charge. 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 at that time were regulated by the CCA became regulated mortgage activities from 21 March 2017 although firms could have adopted the new rules from 21 March 2016 if they chose. The move of CCA regulated mortgages to the FSMA regime was implemented by the Mortgage Credit Directive Order 2015 on 21 March 2016 (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" and would also therefore be Regulated 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). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in the FCA's Consumer Credit Sourcebook (CONC) and the CCA that are not contained within MCOB.

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.

### **Unfair relationships**

Under the CCA, the "extortionate credit" regime was replaced by an "unfair relationship" test. The "unfair relationship" test 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". If the court makes a determination that the relationship between the lender and the borrower is unfair, then it may make an order, among other things, requiring the originator, or any assignee (such as the LLP) to repay amounts received from the borrower. 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 and it is therefore difficult to predict whether a court would find a relationship "unfair". However, the word "unfair" is not an unfamiliar term in UK legislation due to the UTCCR and the CRA (each as defined below). The courts may, but are not obliged to, look solely to the CCA 2006 for 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 former guidance by the OFT on the unfair relationship test, may also be relevant. Under the CCA, once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

*Plevin v Paragon Personal Finance Limited* [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. Where add on products such as insurance are sold and are subject to a significant commission payment, it is possible that the non-disclosure of commission by the lender is a factor that could form part of a finding of unfair relationship.

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 payment protection insurance (**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 periods 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 set a deadline of 29 August 2019 by which consumers needed to make any PPI complaints or lose their right to have them assessed by firms or the FOS (although consumers continue to be able to bring claims in court). There is a possibility that such a deadline could be challenged in court or subject to judicial review. A consumer may be able to still submit a complaint if they were sold the policy after 29 August 2017, the complaint is about a claim being turned down by an insurer or the consumer can clearly show that there were exceptional circumstances that prevented them from making a complaint by the deadline. Where a complaint was received by the lender before the 29 August 2019, where required, remediation will be paid in accordance with methodology agreed by the FCA. It is still open to a borrower to bring a claim in the courts unless the limitation period has expired.

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.

### **Regulation of buy-to-let mortgages**

The "Consumer buy-to-let" (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.

The MCD Order sets out a number of conduct standards for firms carrying on CBTL business which cover, inter alia, requirements for pre-contractual illustrations, adequate explanations and arrears and repossessions. The FCA has amended the FCA Handbook to reflect its supervisory and enforcement powers in respect of such conduct standards. The exercise of supervisory and enforcement powers by the FCA may adversely affect the Issuer's ability to make payment in full on the Covered Bonds when due, particularly if the FCA orders remedial action in respect of past conduct.

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 MCD Order. Non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable or unenforceable without a court order or an order of the appropriate regulator, or may render the borrower not liable to pay interest or charges in relation to the period of non-compliance.

If a buy-to-let mortgage is secured on land in the UK at least 40 per cent. of which is to be occupied by a Related Person 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.

### **Distance Marketing**

In the UK, the Financial Services (Distance Marketing) Regulations 2004 (the **Distance Marketing Regulations**) apply to contracts for financial services entered into on or after 31 October 2004 by a "consumer" within the meaning of the Distance Marketing Regulations and by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower).

The Distance Marketing Regulations require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by the contract and includes, but is not limited to, general information in respect of the supplier and the financial service, the contractual terms and conditions, and whether or not there is a right of cancellation.

A Regulated Mortgage Contract under the FSMA, if originated by a UK lender (who is authorised by the FCA) from an establishment in the UK, will not be cancellable under the Distance Marketing Regulations but will be subject to related pre-contract disclosure requirements in MCOB. Failure to comply with MCOB pre-contract disclosure rules could result in, amongst other things, disciplinary action by the FCA and claims for damages under Section 138D of FSMA.

Certain other agreements for financial services (including consumer buy to let mortgage loans) will be cancellable under the Distance Marketing Regulations if the borrower does not receive prescribed information at the prescribed time. Where the credit agreement is cancellable under the Distance Marketing Regulations, the borrower may send notice of cancellation at any time before the expiry of the 14 days beginning with (i) the day after the day on which the contract is made (where all of the prescribed information has been provided prior to the contract being entered into); or (ii) the day after the day on which the last of the prescribed information is provided (where all the of prescribed information was not provided prior to the contract being entered into).

Compliance with the Distance Marketing Regulations may be secured by way of injunction (interdict in Scotland), obtained by an enforcement authority, granted on such terms as the court thinks fit to ensure such compliance, and certain breaches of the Distance Marketing Regulations may render the originator or intermediaries (and their respective relevant officers) liable to a fine.

If the borrower cancels the credit agreement under the Distance Marketing Regulations then:

- the borrower is liable to repay the principal, and any other sums paid by or on behalf of the originator to the borrower, under or in relation to the contract, within 30 calendar days of cancellation;
- the borrower is liable to pay interest, early repayment charges and other charges for services actually provided in accordance with the contract only if: (i) the amount is in proportion to the extent of the service provided (in comparison with the full coverage of the contract) and is not such that it could be construed as a penalty; (ii) the borrower received certain prescribed information at the prescribed time about the amounts payable; and (iii) the originator did not commence performance of the contract before the expiry of the relevant cancellation period (unless requested to do so by the borrower); and

- any security provided in relation to the contract is to be treated as never having had effect.

If a significant portion of the Loans are characterised as being cancellable under the Distance Marketing Regulations, then there is a risk that there could be an adverse effect on the ability of the LLP to make payments under the Covered Bond Guarantee.

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

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **1999 Regulations**) and together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the **UTCCR**), applies to business to consumer agreements made on or after 1 July 1995 and before 1 October 2015 where the terms have not been individually negotiated (and the "consumer" for these purposes falls within the definition provided in the UTCCR). 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 1999 Regulations. The Consumer Rights Act 2015 (the **Consumer Rights Act**) has revoked the UTCCR in respect of contracts made on or after 1 October 2015 (see "*Consumer Rights Act 2015*" below).

The UTCCR and the CRA provide that a consumer (which would include a Borrower under all or almost all of the Loans) may challenge a term in an agreement on the basis that it is "unfair" within the UTCCR or the CRA as applicable 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) and provide that a regulator may take action to stop the use of terms which are considered to be unfair.

The UTCCR will not generally 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 with the lender (or exercise analogous rights in Scotland). Any such non-recovery, claim or set-off in respect of the 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 2019, the FCA and the Competition and Markets Authority (the **CMA**) entered into a memorandum of understanding in relation to consumer protection (the **MoU**) which replaced the original memorandum of understanding entered into between the FCA and the CMA on 12 January 2016. The MoU states that the FCA will consider "fairness" within the meaning of the CRA and the UTCCR, of standard terms, and the CRA of negotiated terms, in financial services contracts issued by authorised firms or appointed representatives, when such firms or representatives are undertaking any regulated activity (as specified in Part II of the RAO) in the UK. In this MoU "authorised" includes having an interim permission and a "relevant permission" includes an interim permission. This will include contracts for mortgages and the selling of mortgages, consumer credit and other credit-related regulated activities.

MCOB rules for Regulated Mortgage Contracts require that: (a) charges for a payment shortfall can be objectively justified as equal to or lower than a reasonable calculation of the cost of the additional administration required as a result of the customer having a payment shortfall; and (b) from 15 December 2016, when a payment is made which is not sufficient to cover a payment shortfall and the firm is deciding how to allocate the payment between: (i) the current month's periodic instalment of capital or interest (or both); (ii) the payment shortfall; and (iii) interest or charges resulting from the

payment shortfall, the firm must set the order of priority in a way that will minimise the amount of the payment shortfall once the payment has been allocated. In October 2010, the FSA issued a statement that, in its view, early repayment charges are likely to amount to the price paid by the borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR, provided that they are written in plain and intelligible language and are adequately drawn to the borrower's attention. In January 2012, the FSA issued a further statement intended to raise awareness of issues that it commonly identifies under the UTCCR (such statement has since been withdrawn - *see below*).

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. The FCA stated that such material "no longer reflects the FCA's views on unfair contract terms" and that firms should no longer rely on the content of the documents that have been removed.

The broad and general wording of the UTCCR and the CRA 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 and the CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans entered into between 1 July 1995 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.

The FCA have stated that the finalised FCA guidance "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (see "*Consumer Rights Act 2015*" below) applies equally to factors that firms should consider to achieve fairness under the UTCCR.

### **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 for contracts entered into on or after 1 October 2015. 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 of Schedule 2 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 of Schedule 2 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 nevertheless be regarded as unfair.

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 19 December 2018, the FCA published new guidance: "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (FG18/7), outlining factors the FCA consider firms should have regard to when drafting and reviewing variation terms in consumer contracts. This follows developments in case law, including at the Court of Justice of the EU (the **CJEU**). The finalised guidance relates to all financial services consumer contracts entered into since 1 July 1995. The FCA stated that firms should consider both this guidance and any other rules that apply when they draft and use variation terms in their consumer contracts. The FCA stated that the finalised guidance will apply to FCA authorised persons and their appointed representative in relation to any consumer contracts 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 and Consumer Notices 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 (the **CMA Guidance**). The CMA indicated in the CMA Guidance that the fairness and transparency provisions of the CRA are regarded to be "effectively the same as those of the UTCCR" (save in applying the consumer notices and negotiated terms). The document further notes that "the extent of continuity in unfair terms legislation means that existing case law generally, and that of the Court of Justice of the European Union particularly, is for the most part as relevant to the Act as it was the UTCCRs". In general, the interpretation of the UTCCR and the CRA is open to some doubt, particularly in light of sometimes conflicting reported case law between the English courts and the CJEU. The broad and general wording of the CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made to Borrowers covered by the CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans entered into on or after 1 October 2015 is found to be unfair for the purpose of the CRA, this may reduce the amounts available to meet the payments due in respect of the Covered Bonds.

### **Consumer Protection from Unfair Trading Regulations 2008**

The Consumer Protection from Unfair Trading Regulations (the **CPUTR**) 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 is a criminal offence punishable by a fine and/or imprisonment. 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. Most of the provisions of the Consumer Protection (Amendment) Regulations 2014 came into force on 1 October 2014 and amended the CPUTR. In certain circumstances, these amendments to the CPUTR give consumers a right to redress for misleading or aggressive commercial practices (as defined in the CPUTR), including a right to unwind agreements.

### **Repossessions**

There is a protocol for mortgage repossession cases in England and Wales (the **Pre-action Protocol**) which 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.

In addition, MCOB rules for regulated mortgage contracts from 25 June 2010 prevent the lender from: (a) repossessing the property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term, or a change in the product type; and (b) automatically capitalising a payment shortfall.

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.

Part I of the Home Owner and Debtor Protection (Scotland) Act 2010 came into force on 30 September 2010 and imposes additional requirements on heritable creditors (the Scottish equivalent of a mortgagee) in relation to the enforcement of standard securities over residential property in Scotland. Under Part I of the Act, the heritable creditor has to obtain a court order to exercise its power of sale (in addition to initiating the statutory enforcement process pursuant to the Conveyancing and Feudal Reform (Scotland) Act 1970 by the service of a two-month "calling up" notice), unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor also has to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position and comply with further procedural requirements.

Investors should note the FCA Payment Deferral Guidance and Tailored Support Guidance described in the section entitled "Mortgages and coronavirus: FCA guidance for firms" below and that from 1 April 2021, subject to any relevant government restrictions on repossessions, mortgage lenders/administrators may enforce repossession as long as they act in accordance with the Tailored Support Guidance, MCOB 13 and relevant regulatory and legislative requirements. Action to seek possession should be a last resort and should not be started unless all other reasonable attempts to resolve the position have failed.

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.

### ***Breathing Space Regulations***

The Breathing Space Regulations (which are due to come into force on 4 May 2021 in England and Wales) will give eligible individuals the right to legal protection from their creditors, including almost all enforcement action, during a period of "breathing space". A standard breathing space will give an individual with problem debt legal protection from creditor action for up to 60 days; and a mental health crisis breathing space will give an individual protection from creditor action for the duration of their mental health crisis treatment (which is not limited in duration) plus an additional 30 days. During the period of the breathing space, creditors are unable to enforce and must stop application of interest, fees and charges on the protected debt. Eligible debt includes personal and business debt (including credit cards, unsecured loans and overdrafts) as well as the arrears on a secured mortgage (including secured business loans). The protections only apply for business debt for sole traders who are not registered for VAT (and who have an annual turnover under £85,000).

The Breathing Space Regulations applies to mortgage arrears which are uncapitalised at the date of the application under the Breathing Space Regulations. Interest can still be charged on the principal secured debt during the breathing space period, but not on the arrears. Any mortgage arrears incurred during any breathing space period are not protected from creditor action. The Borrower must continue to make mortgage payments in respect of any eligible debt (save in respect of arrears accrued prior to

the moratorium) during the breathing space period, otherwise the relevant debt adviser may cancel the breathing space period.

Whilst the scheme is designed to support customers to find a solution for problem debt, there is a risk that, for some customers this will only delay the initiation of enforcement action in respect of the Loans may result in lower recoveries and may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee..

### ***Mortgages and coronavirus: FCA guidance for firms***

On 20 March 2020, the FCA published guidance for, inter alia, mortgage lenders and administrators entitled "Mortgages and coronavirus: our guidance for firms", in connection with the ongoing outbreak of COVID-19 in the UK. This guidance was updated on 4 June 2020, on 16 June 2020 and again on 17 November 2020, such update coming into effect on 20 November 2020 (the **FCA Payment Deferral Guidance**). Amongst other things, this guidance provides that mortgage lenders are required, where an eligible borrower is experiencing or reasonably expects to experience payment difficulties as a result of circumstances relating to COVID-19, and wishes to receive a payment deferral, to grant a borrower a payment deferral unless the mortgage lender agrees with the borrower a different option that the lender reasonably considers to be in the best interests of the borrower. A request for a full or partial payment deferral for three monthly payments may be made by a borrower at any time until 31 March 2021 in respect of payments up to and including 31 July 2021. The FCA Payment Deferral Guidance provides that: (i) borrowers who have not yet had a payment deferral will be eligible for payment deferrals of 6 months in total; (ii) those borrowers who currently have a payment deferral will be eligible to top up to 6 months in total; (iii) those borrowers who have previously had payment deferrals of less than 6 months will be able to top up, as long as total deferrals do not exceed 6 months. This includes those borrowers receiving tailored support and those who are behind on payments; and (iv) borrowers who have already had 6 months of payment deferrals will not be eligible for a further payment deferral. Lenders should provide tailored support to those borrowers who are in financial difficulty and not eligible for a payment deferral under the FCA Payment Deferral Guidance appropriate to their circumstances. Borrowers will have until 31 March 2021 to apply for an initial or a further payment deferral. After that date, they will be able to extend existing deferrals to 31 July 2021, provided these extensions cover consecutive payments, and subject to the maximum 6 months allowed. The FCA advise that borrowers who have not yet taken a deferral, and who think they need the full 6 months should apply in good time before their February 2021 payment is due.

Interest will continue to accrue on the sum temporarily unpaid as the result of a payment deferral, however no fee or charge may be levied in connection with the grant of a payment deferral. Any missed payments arising under such payment deferrals will not constitute arrears and will not be reported as such to Noteholders (for the avoidance of doubt, except in relation to Loans that were in arrears when the payment deferral was granted, for which the arrears accrued before the start of the payment deferral period will continue to be reported as arrears, but the missed payments during the payment deferral period will not be treated as an increase in arrears).

On 16 September 2020, additional guidance for firms entitled "*Mortgages and coronavirus: additional guidance for firms*" came into force (the **Tailored Support Guidance**) to supplement the FCA Payment Deferral Guidance. The Tailored Support Guidance was updated on 17 November 2020, such update coming into effect on 20 November 2020 and again on 27 January 2021, such update coming into effect on 29 January 2021 and again on 25 March 2021, such update coming into effect on 29 March 2021. The Tailored Support Guidance applies to firms dealing with borrowers facing payment difficulties due to circumstances related to coronavirus who are not receiving payment deferrals under the FCA Payment Deferral Guidance, including where they are not or are no longer eligible for payment deferral. The Tailored Support Guidance is designed to enable firms to continue to deliver short and long-term support to borrowers affected by the evolving coronavirus pandemic

and the Government's response to it. It is intended to support firms to treat borrowers affected by coronavirus fairly and to help borrowers to bridge the crisis to get back to a more stable financial position. If the borrower indicates that they continue or reasonably expect to continue, to face payment difficulties after receiving payment deferrals under the FCA Payment Deferral Guidance, then the Tailored Support Guidance applies and unless the borrower objects, the lender may capitalise the deferred amounts.

The Tailored Support Guidance provides that at the end of the payment deferral period, no payment shortfall for the purposes of MCOB 13 will arise, where the accrued amounts are repaid (this includes where sums are capitalised or repaid in a lump sum) before the next payment is due. In all other cases, mortgage lenders should regard those accrued amounts as a payment shortfall under MCOB 13 once the next payment falls due.

The FCA expects mortgage lenders to be flexible and employ a full range of short and long-term forbearance options to support their borrowers and minimise avoidable financial distress and anxiety experienced by customers in financial difficulty as a result of coronavirus. This may include short term arrangements under which the lender permits the customer to make no or reduced payments for a specified period. However it should be noted that where after the end of a payment deferral period under the FCA Payment Deferral Guidance, a mortgage lender agrees to the customer making no or reduced payments for a further period (without changing the sums due under the contract) this will cause a payment shortfall that will be subject to MCOB 13.

The Tailored Support Guidance further provides in respect of deferral shortfalls (amount added to the shortfall because of any payment deferrals) that unless the borrower is unreasonably refusing to engage with the mortgage lender in relation to addressing the shortfall, a mortgage lender should not repossess the property without the borrower's consent solely because of a deferral shortfall. Further, in considering whether and when steps to repossess the property should be taken and whether all other reasonable attempts to resolve the position have failed, mortgage lenders should take into account that the shortfall arose by agreement with the mortgage lender and in exceptional circumstances and the borrower was not expected to address the shortfall during the payment deferral period and so may have had less time to address it.

The FCA makes clear in the FCA Payment Deferral Guidance and the Tailored Support Guidance that it expects lenders of both owner-occupied and buy-to-let mortgage loans to act in a manner consistent with the guidance.

Increased levels of payment deferrals and enforcement moratoriums may result in a reduction of funds available to the LLP to meet its obligations under the Covered Bond Guarantee. Nor can there be any assurance that the FCA, or other UK government or regulatory bodies, may not take further steps in response to the COVID-19 outbreak in the UK which may impact the performance of the Loans, including further amending and extending the scope of the above guidance.

### **Financial Ombudsman Service**

Under the FSMA, the Financial Ombudsman Service (the **Ombudsman**) is required to make decisions on, among other things, 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, rather than making determinations strictly on the basis of compliance with law.

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.

### **Mortgage Prisoners**

The FCA are aware that there are some consumers who cannot switch to a more affordable mortgage despite being up to date with their mortgage payments. This includes those who can't switch because of changes to lending practices during and after the 2008 financial crisis and subsequent regulation that tightened lending standards – often called 'mortgage prisoners'.

Under Policy Statement PS19/27 which came into effect on 28 October 2019, the FCA have amended their responsible lending rules and guidance to help remove potential barriers to consumers switching to a more affordable mortgage and to reduce the time and costs of switching for all relevant consumers. The changes will mean that mortgage lenders can choose to carry out a modified affordability assessment where a consumer has a current mortgage, is up-to-date with their mortgage payments (and has been for the last 12 months), does not want to borrow more, other than to finance any relevant product, arrangement or intermediary fee for that mortgage and is looking to switch to a new mortgage deal on their current property. Further, inactive lenders and administrators acting for unregulated entities (such as the LLP), must review their customer books and develop and implement a communication strategy for contacting relevant consumers to tell them it could be simpler for them to remortgage.

The modification of the responsible lending rules should make it easier for a borrower who is a mortgage prisoner to switch to a new lender and this, together with the proposed notification obligations, could increase redemption rates where there are a significant number of mortgage prisoners held by a lender.

COVID-19 has had a significant impact on the mortgage market. Lenders have reported that they will be unable to offer a range of switching options or support re-mortgaging for mortgage prisoners as quickly as initially anticipated.

### **Private Housing (Tenancies) (Scotland) Act 2016**

In 2016 the Scottish Parliament passed the Private Housing (Tenancies) (Scotland) Act 2016 which came into force in December 2017. One of the changes made by this legislation was to introduce a new form of tenancy in Scotland known as a "private residential tenancy" which will (except in a very limited number of exceptions) provide tenants with security of tenure by restricting a landlord's ability to regain possession of the property to a number of specific eviction grounds. Accordingly, a lender or security-holder may not be able to obtain vacant possession if it wishes to enforce its security unless one of the specific eviction grounds under the legislation applies. It should be noted though that one of the grounds on which an eviction order can be sought is that a lender or security-holder intends to sell the property and requires the tenant to leave the property in order to dispose of it with vacant possession.

The Private Housing (Tenancies) (Scotland) Act 2016 does not affect holiday lets, social, police or military housing or student accommodation that is either (i) purpose-built and the landlord is an institutional provider of student accommodation or (ii) provided by academic institutions.

This protocol and these Acts may have adverse effects in markets experiencing above average levels of repossession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

### **Land Registration Reform in Scotland**

The Land Registration etc. (Scotland) Act 2012 (the **2012 Act**) came into force in Scotland on 8 December 2014. One of the policy aims of the 2012 Act is to encourage the transfer of property titles

recorded in the historic General Register of Sasines to the more recently established Land Register of Scotland with the aim of eventually closing the General Register of Sasines.

Previously, title to a residential property that was recorded in the General Register of Sasines would usually only be required to be moved to the Land Register of Scotland (a process known as "first registration") when that property was sold or if the owner decided voluntarily to commence first registration. However, the 2012 Act sets out in provisions which are being brought into effect in stages, additional circumstances which will trigger first registration of properties recorded in the General Register of Sasines, including (i) the recording of a standard security (which would extend to any standard security granted by the Issuer in favour of the Security Trustee over Scottish Mortgages in the Portfolio recorded in the General Register of Sasines, pursuant to the terms of the Deed of Charge following a Perfection Event (a **Scottish Sasine Sub-Security**)) or (ii) the recording of an assignation of a standard security (which, in the latter case, would extend to any assignation granted by the Seller in favour of the Issuer or its nominee in respect of Scottish Mortgages in the Portfolio recorded in the General Register of Sasines, pursuant to the terms of the Mortgage Sale Agreement and/or the Servicing Agreement following a Perfection Event (a **Scottish Sasine Transfer**)).

The relevant provisions of the 2012 Act relating to the recording of standard securities came into force on 1 April 2016. As the transaction contemplated by the Transaction Documents involves the sale of a relatively static pool of mortgages and standard securities, these changes should not have any immediate effect in relation to the Scottish Mortgages contained in the Portfolio at the Closing Date. As of the date of this Prospectus, the General Register of Sasines is now closed to the recording of standard securities. Notwithstanding the provisions of the 2012 Act mentioned above, for the time being, other deeds such as assignations of standard securities (including Scottish Sasine Transfers) will continue to be accepted in the General Register of Sasines indefinitely (although the Registers of Scotland have reserved the right to consult further on this issue in the future).

If the General Register of Sasines becomes closed to assignations of standard securities at any time after the date of this Prospectus, then this would also have an impact on the registration of Scottish Sasine Transfers in addition to impacting on the registration of Scottish Sasine Sub-Security executed following a Perfection Event, with the probability of higher legal costs and a longer period required to complete registration than would currently be the case.

As noted above, such events will only occur following a Perfection Event, and, given that the proportion of residential properties in Scotland which remain recorded in the General Register of Sasines continues to decline (the Registers of Scotland estimate that, in April 2016 around 60 per cent. of property titles in Scotland were registered in the Land Register of Scotland), it is likely that, in relation to the Cut-Off Date Portfolio, where, as at the Cut-Off Date, 10.25 per cent. (by Outstanding Principal Balance) of the Properties are located in Scotland, only a minority of the Scottish Mortgages will be recorded in the General Register of Sasines.

### **Energy Efficiency Regulations 2015**

From 1 April 2018, landlords of relevant domestic properties in England and Wales may not grant a tenancy to new or existing tenants if their property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property) and from 1 April 2020, landlords must not continue letting a relevant domestic property which is already let if that property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property). In both cases described above this is referred to in the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the **Energy Efficiency Regulations 2015**) as the prohibition on letting substandard property. Where a landlord wishes to continue letting property which is currently substandard, they will need to ensure that energy efficiency improvements are made which raise the EPC rating to a minimum of E. In certain circumstances landlords may be able to claim an exemption from this prohibition on letting sub-standard property; this includes situations where the landlord is unable to obtain funding to cover the cost of making improvements, or where all improvements which can be made have been made, and the property remains below an EPC rating of Band E. Local authorities will enforce compliance with the domestic minimum level of energy efficiency. They may check whether a property meets the minimum level of energy efficiency, and may issue a compliance

notice requesting information where it appears to them that a property has been let in breach of the Energy Efficiency Regulations 2015 (or an invalid exemption has been registered in respect of it). Where a local authority is satisfied that a property has been let in breach of the Energy Efficiency Regulations 2015 it may serve a notice on the landlord imposing financial penalties.

### **Changes to mortgage regulation and to the regulatory structure in the United Kingdom**

The final rules in relation to the FCA Mortgage Market Review (**MMR**) generally came into force on 26 April 2014. These rules required a number of material changes to the mortgage sales process, both in terms of advice provision in nearly all scenarios and significantly enhanced affordability assessment and evidencing. These rules permit interest-only loans however; in relation to Regulated Mortgage Contracts, there is a clear requirement for a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan).

The FCA continues to assess firms' implementation of the rules introduced as a result of the MMR and to review responsible lending practices. This is in addition to regulatory reforms made as a result of the Mortgage Credit Directive Order 2015 from 21 March 2016.

Under the Financial Services Act 2012: (a) the carrying on of servicing activities in certain circumstances by a person exercising the rights of the lender without FCA permission to do so renders the credit agreement unenforceable, except with FCA approval; and (b) the FCA has the power to make rules to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. This Act also provides for formalised cooperation to exist between the FCA and the Ombudsman (as described below), particularly where identified issues potentially have wider implications, with a view to the FCA requiring affected firms to operate consumer redress schemes.

## 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*

The Issuer will be entitled to make payments of interest on the Covered Bonds without withholding or deduction for or on account of United Kingdom income tax, provided that:

- (a) the Issuer is and continues to be a "bank" within the meaning of section 991 of the Income Tax Act 2007 (the **Act**); and
- (b) the interest on the Covered Bonds is and continues to be paid in the "ordinary course of the Issuer's business" within the meaning of section 878 of the Act.

Payments of interest on the Covered Bonds by the Issuer may also be made without withholding or deduction for or 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 Act. The London Stock Exchange is a recognised stock exchange for this purpose. 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 UK regulated market of the London Stock Exchange. Provided, therefore, that the Covered Bonds are and remain so listed, interest on the Covered Bonds will be payable without withholding or deduction for or on account of United Kingdom income tax, whether or not the Issuer is a "bank" and whether or not the interest is paid in the ordinary course of its business.

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 for or on account of United Kingdom income tax at the basic rate (currently 20%), subject to any available exemptions and reliefs. 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 may 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*

The United Kingdom withholding tax treatment of payments by the LLP under the terms of the Covered Bond Guarantee which have a United Kingdom source is uncertain. In particular, such payments by the LLP may not be eligible for the exemptions described above in relation to payments of interest. Accordingly, if the LLP makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate. If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

## **Proposed Financial Transactions Tax**

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a directive for a common financial transactions tax (the **FTT**) in Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**) and Estonia. However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

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 to certain dealings in Covered Bonds 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 dealings is issued in a participating Member State.

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

## **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, proposed Treasury regulations have been issued that provide that such withholding would not apply prior to the date that is two years from the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed Treasury regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are 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 additional Covered Bonds (as described under "*Terms and Conditions of the Covered Bonds – Further Issues*") 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.

## 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 United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.*

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Registered Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- (a) During the Distribution Compliance Period, 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 the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States or

other relevant jurisdiction and that the Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except as set forth in this section and in compliance with the applicable state or local securities laws;

- (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, the Covered Bonds may not be transferred within the United States or to a U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act;
- (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 United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the Distribution Compliance Period, it will do so only (a) outside the United States in compliance with Rule 903 or 904 under the Securities Act and (b) in accordance with all applicable U.S. state or local 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 THE SECURITIES LAWS OR "BLUE SKY" LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OR OTHER RELEVANT JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, OR DELIVERED 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 OR IN A TRANSACTION NOT SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE ISSUE DATE"; 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. 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 or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States or other relevant jurisdiction, and Covered Bonds may not be offered, sold or delivered

within the United States 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 and any applicable state or local securities laws. 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 promulgated thereunder.

In connection with any Covered Bond which are offered, sold or delivered outside the United States 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 United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

#### ***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 (the **EEA**). 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 Directive 2014/65/EU (as amended or superseded, **MiFID II**);
  - (ii) a customer within the meaning of Directive 2016/07/EC (as amended or superseded, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (b) the expression an "offer" includes 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.

#### ***Prohibition of sales to UK 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 United Kingdom (the **UK**). 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **EUWA**); or
  - (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the **FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; and
- (b) the expression an "**offer**" includes 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.

### ***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 such Covered Bonds in, from or otherwise involving the United Kingdom.

### ***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 2 of Regulation (EU) No. 1129 of 14 June 2017 (the **Prospectus Regulation**) and any application provision of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Italian CONSOB regulations; or

- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

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 paragraphs (a) or (b) above must:

- (i) be 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. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**); and
- (ii) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any 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.

### **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 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 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**

The Covered Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (**FinSA**) and no application has or will be made to admit the Covered Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus pursuant to the FinSA, and neither the Base Prospectus nor any other offering or marketing material relating to the Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland. No key information document according to FinSA

or any equivalent document under the FinSA has been prepared in relation to the Covered Bonds, and, therefore, the Covered Bonds may not be offered or recommended to private clients within the meaning of the FinSA in Switzerland.

### ***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.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

## 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. The current update of the Programme has been duly authorised by a resolution of the Board of Directors of the Issuer dated 22 February 2017 and by a resolution of the LLP Management Board dated 4 March 2021.

### 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 UK 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.

### Documents Available

For so long as Covered Bonds may be issued pursuant to this Prospectus, the following documents will be available online at [www.tsb.co.uk/investors/debt-investors](http://www.tsb.co.uk/investors/debt-investors) and during usual business hours on any day (Saturdays, Sundays 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 Agency Agreement, 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 most recent publicly available reviewed or audited financial statements for the Issuer, together with the independent auditor's report beginning with such financial statements for the years ended 31 December 2020 and 31 December 2019;
- (iv) the most recent publicly available reviewed or audited financial statements, together with the independent auditor's report for the LLP beginning with such financial statements for the years ended 31 December 2020 and 31 December 2019;
- (v) each Final Terms (save that Final Terms relating to a Covered Bond, which is neither admitted to trading on the main market of the London Stock Exchange or a regulated market within the EEA nor offered in the UK or the EEA in circumstances where a prospectus is required to be published under the FSMA or the Prospectus Regulation, 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
- (vi) 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](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html) and will be available online at [www.tsb.co.uk/investors/debt-investors](http://www.tsb.co.uk/investors/debt-investors).

### **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**

There has been no significant change in the financial performance and financial position of the Group since 31 December 2020, the date to which the Issuer's last published audited financial information (as set out in the Issuer's 2020 Annual Report and Accounts) was prepared. There has been no material adverse change in the prospects of the Group since 31 December 2020, the date to which the Issuer's last published audited financial information (as set out in the Issuer's 2020 Annual Report and Accounts) was prepared.

There has been no significant change in the financial performance and financial position of the LLP since 31 December 2020, the date to which the LLP's last published audited financial information (as set out in the LLP's 2020 Annual Financial Statements) was prepared. There has been no material adverse change in the prospects of the LLP since 31 December 2020, the date to which the LLP's last published audited financial information (as set out in the LLP's 2020 Annual Financial Statements) was prepared.

### **Litigation**

Save as disclosed in the risk factor entitled "*The Group faces risks associated with its operations' compliance with a wide range of laws and regulations*" on pages 47 to 49 of this Base Prospectus, 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**

The financial statements of the Issuer for the financial periods ended 31 December 2019 and 31 December 2020 have been audited in accordance with International Standards on Auditing (UK) and applicable law and have been reported on without qualification by PricewaterhouseCoopers LLP and KPMG LLP, respectively.

PricewaterhouseCoopers LLP is a member of the Institute of Chartered Accountants in England and Wales.

KPMG LLP replaced PricewaterhouseCoopers LLP as auditors for the Issuer for the financial period ended 31 December 2020.

KPMG LLP is a member of the Institute of Chartered Accountants in England and Wales and is the auditor appointed by the Issuer for the purposes of auditing its financial statements.

## **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 [www.tsb.co.uk/investors/debt-investors](http://www.tsb.co.uk/investors/debt-investors) 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

<b>30/360, 360/360 or Bond Basis</b>	The meaning given in Condition 4.5(c)(vi) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 131 of Programme Conditions
<b>30E/360 or Eurobond Basis</b>	The meaning given in Condition 4.5(c)(vii) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 131 of the Programme Conditions
<b>30E/360(ISDA)</b>	The meaning given in Condition 4.5(c)(viii) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 131 of the Programme Conditions
<b>1999 Regulations</b>	Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083), as amended
<b>€, Euro or euro</b>	The lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency introduced at the start of the third stage of European Economic Monetary Union pursuant to the Treaty of Rome of 25 March, 1957, as amended by, <i>inter alia</i> , the Single European Act of 1986 and the Treaty of European Union of 7th February, 1992 and the Treaty of Amsterdam of 2nd October, 1997 establishing the European Community
<b>£ or Sterling</b>	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>\$, U.S.\$ or U.S. Dollars or US Dollars</b>	The lawful currency for the time being of the United States of America
<b>¥, Yen, JPY, Japanese ¥ or Japanese yen</b>	The lawful currency for the time being of Japan
<b>Account Bank</b>	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
<b>Account Bank Required Ratings</b>	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)
<b>Accrual Period</b>	The meaning given on page 130 of this Prospectus
<b>Accrual Yield</b>	In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms
<b>Accrued Interest</b>	In relation to a Loan as at any date, 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
<b>Actual/360</b>	The meaning given in Condition 4.5(c)(v) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 131 of this Prospectus
<b>Actual/365 (Fixed)</b>	The meaning given in Condition 4.5(c)(iii) ( <i>Business Day,</i>

	<i>Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 130 of this Prospectus
<b>Actual/365 (Sterling)</b>	The meaning given on page 131 of this Prospectus
<b>Actual/Actual or Actual/Actual (ISDA)</b>	The meaning given on page 130 of this Prospectus
<b>Actual/Actual (ICMA)</b>	The meaning given in Condition 4.5(c)(i) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 130 of this Prospectus
<b>Additional Business Centre</b>	The meaning (if any) given in the applicable Final Terms
<b>Adjusted Aggregate Loan Amount</b>	The meaning given on page 195 of this Prospectus
<b>Adjusted Current Balance</b>	The meaning given on page 195 of this Prospectus
<b>Adjusted Required Redemption Amount</b>	The meaning given on page 201 of this Prospectus
<b>Administration Fee</b>	The meaning given on page 190 of this Prospectus
<b>Admission</b>	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
<b>Advance Date</b>	The date on which a relevant Further Advance or Flexible Loan Drawing is advanced to the relevant Borrower by the Seller
<b>Agency Agreement</b>	The agency agreement dated the Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the other Paying Agents, the Registrar and the Transfer Agent (as the same may be amended, restated, supplemented, replaced or novated from time to time)
<b>Agents</b>	The Paying Agents, the Registrar, the Transfer Agents and any Calculation Agent
<b>Alternative Base Rate</b>	The meaning given on page 156 of this Prospectus
<b>AMF</b>	The meaning given on page 269 of this Prospectus
<b>Amortisation Test</b>	The meaning given on page 199 of this Prospectus
<b>Amortisation Test Aggregate Loan Amount</b>	The meaning given on page 199 of this Prospectus
<b>Amortisation Test Current Balance</b>	The meaning given on page 199 of this Prospectus
<b>Amortised Face Amount</b>	The meaning given on page 140 of this Prospectus
<b>applicable Final Terms</b>	The meaning given on page 116 of this Prospectus
<b>Arranger</b>	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
<b>Arrears Adjusted Current Balance</b>	The meaning given on page 195 of this Prospectus
<b>in Arrears</b>	In respect of a Mortgage Account, that one or more Monthly

	Payments in respect of such Mortgage Account have become due and remain unpaid by a Borrower
<b>Asset Coverage and Investor Report</b>	The report substantially in the form set out in Schedule 3 to the Cash Management Agreement, to be prepared by the Cash Manager each month
<b>Asset Coverage Test</b>	The meaning given on page 194 of this Prospectus
<b>Asset Coverage Test Breach Notice</b>	The notice required to be served by the Bond Trustee if the Asset Coverage Test is not satisfied on two consecutive Calculation Dates
<b>Asset Monitor</b>	PricewaterhouseCoopers LLP appointed as such under the Asset Monitor Agreement (and any successor asset monitor appointed in accordance with the Asset Monitor Agreement)
<b>Asset Monitor Agreement</b>	The asset monitor agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee (as the same may be amended, restated, supplemented, replaced or novated from time to time)
<b>Asset Monitor Report</b>	A report substantially in the form contained in Schedule 2 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
<b>Asset Percentage</b>	94.0 per cent. or such lower percentage figure as determined from time to time pursuant to Clause 11.3 of the LLP Deed
<b>Asset Pool</b>	All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts (other than any Swap Collateral Account) and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) ( <i>Asset Pool</i> ) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations
<b>Asset Segregation</b>	The meaning given on page 14 of this Prospectus
<b>Authorised Investments</b>	Each of: <ul style="list-style-type: none"> <li>(a) Sterling gilt-edged securities having a remaining maturity of 30 days or less and maturing on or before the next following LLP Payment Date; and</li> <li>(b) Sterling demand or time deposits, 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,</li> </ul> <p>provided that such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations</p>

**Authorities**

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 or the Revenue 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;
- (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; and
- (g) amounts credited to the Revenue Ledger by way of Cash Capital Contributions pursuant to Clause 8.4(ii) of the LLP Deed, which have not otherwise been applied,

*Excluding*

- (h) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller (to the extent otherwise constituting Available Revenue Receipts);
- (i) Tax Credits and any amount received by the LLP in respect of Tax Credits (to the extent otherwise constituting Available Revenue Receipts);
- (j) Swap Collateral Excluded Amounts (to the extent otherwise constituting Available Revenue Receipts); and
- (k) 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

<b>Back-Up Cash Manager Facilitator</b>	Intertrust Management Limited acting through its office at 1 Bartholomew Lane, London EC2N 2AX, in its capacity as back-up cash manager facilitator under the Cash Management Agreement
<b>Back-Up Servicer</b>	Any back-up or successor servicer appointed as such under the Servicing Agreement together with any successor appointed from time to time thereunder
<b>Back-Up Servicer Facilitator</b>	Intertrust Management Limited acting through its office at 1 Bartholomew Lane, London EC2N 2AX, in its capacity as back-up servicer facilitator under the Servicing Agreement
<b>Bank Account Agreement</b>	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)
<b>Bank Rate</b>	The meaning given on page 126 of this Prospectus
<b>Banking Act</b>	Banking Act 2009
<b>Base Rate Modification</b>	The meaning given on page 156 of this Prospectus
<b>Base Rate Modification Certificate</b>	The meaning given on page 156 of this Prospectus
<b>Basel III</b>	The meaning given on page 69 of this Prospectus
<b>BCBS</b>	The meaning given on page 69 of this Prospectus
<b>Bearer Covered Bonds</b>	Covered Bonds in bearer form
<b>Bearer Definitive Covered Bond</b>	A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer, the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues) and having the 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

<b>Bearer Definitive Covered Bonds</b>	The meaning given on page 116 of this Prospectus
<b>Bearer Global Covered Bonds</b>	Global Covered Bonds in bearer form, comprising Temporary Global Covered Bonds and Permanent Global Covered Bonds substantially in the forms set out in Part 1 and Part 2, respectively, of Schedule 2 to the Trust Deed
<b>Belmont decision</b>	The meaning given on page 98 of this Prospectus
<b>Bond Trustee</b>	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
<b>Borrower</b>	In relation to a Loan, each individual specified as such in the relevant Mortgage Conditions together with each individual (if any) from time to time assuming an obligation to repay such Loan or any part of it
<b>Broken Amount</b>	The meaning (if any) given in the applicable Final Terms
<b>BRRD</b>	Directive 2014/59/EU (as amended)
<b>Business Day</b>	The meaning given in Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 129 of this Prospectus
<b>Business Day Convention</b>	In respect of a Tranche of Covered Bonds and either the Specified Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms and determined in accordance with Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 129 of this Prospectus
<b>Calculation Agent</b>	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
<b>Calculation Agent(s)</b>	The meaning given on page 116 of this Prospectus
<b>Calculation Amount</b>	In relation to any Series of Covered Bonds has the meaning given to it in the applicable Final Terms
<b>Calculation Date</b>	The third London Business Day prior to each LLP Payment Date
<b>Calculation Period</b>	The period from, and including the first day of each calendar month to, and including, the last day of each calendar month except that the first Calculation Period shall be the period from, and including, the First Sale Date to, and including, the last day of March 2017
<b>Capital Account Ledger</b>	The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time
<b>Capital Contribution</b>	In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed

<b>Capital Contribution in Kind</b>	A contribution by way of Loans and their Related Security to the LLP in an amount equal to (a) the Current Balance of those Loans as at the relevant Sale Date minus (b) any cash payment paid by the LLP to the Seller for the Loans and their Related Security on that Sale Date, plus (c) the principal amount of all Flexible Loan Drawings and Further Advances in respect of such Loans which are funded by the Seller as a Member of the LLP and, without double counting, any increases in the Current Balance of the relevant Loan
<b>Capital Distribution</b>	Any return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration)
<b>Capital Requirements Directive</b>	Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)
<b>Capital Requirements Regulation</b>	Regulation (EU) No 575/2013 as amended of the European Parliament and of the Council of 26 June 2013
<b>Cash Capital Contribution</b>	A capital contribution to the LLP made in cash whether by way of loan or otherwise
<b>Cash Management Agreement</b>	The cash management agreement entered into on the Programme Date between the LLP, the Cash Manager and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Cash Manager</b>	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
<b>CBTL</b>	The meaning given on page 259 of this Prospectus
<b>CCA</b>	Consumer Credit Act 1974, as amended
<b>CCA 2006</b>	Consumer Credit Act 2006
<b>cent and c</b>	The meaning given on page 12 of this Prospectus
<b>Certificate of Title</b>	A solicitor's or licensed conveyancer's or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation
<b>Charged Property</b>	The meaning given on page 211 of this Prospectus
<b>Clearing Systems</b>	Euroclear and/or Clearstream, Luxembourg
<b>Clearstream, Luxembourg</b>	Clearstream Banking, <i>société anonyme</i> or its successors
<b>CMA</b>	Competition and Markets Authority
<b>CML</b>	Council of Mortgage Lenders
<b>Collateralised GIC Account</b>	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
<b>Collateralised GIC or Collateralised Guaranteed</b>	Any collateralised guaranteed investment contract between the LLP, the Cash Manager, the Collateralised GIC Provider and the

<b>Investment Contract</b>	Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Collateralised GIC Provider</b>	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
<b>Collection Account</b>	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
<b>Collection Account Bank</b>	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
<b>Common Depository</b>	The common depository for Euroclear and Clearstream, Luxembourg
<b>Common Safekeeper</b>	The common safekeeper of Euroclear SA/NV and Clearstream, Luxembourg or any entity so determined pursuant to the Agency Agreement
<b>Companies Act</b>	The meaning given to the term "Companies Acts" in Section 2 of the Companies Act 2006, with the addition of the words "to the extent that they are in force" at the end of Section 2(1)(a) (as it applies to limited liability partnerships) and any regulations made pursuant to those Acts to the extent that they are in force
<b>Compounded Daily SONIA</b>	The meaning given on page 125 of this Prospectus
<b>CONC</b>	The FCA's consumer credit sourcebook
<b>Conduct Indemnity</b>	The meaning given on page 45 of this Prospectus
<b>Consumer Credit Directive</b>	Directive 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC
<b>Corporate Services Agreement</b>	The corporate services agreement dated the Programme Date entered into by the Liquidation Member and Holdings, with, <i>inter alios</i> , the Corporate Services Provider, the Share Trustee and the LLP (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Corporate Services Provider</b>	Intertrust Management Limited acting through its office at 1 Bartholomew Lane, London EC2N 2AX, in its capacity as corporate services provider together with any successor corporate services provider from time to time
<b>Counterparty Risk Assessment</b>	The counterparty risk assessment rating by Moody's
<b>Coupon</b>	An interest coupon appertaining to a Bearer Definitive Covered Bond (other than a Zero Coupon Covered Bond), such coupon being: <ul style="list-style-type: none"> <li>(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</li> <li>(b) if appertaining to a Floating Rate Covered Bond,</li> </ul>

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 117 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 208 of this Prospectus

**Covered Bondholder**

The meaning given on page 118 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 SONIA;

**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
<b>Cover Pool Swap Early Termination Event</b>	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;
<b>Cover Pool Swap Provider</b>	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
<b>CPUTR</b>	The meaning given on page 256 of this Prospectus
<b>CRA</b>	The Consumer Rights Act 2015
<b>CRA Regulation</b>	The meaning given on page 2 of this Prospectus
<b>Current Balance</b>	In relation to any Loan at any date (the <b>current balance determination date</b> ), the aggregate at such date (but avoiding double counting) of: <ul style="list-style-type: none"> <li>(a) the Initial Advance;</li> <li>(b) Further Advances and/or Flexible Loan Drawings;</li> <li>(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,</li> </ul> <p>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</p> <p>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</p>
<b>Custodian</b>	Any custodian with whom the relevant Registered Global Covered Bonds have been deposited
<b>Custody Swap Collateral Account</b>	A custody account opened pursuant to the Swap Collateral Bank Account Agreement
<b>Customer Files</b>	The file or files relating to each Loan and its Related Security containing, <i>inter alia</i> : <ul style="list-style-type: none"> <li>(a) all material correspondence relating to that Loan; and</li> <li>(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,</li> </ul> <p>whether original documentation, in electronic form or otherwise</p>
<b>Day Count Fraction</b>	The meaning given in Condition 4.5(c) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 130 of the Programme Conditions

<b>Dealer</b>	Each dealer appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. As at the date of this Prospectus, the Dealers are Banco de Sabadell, S.A. and Lloyds Bank Corporate Markets plc (each referred to throughout this Prospectus as a <b>Dealer</b> and together the <b>Dealers</b> )
<b>Dealers</b>	The meaning given on page 1 of this Prospectus
<b>Deed of Charge</b>	The deed of charge dated the Programme Date and made between the LLP, the Bond Trustee, the Security Trustee and the other Secured Creditors (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Defaulted Loan</b>	Any Loan in the Portfolio where the amount in Arrears is equal to or greater than three times the current Monthly Payment
<b>Deferred Consideration</b>	The consideration payable to the Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priority of Payments
<b>Definitive Covered Bond</b>	A Bearer Definitive Covered Bond and/or a Registered Definitive Covered Bond, as the context may require
<b>Definitive Covered Bonds</b>	The meaning given on page 116 of this Prospectus
<b>Designated Account</b>	The meaning given in Condition 5.4 ( <i>Payments in respect of Registered Covered Bonds</i> ) of the Programme Conditions
<b>Designated Bank</b>	The meaning given in Condition 5.4 ( <i>Payments in respect of Registered Covered Bonds</i> ) of the Programme Conditions
<b>Designated Maturity</b>	The meaning given in the ISDA Definitions
<b>Designated Member</b>	Each Member appointed and registered as such from time to time having those duties and obligations set out in Sections 8 and 9 of the LLPA being, as at the Programme Date, TSB Bank plc and the Liquidation Member
<b>Designated Members</b>	The meaning given on page 193 of this Prospectus
<b>Determination Date</b>	The meaning given in the applicable Final Terms
<b>Determination Period</b>	The meaning given in Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme Conditions
<b>Directors</b>	The directors for the time being of the Issuer
<b>Discretionary Rate</b>	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
<b>Discretionary Rate Loans</b>	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
<b>Distribution Compliance Period</b>	The period that ends 40 days after the later of the commencement of the offering and the Issue Date
<b>DPA</b>	Data Protection Act 2018, 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 <b>Due for Payment Date</b>
<b>Earliest Maturing Covered Bonds</b>	At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the 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)
<b>Early Redemption Amount</b>	The amount calculated in accordance with Condition 6.7 ( <i>Early Redemption Amounts</i> ) of the Programme Conditions
<b>Early Repayment Charges</b>	The charge which a Borrower is required to pay under the terms of the relevant Loan if he or she repays all or part of the Loan before a specified date
<b>EEA</b>	The European Economic Area
<b>Eligibility Criteria</b>	The meaning given on page 179 of this Prospectus
<b>English Loan</b>	A Loan secured by a Mortgage over a Property located in England or Wales
<b>Equity Release Loan</b>	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
<b>ESMA</b>	The meaning given on page 63 of this Prospectus
<b>EU</b>	The European Union
<b>EU Prospectus Regulation</b>	Regulation (EU) 2017/1129
<b>EURIBOR</b>	Euro-zone interbank offered rate
<b>Euroclear</b>	Euroclear Bank S.A./N.V. or its successors
<b>European Market Infrastructures Regulation or EU EMIR</b>	Regulation (EU) 648/2012 as it forms part of domestic law by virtue of the EUWA (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from supervisory regulation)
<b>EUWA</b>	The European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020) as amended, varied, superseded or substituted from time to time
<b>Excess Proceeds</b>	In accordance with the Terms and Conditions, moneys received (following service of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar officer appointed in relation to the Issuer
<b>Exchange Date</b>	On or after the date which is 40 days after a Temporary Global Covered Bond is issued
<b>Exchange Event</b>	In the case of Bearer Covered Bonds, the meaning given on page 103 and in the case of Registered Covered Bonds, the meaning given on page 104 of this Prospectus
<b>Excluded Scheduled Interest Amounts</b>	The meaning given in the definition of Scheduled Interest

<b>Excluded Scheduled Principal Amounts</b>	The meaning given in the definition of Scheduled Principal
<b>Excluded Swap Termination Amount</b>	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable under that Swap Agreement (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider
<b>Extended Covered Bond</b>	The meaning given on page 229 of this Prospectus
<b>Extended Due for Payment Date</b>	In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full by the Extension Determination Date
<b>Extension Determination Date</b>	In relation to any Series of Covered Bonds, the date falling two Business Days after the expiry of 14 days from (and including) the Final Maturity Date of such Series of Covered Bonds
<b>Extraordinary Resolution</b>	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed
<b>FATCA</b>	Certain provisions of U.S. law commonly referred to as the Foreign Account Tax Compliance Act
<b>FCA or Financial Conduct Authority</b>	Financial Conduct Authority of the United Kingdom
<b>FIEA</b>	The meaning given on page 268 of this Prospectus
<b>Final Maturity Date</b>	The Interest Payment Date on which a Series of Covered Bonds will be redeemed at the Final Redemption Amount in accordance with the Programme Conditions
<b>Final Redemption Amount</b>	The meaning given in the applicable Final Terms
<b>Final Terms</b>	The final terms substantially in the form of Schedule 3 to the Agency Agreement which, with respect to each Tranche of Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issue of the applicable Tranche or Series of Covered Bonds
<b>Financial Services Act</b>	Legislative Decree No. 58 of 24 February 1998 of the Republic of Italy, as amended
<b>financial statements</b>	The meaning given on page 12 of this Prospectus
<b>First Sale Date</b>	The date on which the Initial Portfolio is assigned to the LLP pursuant to the terms of the Mortgage Sale Agreement
<b>Fixed Coupon Amount</b>	The meaning given in the applicable Final Terms
<b>Fixed Rate Covered Bonds</b>	Covered Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) as indicated in the applicable Final Terms

<b>Fixed/Floating Rate Covered Bonds</b>	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
<b>Fixed Rate Loans</b>	Loans where the interest rate payable by the Borrower does not vary and is fixed for a certain period of time by the Seller
<b>Flexible Draw Capacity</b>	The meaning given on page 198 of this Prospectus
<b>Flexible Loan</b>	A type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Mortgage Account and/or overpay or underpay interest and principal in a given month and/or take a Payment Holiday
<b>Flexible Loan Drawing</b>	Any further drawing of moneys made by a Borrower under a Flexible Loan other than the Initial Advance
<b>Floating Rate</b>	The meaning given in the ISDA Definitions
<b>Floating Rate Convention</b>	The meaning given in Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions
<b>Floating Rate Covered Bonds</b>	<p>Covered Bonds which bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer,</li> </ul> <p>as set out in the applicable Final Terms</p>
<b>Floating Rate Option</b>	The meaning given in the ISDA Definitions
<b>Following Business Day Convention</b>	The meaning given in Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme Conditions
<b>FOS</b>	Financial Ombudsman Service under the FSMA
<b>FSA or Financial Services Authority</b>	The Financial Services Authority of the United Kingdom (from 1 April 2013, the Financial Conduct Authority or the Prudential Regulatory Authority, as applicable)
<b>FSCS</b>	Financial Services Compensation Scheme
<b>FSMA</b>	Financial Services and Markets Act 2000, as amended
<b>Further Advance</b>	In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance which is secured by the same Mortgage as the Initial Advance but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage and does not include a Flexible Loan Drawing
<b>Global Covered Bond</b>	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require

<b>Group</b>	TSB Bank plc and its subsidiaries and associated undertakings
<b>Guaranteed Amounts</b>	Prior to service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Terms and Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds (other than additional amounts payable under Condition 7 ( <i>Taxation</i> ) 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
<b>Guaranteed Amounts Due Date</b>	The later of (a) the date which is two Business Days following service of a Notice to Pay on the LLP, and (b) the date on which the Guaranteed Amounts are otherwise Due for Payment
<b>Guarantee Priority of Payments</b>	The meaning given on page 226 of this Prospectus
<b>Hard Bullet Covered Bonds</b>	The Covered Bonds of a Tranche or Series which are not subject to an Extended Due for Payment Date as specified in the Final Terms
<b>HMRC</b>	H.M. Revenue and Customs
<b>H.M. Treasury</b>	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)
<b>holding company</b>	Any body corporate which is for the time being a holding company within the meaning given to it in Section 1159 of the Companies Act
<b>Holdings</b>	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 1 Bartholomew Lane, London EC2N 2AX (registered no. 10181392)
<b>holder of Covered Bonds</b>	The meaning given on page 118 of this Prospectus
<b>Homeowner Variable Rate</b>	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
<b>House Price Index</b>	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
<b>House Price Indexed Valuation</b>	In relation to any Property at any date, the Latest Valuation of

that Property increased or decreased as appropriate by the increase or decrease in the House Price Index since the date of that Latest Valuation

<b>i</b>	The meaning given on page 126 of this Prospectus
<b>ICSDs</b>	The meaning given on page 211 of this Prospectus
<b>Indexed Valuation</b>	In relation to any Loan secured over any Property at any date: <ul style="list-style-type: none"><li>(a) where the Latest Valuation of that Property is equal to or greater than the House Price Indexed Valuation as at that date, the House Price Indexed Valuation; or</li><li>(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</li></ul>
<b>Initial Advance</b>	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: <ul style="list-style-type: none"><li>(a) Further Advance; and</li><li>(b) Flexible Loan Drawing,</li></ul> in each case relating to any such Loan
<b>Initial Portfolio</b>	The meaning given on page 234 of this Prospectus
<b>Insolvency Act</b>	Insolvency Act 1986, as amended
<b>Insolvency Event</b>	In respect of the Seller, the Servicer or Cash Manager: <ul style="list-style-type: none"><li>(a) an order is made or an effective resolution passed for the winding-up of the relevant entity; or</li><li>(b) the relevant entity ceases or threatens to cease to carry on the whole of its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or</li><li>(c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the relevant entity under any applicable liquidation, administration, reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or</li></ul>

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

<b>Instalment Amounts</b>	In respect of Instalment Covered Bonds, each amount specified as such in the applicable Final Terms
<b>Instalment Covered Bonds</b>	Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms
<b>Instalment Dates</b>	In respect of Instalment Covered Bonds, each date specified as such in the applicable Final Terms
<b>Insurance Acknowledgement</b>	In the case of the Insurance Policy, a duly executed letter from the relevant insurer substantially in the form set out in Schedule 8 to the Mortgage Sale Agreement
<b>Insurance Claim Proceeds</b>	The proceeds resulting of any claims under the Insurance Policy
<b>Insurance Policy</b>	means the Properties in Possession Cover and <b>Insurance Policies</b> shall be construed accordingly
<b>Intercompany Loan</b>	All Term Advances made by the Issuer to the LLP under the Intercompany Loan Agreement
<b>Intercompany Loan Agreement</b>	The term loan agreement dated the Programme Date between the Issuer, the LLP, the Cash Manager and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Intercompany Loan Ledger</b>	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
<b>Interest Amount</b>	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) ( <i>Interest on Floating Rate Covered Bonds</i> ) of the Programme Conditions
<b>Interest Commencement Date</b>	In the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest
<b>Interest Determination Date</b>	In respect of Floating Rate Covered Bonds the meaning given in the applicable Final Terms
<b>Interest Payment Date</b>	In respect of Fixed Rate Covered Bonds, the meaning given to it

	in the applicable Final Terms and in respect of Floating Rate Covered Bonds, the meaning given in Condition 4.2(a)(ii) ( <i>Interest on Floating Rate Covered Bonds</i> ) of the Programme Conditions
<b>Interest Period</b>	In accordance with Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) 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
<b>Interest Rate Shortfall</b>	The meaning given on page 189 of this Prospectus
<b>Interest Rate Shortfall Test</b>	The meaning given on page 189 of this Prospectus
<b>Investor Put</b>	The meaning given in Condition 6.4 ( <i>Redemption at the option of the Covered Bondholders (Investor Put)</i> ) of the Programme Conditions
<b>Investor's Currency</b>	The meaning given on page 68 of this Prospectus
<b>ISDA</b>	International Swaps and Derivatives Association, Inc.
<b>ISDA Definitions</b>	The 2006 ISDA Definitions, as published by ISDA
<b>ISDA Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2 ( <i>Interest on Floating Rate Covered Bonds</i> )
<b>ISDA Master Agreement</b>	The 1992 ISDA Master Agreement (Multicurrency – Cross Border), as published by ISDA
<b>ISDA Rate</b>	The meaning given in Condition 4.2(b)(i) ( <i>Interest on Floating Rate Covered Bonds</i> ) of the Programme Conditions
<b>Issue Date</b>	Each date on which the Issuer issues a Tranche or Series of Covered Bonds under the Programme, as specified in the applicable Final Terms
<b>Issue Price</b>	The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Series or Tranche of Covered Bonds will be issued
<b>Issuer</b>	TSB Bank plc
<b>Issuer Acceleration Notice</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> ) of the Programme Conditions
<b>Issuer Call</b>	The meaning given in Condition 6.3 ( <i>Redemption at the option of the Issuer (Issuer Call)</i> ) of the Programme Conditions
<b>Issuer Event of Default</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> ) of the Programme Conditions
<b>Issuer Subordinated Loan</b>	The meaning given on page 193 of this Prospectus
<b>Issuer-ICSDs Agreement</b>	The meaning given on page 211 of this Prospectus
<b>Italian Banking Act</b>	Financial Services Act and Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended
<b>Latest Valuation</b>	In relation to any Property, the value given to that Property by the most recent Valuation Report addressed to the Seller or assessed using automated valuation models

<b>Lead Manager</b>	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
<b>Ledger</b>	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
<b>Lending Criteria</b>	The lending criteria of the Seller from time to time
<b>Liquidation Member</b>	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 1 Bartholomew Lane, London EC2N 2AX (registered no. 10181264)
<b>Liquidity Coverage Ratio</b>	The meaning given on page 69 of this Prospectus
<b>Lloyds Banking Group</b>	Lloyds Banking Group plc and its associated and subsidiary undertakings
<b>Lloyds 2013 Part VII Transfer</b>	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
<b>LLP</b>	TSB Covered Bonds LLP, a limited liability partnership incorporated in England and Wales whose registered office is 1 Bartholomew Lane, London EC2N 2AX (registered no. OC411834)
<b>LLPA</b>	The meaning given on page 96 of this Prospectus
<b>LLP Acceleration Notice</b>	A notice in writing given by the Bond Trustee to the Issuer and the LLP, that each Covered Bond of each Series is, and each Covered Bond of each Series shall, as against the Issuer (if not already due and repayable against it following an Issuer Acceleration Notice) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount and all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series, in each case as provided in and in accordance with the Trust Deed, and thereafter the Security shall become enforceable if any of the LLP Events of Default shall occur and be continuing
<b>LLP Accounts</b>	The 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
<b>LLP Deed</b>	The limited liability partnership deed entered into on the Programme Date between the LLP, the Seller, the Liquidation Member, the Bond Trustee and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>LLP Event of Default</b>	The meaning given in Condition 9.2 ( <i>LLP Events of Default</i> ) of the Programme Conditions

<b>LLP Management Board</b>	The management board which will act on behalf of the LLP and to which (other than certain decisions identified in the LLP Deed as requiring a unanimous decision of the Members, including (without limitation) any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP) the Members delegate all matters relating to the business of the LLP and its management
<b>LLP Payment Date</b>	The 8th day of each month or if not a London Business Day the next following London Business Day
<b>LLP Payment Period</b>	The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date
<b>Loan</b>	Each mortgage loan (including, for the avoidance of doubt, any English Loan or any Scottish Loan) which is to be sold, assigned or transferred by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement (or, 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
<b>Loan Repurchase Notice</b>	A notice in substantially the form set out in the Mortgage Sale Agreement served by the LLP on the Seller in relation to the repurchase of Loans in the Portfolio by the Seller in accordance with the terms of the Mortgage Sale Agreement
<b>Loan-to-Value Ratio</b>	The ratio of the outstanding balance of a Loan to the 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
<b>London Banking Day or LBD</b>	The meaning given on page 126 of this Prospectus
<b>London Business Day</b>	A day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London
<b>London Stock Exchange</b>	London Stock Exchange plc or any body to which its functions have been transferred
<b>Long Maturity Covered Bond</b>	A Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid

	after that date is less than the Principal Amount Outstanding of such Covered Bond
<b>Margin</b>	In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>MiFID II</b>	The meaning given on page 7 of this Prospectus
<b>Master Definitions and Construction Agreement</b>	The master definitions and construction agreement made between the parties to the Transaction Documents on the Programme Date (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Maximum Rate of Interest</b>	In respect of Floating Rate Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Maximum Redemption Amount</b>	The amount specified as such in the applicable Final Terms
<b>MCCB</b>	Mortgage Code Compliance Board
<b>MCD</b>	Directive 2014/17/EU (as amended)
<b>MCOB</b>	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
<b>Member</b>	Each member of the LLP
<b>Members</b>	The meaning given on page 193 of this Prospectus
<b>MH/CP Documentation</b>	An affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 and/or (where applicable) the Civil Partnership Act 2004 in connection with a Mortgage over a Property in Scotland or the Property secured thereby
<b>Minimum Rate of Interest</b>	In respect of Floating Rate Covered Bonds the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Minimum Redemption Amount</b>	The amount (if any) specified as such in the applicable Final Terms
<b>Modified Following Business Day Convention</b>	The meaning given in Condition 4.5(b)(iii) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme Conditions
<b>Monthly Payment</b>	The amount which the relevant Mortgage Conditions require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Loan
<b>Monthly Payment Day</b>	The date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Loan or, if any such day is not a London Business Day, the next following London Business Day unless the related Mortgage Conditions provide for such other adjustment of the business day convention
<b>Moody's</b>	Moody's Investors Service Limited or its successors
<b>Mortgage</b>	The legal charge, mortgage, standard security or charge securing a Loan
<b>Mortgage Account</b>	All Loans secured on the same Property and thereby forming a single mortgage account

<b>Mortgage Code</b>	The mortgage code sponsored by the CML and policed by the MCCB under which, until 31 October 2004, residential mortgage business in the UK was voluntarily self-regulated
<b>Mortgage Conditions</b>	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)
<b>Mortgage Sale Agreement</b>	The mortgage sale agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time) and, where the context so requires, including any New Mortgage Sale Agreement entered into from time to time between any New Seller, the LLP and the Security Trustee
<b>Mortgage Terms</b>	All the terms and conditions applicable to a Loan and/or Mortgage, including, without limitation, the applicable Mortgage Conditions, Loan Conditions and Offer Conditions
<b>N Covered Bond</b>	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 "Namenschuldverschreibung" 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
<b>N Covered Bond Assignment Agreement</b>	The assignment agreement attached to each N Covered Bond, substantially in the form set out at Schedule 6 to the Trust Deed
<b>N Covered Bond Conditions</b>	The terms and conditions of each N Covered Bond annexed thereto
<b>N Covered Bond Confirmation</b>	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
<b>N Covered Bond Confirmation Terms</b>	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
<b>N Covered Bondholder</b>	The registered holder of an N Covered Bond as recorded as such in the Register by the Registrar
<b>Negative Carry Factor</b>	The meaning given on page 197 of this Prospectus
<b>Net Stable Funding Ratio</b>	The meaning given on page 69 of this Prospectus
<b>New Company</b>	The meaning set out in Condition 19.1 ( <i>Substitution,</i>

	<i>Consolidation, Merger, Amalgamation or Transfer of the Issuer)</i> of the Terms and Conditions
<b>New Entity</b>	The meaning set out in Condition 19.3 ( <i>Substitution, Consolidation, Merger, Amalgamation or Transfer of the Issuer)</i> of the Terms and Conditions
<b>New Global Covered Bond or NGCB</b>	A Temporary Global Covered Bond in the form set out in Part 1 of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part 2 of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms specifies that the Covered Bonds are in NGCB form
<b>New Loan</b>	Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to (or, 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
<b>New Loan Type</b>	A new type of mortgage loan originated by the Seller or a New Seller, which the Seller or the New Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller or the New Seller, acting reasonably) from any of the Loans or New Seller Loans in the Portfolio. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from any of the Loans or New Seller Loans in the Portfolio solely due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, loans where the cash obligations on the part of the Seller remain outstanding and/or rate guarantees
<b>New Member</b>	Any new member admitted to the LLP after the Programme Date
<b>New Mortgage Sale Agreement</b>	Any new mortgage sale agreement entered into between any New Seller, the LLP and the Security Trustee which shall be substantially in the same form and contain substantially the same provisions (provided that the Security Trustee may agree variations to the representations and warranties in relation to the relevant New Seller Loans and their Related Security) as the Mortgage Sale Agreement
<b>New Portfolio</b>	The meaning given on page 234 of this Prospectus
<b>New Portfolio Notice</b>	A notice in the form set out in the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement
<b>New Seller</b>	Any member of the 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
<b>New Seller Loans</b>	Loans originated by a New Seller
<b>n<sub>i</sub></b>	The meaning given on page 126 of this Prospectus
<b>Notice to Pay</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> )

	of the Programme Conditions
<b>Observation Period</b>	The meaning given on page 126 of this Prospectus
<b>Offer Conditions</b>	The terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower
<b>Official List</b>	Official List of the FCA
<b>OFT</b>	The UK Office of Fair Trading, which from 1 April 2014 ceased to exist
<b>Ombudsman</b>	Financial Ombudsman Service under the FSMA and the CCA 2006
<b>Optional Redemption Amount</b>	The meaning (if any) given in the applicable Final Terms
<b>Optional Redemption Date</b>	The meaning (if any) given in the applicable Final Terms
<b>Original Due for Payment Date</b>	The meaning given in paragraph (a) of the definition of Due for Payment
<b>Outstanding</b>	<p>In relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than:</p> <ul style="list-style-type: none"> <li>(a) those Covered Bonds which have been redeemed in full and cancelled pursuant to the Trust Deed and/or the N Covered Bond Conditions;</li> <li>(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 (<i>Notices</i>) 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;</li> <li>(c) those Covered Bonds which have been purchased and cancelled in accordance with Conditions 6.9 (<i>Purchases</i>) and 6.10 (<i>Cancellation</i>) of the Programme Conditions and any equivalent provision in the N Covered Bond Conditions;</li> <li>(d) those Covered Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 8 (<i>Prescription</i>) of the Programme Conditions or the equivalent provisions of the N Covered Bond Conditions;</li> <li>(e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 10</li> </ul>

*(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

<b>p</b>	The meaning given on page 126 of this Prospectus
<b>part Coupon sheet</b>	The meaning given on page 148 of this Prospectus
<b>Partial Portfolio</b>	Part of any portfolio of Selected Loans
<b>Paying Agents</b>	The Principal Paying Agent and any other paying agent appointed pursuant to the terms of the Agency Agreement
<b>Payment Day</b>	The meaning given in Condition 5.6 ( <i>Payment Day</i> ) of the Programme Conditions
<b>Payment Holiday</b>	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
<b>PCA</b>	The meaning given on page 45 of this Prospectus
<b>Permanent Global Covered Bond</b>	The meaning given on page 102 of this Prospectus
<b>pence and p</b>	The meaning given on page 12 of this Prospectus
<b>Perfection Event</b>	The meaning given on page 181 of this Prospectus
<b>Portfolio</b>	The Initial Portfolio and each New Portfolio acquired by the LLP (other than any Loans which have been redeemed in full or repurchased by the Seller or a New Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the LLP)
<b>Portfolio Manager</b>	The meaning given on page 202 of this Prospectus
<b>Post-Enforcement Priority of Payments</b>	The meaning given on page 230 of this Prospectus
<b>Postponed Deferred Consideration</b>	Deferred Consideration the payment of which is, by reason of the application thereto of the proviso as to Available Revenue Receipts and/or the making of provisions as referred to in the Mortgage Sale Agreement, postponed from the date on which such Deferred Consideration would, but for such application, have been paid
<b>Potential Issuer Event of Default</b>	The meaning given in Condition 14 ( <i>Meetings of Covered Bondholders, Modification and Waiver</i> ) of the Programme Conditions
<b>Potential LLP Event of Default</b>	The meaning given in Condition 14 ( <i>Meetings of Covered Bondholders, Modification and Waiver</i> ) of the Programme Conditions
<b>PRA or Prudential Regulatory Authority</b>	The Prudential Regulatory Authority of the United Kingdom

<b>Pre-Acceleration Principal Priority of Payments</b>	The meaning given on page 224 of this Prospectus
<b>Pre-Acceleration Priority of Payments</b>	The Pre-Acceleration Principal Priority of Payments or the Pre-Acceleration Revenue Priority of Payments, as applicable
<b>Pre-Acceleration Revenue Priority of Payments</b>	The meaning given on page 220 of this Prospectus
<b>Preceding Business Day Convention</b>	The meaning given in Condition 4.5(b)(iv) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme Conditions
<b>Pre-Maturity Liquidity Ledger</b>	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
<b>Pre-Maturity Liquidity Test</b>	The meaning given in " <i>Credit Structure – Pre-Maturity Liquidity Test</i> " on page 215 of this Prospectus
<b>Pre-Maturity Liquidity Test Breach Period</b>	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
<b>Pre-Maturity Liquidity Test Date</b>	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
<b>Principal Amount Outstanding</b>	In accordance with Condition 4.5(f) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) 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
<b>Principal Ledger</b>	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
<b>Principal Paying Agent</b>	Citibank, N.A., London Branch, or, if applicable, any successor principal paying agent
<b>Principal Receipts</b>	Any amount received and recorded as being received in respect of principal in respect of any Loan (including payments pursuant to any Insurance 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
<b>Priorities of Payments</b>	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 236 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 paragraph (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
<b>Property</b>	(In England and Wales) freehold or leasehold property or (in Scotland) a heritable property or a property held under a long lease which is subject to a Mortgage and <b>Properties</b> means all of them
<b>Prospectus</b>	The meaning given on page 4 of this Prospectus
<b>Purchaser</b>	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
<b>Put Notice</b>	The meaning given in Condition 6.4 ( <i>Redemption at the option of the Covered Bondholders (Investor Put)</i> ) on page 139
<b>Rate of Interest</b>	The meaning given to it in the applicable Final Terms as further elaborated by Condition 4 ( <i>Interest and other Calculations</i> ) of the Programme Conditions
<b>Rating Agency</b>	Moody's and/or any other rating agency appointed by the Issuer as such in respect of the Programme
<b>Rating Agency Confirmation</b>	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
<b>RCB Regulations</b>	Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended
<b>RCB Sourcebook</b>	Regulated Covered Bond Sourcebook, published on 6 March 2008, as amended, revised or supplemented from time to time
<b>Reasonable, Prudent Mortgage Lender</b>	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
<b>Receipt</b>	A receipt for payment of instalments of principal (other than the final instalment) attached on issue to a Bearer Definitive Covered Bonds repayable in instalments, such receipt being substantially in the form set out in Part 4 of Schedule 2 to the Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues) and includes any replacements for Receipts issued pursuant to Condition 10 ( <i>Replacement of Covered Bonds, Receipts, Coupons and Talons</i> ) of the Terms and Conditions
<b>Receiptholders</b>	The holders of the Receipts
<b>Receipts</b>	The meaning given on page 117 of this Prospectus
<b>Receiver</b>	Any person or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver, manager, or receiver and manager of the Charged Property by the Security Trustee pursuant to the Deed of Charge
<b>Record Date</b>	The meaning given in Condition 5.4 ( <i>Payments in respect of Registered Covered Bonds</i> ) of the Programme Conditions

<b>Redeemed Covered Bonds</b>	The meaning given in Condition 6.3 ( <i>Redemption at the option of the Issuer (Issuer Call)</i> ) of the Programme Conditions
<b>Reference Banks</b>	In the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market selected by the Cash Manager
<b>Reference Price</b>	In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms
<b>Reference Rate</b>	In respect of Floating Rate Covered Bonds, EURIBOR or SONIA in respect of the Specified Currency in each case for the relevant period, as specified in the applicable Final Terms
<b>Register</b>	The register of holders of the Registered Covered Bonds maintained by the Registrar
<b>Registered Covered Bond</b>	A Covered Bond in registered form
<b>Registered Definitive Covered Bond</b>	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
<b>Registered Definitive Covered Bonds</b>	The meaning given on page 116 of this Prospectus
<b>Registered Global Covered Bonds</b>	Global Covered Bonds in registered form substantially in the form set out in the Trust Deed
<b>Registers of Scotland</b>	The Land Register of Scotland and the General Register of Sasines
<b>Registrar</b>	Citibank, N.A., London Branch, in its capacity as registrar (and any successor registrar appointed in accordance with the Agency Agreement)
<b>Regulated Covered Bonds</b>	Covered Bonds that have been admitted to the register of regulated covered bonds maintained by the Authorities pursuant to the RCB Regulations
<b>Regulated Mortgage Contract</b>	The meaning given on page 250 of this Prospectus
<b>Regulation No. 11971</b>	The meaning given on page 272 of this Prospectus
<b>Regulation S</b>	Regulation S under the Securities Act

<b>Regulation S Covered Bond</b>	A Covered Bond represented by a Registered Global Covered Bond or a Registered Definitive Covered Bond as the context may require
<b>Related Security</b>	In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the LLP pursuant to the Mortgage Sale Agreement (but excluding, for avoidance of doubt, the Properties in Possession Cover in respect of which the LLP and the Security Trustee have received Insurance Acknowledgements)
<b>Relevant Date</b>	The meaning given in Condition 7 ( <i>Taxation</i> ) of the Programme Conditions
<b>relevant Dealer</b>	The meaning given on page 1 of this Prospectus
<b>Relevant LLP Payment Period</b>	The meaning given on page 189 of this Prospectus
<b>Relevant Screen Page</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms
<b>relevant Series of Covered Bonds</b>	The meaning given on page 61 of this Prospectus
<b>relevant Talon</b>	The meaning given on page 148 of this Prospectus
<b>Representations and Warranties</b>	The representations and warranties set out in the Mortgage Sale Agreement
<b>Required Current Balance Amount</b>	The meaning given on page 200 of this Prospectus
<b>Required Redemption Amount</b>	The meaning given on page 201 of this Prospectus
<b>Reserve Fund</b>	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
<b>Reserve Fund Required Amount</b>	<p>(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</p> <p>(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 amounts required to make payments under the Covered Bond Swap entered into in relation to each Series of Covered Bonds, or if no Covered Bond Swap has been entered into in relation to a Series of Covered Bonds, of the interest due on each such 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</p>

£600,000, provided that in determining the amount of the Reserve Fund Required Amount, where any amount in respect of the Covered Bonds or Covered Bond Swap Agreements is determined by reference to a floating rate, then (i) (unless the floating rate is determined by reference to a compounded daily SONIA rate) the interest rate for the purpose of such calculation shall be the then current floating rate as at the date on which the amount is calculated or (ii) (if the floating rate is determined by reference to a compounded daily SONIA rate), the interest rate for the purpose of such calculation shall be deemed to be equal to the sum of (x) the SONIA Spot Rate published on the date on which the amount is calculated (or, if such day is not a London Business Day, on the immediately preceding London Business Day), compounded daily over the relevant period and (y) the Margin or the margin in relation to the Covered Bond Swaps, as applicable, for such period, 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 Definition

**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 and the amounts referred to in Clause 8.4(ii) of the LLP Deed, in each case 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
<b>RWAs</b>	The meaning given on page 9 of this Prospectus
<b>Sabadell</b>	The meaning given on page 11 of the Prospectus
<b>Sabadell Group</b>	The meaning given on page 11 of the Prospectus
<b>SABIS</b>	The meaning given on page 42 of the Prospectus
<b>Sale Date</b>	Each of the First Sale Date and each other date of sale of any New Portfolio to the LLP in accordance with the terms of the Mortgage Sale Agreement
<b>Sale Proceeds</b>	The cash proceeds realised from the sale of Selected Loans and their Related Security
<b>Scheduled Interest</b>	In relation to a Series of Covered Bonds, an amount equal to the amount in respect of interest which is or would have been due and payable under such Covered Bonds on each Interest Payment Date as specified in Condition 4 ( <i>Interest and other Calculations</i> ) of the Programme Conditions (but excluding any additional amounts relating to premiums, default interest or interest upon interest ( <b>Excluded Scheduled Interest Amounts</b> ) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds) as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date) or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the applicable Final Terms less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 ( <i>Taxation</i> ) of the Programme Conditions
<b>Scheduled Payment Date</b>	In relation to payments under the Covered Bond Guarantee in respect of a Series of Covered Bonds, each Interest Payment Date or the Final Maturity Date as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date
<b>Scheduled Principal</b>	In relation to a Series of Covered Bonds, an amount equal to the amount in respect of principal which is or would have been due and repayable under such Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6.1 ( <i>Final redemption</i> ) and Condition 6.7 ( <i>Early Redemption Amounts</i> ) of the Programme Conditions (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest ( <b>Excluded Scheduled Principal Amounts</b> ) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose)

	following service of an LLP Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the Final Terms specified that an Extended Due for Payment Date is applicable to such relevant Covered Bonds) as if the maturity date of such Covered Bonds had been the Extended Due for Payment Date
<b>Scottish Declaration of Trust</b>	Each declaration of trust in relation to Scottish Loans and their Related Security made pursuant to the Mortgage Sale Agreement by means of which the transfer of the beneficial interest in such Scottish Loans and their Related Security by the Seller or a New Seller to the LLP is given effect
<b>Scottish Loan</b>	A Loan secured by a Scottish Mortgage
<b>Scottish Mortgage</b>	A Mortgage over a Scottish Property
<b>Scottish Sub-Security</b>	Each standard security granted by the LLP in favour of the Security Trustee pursuant to the Deed of Charge
<b>Scottish Supplemental Charge</b>	Each 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
<b>Screen Rate Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b) ( <i>Interest on Floating Rate Covered Bonds</i> ) of the Programme Conditions
<b>Secured Creditors</b>	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, the Account Bank, the 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
<b>Secured Obligations</b>	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
<b>Securities Act</b>	U.S. Securities Act of 1933, as amended
<b>Security</b>	The meaning given on page 211 of this Prospectus
<b>Security Interest</b>	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
<b>Security Trustee</b>	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
<b>Selected Loan Offer Notice</b>	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
<b>Selected Loan Repurchase Notice</b>	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
<b>Selected Loans</b>	Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed and the Mortgage Sale Agreement having in aggregate the Required Current Balance Amount
<b>Selection Date</b>	The meaning given in Condition 6.3 ( <i>Redemption at the option of the Issuer (Issuer Call)</i> ) of the Programme Conditions
<b>Self-Certified Loan</b>	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
<b>Seller</b>	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 <b>Sellers</b> means, together, the Sellers and New Sellers
<b>Seller Power of Attorney</b>	A power of attorney to be provided by the Seller substantially in the form set out in schedule 6 ( <i>Power of Attorney in favour of the LLP and the Security Trustee</i> ) to the Mortgage Sale Agreement
<b>Separation Agreement</b>	The meaning given on page 45 of this Prospectus
<b>Series</b>	(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 <b>Covered Bonds of the relevant Series, Covered Bondholders of the relevant Series</b> and related expressions shall be construed accordingly
<b>Series Reserved Matter</b>	In relation to Covered Bonds of a Series: <ul style="list-style-type: none"> <li>(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or 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;</li> </ul>

- (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 Schedule 4 to the Trust Deed

<b>Servicer</b>	TSB Bank plc in its capacity as servicer under the Servicing Agreement (and any successor servicer)
<b>Servicer Termination Event</b>	The meaning given on page 190 of this Prospectus
<b>Servicing Agreement</b>	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)
<b>Share Trustee</b>	Intertrust Corporate Services Limited (registered number 03920255) in its capacity as share trustee together with any successor share trustee appointed from time to time
<b>SONIA</b>	Sterling Overnight Index Average
<b>SONIA<sub>i-pLBD</sub></b>	The meaning given on page 126 of this Prospectus
<b>SONIA reference rate</b>	The meaning given on page 126 of this Prospectus
<b>SONIA Screen Page</b>	means the Reuters Screen SONIA Page (or, if such page is no longer available, any replacement or successor page showing the relevant information);
<b>SONIA Spot Rate</b>	means, with respect to publication on any London Business Day, the daily SONIA published on such London Business Day (and relating to the immediately preceding London Business Day) as provided by the administrator of SONIA to authorised distributors and as then published on the SONIA Screen Page (or, if the SONIA Screen Page is unavailable, as otherwise

	published by such authorised distributors)
<b>Specified Currency</b>	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer, the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms
<b>Specified Denomination</b>	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms, 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
<b>Specified Interest Payment Date</b>	In respect of Floating Rate Covered Bonds the meaning (if any) given in the applicable Final Terms
<b>Specified Period</b>	In respect of Floating Rate Covered Bonds the meaning (if any) given in the applicable Final Terms
<b>Specified Time</b>	11.00 am (Brussels time, in the case of a determination of EURIBOR)
<b>Stabilising Manager(s)</b>	The meaning given on page 6 of this Prospectus
<b>Standard Documentation</b>	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
<b>standard security</b>	A standard security as defined in Part II of the Conveyancing and Feudal Reform (Scotland) Act 1970
<b>Standard Variable Rate</b>	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
<b>Sterling Equivalent</b>	In relation to a Term Advance or a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of Covered Bonds) which is denominated in (a) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance or the Term Advance applicable to such Series of Covered Bonds and (b) Sterling, the applicable amount in Sterling
<b>Stock Exchange</b>	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
<b>Subsidiary</b>	Any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act)
<b>Substitution Assets</b>	Each of: <ul style="list-style-type: none"> <li>(a) Sterling gilt-edged securities;</li> <li>(b) Sterling demand or time deposits, provided that in all cases such investments have a remaining period to</li> </ul>

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

<b>sub-unit</b>	In accordance with Condition 4.5(i) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) 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
<b>Supplemental Liquidity Available Amount</b>	The meaning given on page 201
<b>Supplemental Liquidity Event</b>	The meaning given on page 218
<b>Supplemental Liquidity Reserve Amount</b>	The meaning given on page 198
<b>Supplemental Liquidity Reserve Ledger</b>	The meaning given on page 199
<b>Supplementary Prospectus</b>	The meaning given on page 17 of this Prospectus
<b>Swaps</b>	Any Covered Bond Swap together with any Cover Pool Swap, and each a <b>Swap</b>

<b>Swap Agreements</b>	Any Covered Bond Swap Agreements together with the Cover Pool Swap Agreement, and each a <b>Swap Agreement</b>
<b>Swap Collateral</b>	At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed
<b>Swap Collateral Account</b>	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
<b>Swap Collateral Account Bank</b>	As at the Programme Date, HSBC Bank plc as well as any other swap collateral account banks appointed from time to time
<b>Swap Collateral Account Bank Required Ratings</b>	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)
<b>Swap Collateral Available Amounts</b>	At any time, the amount of Swap Collateral which under the terms of the relevant Swap Agreement may be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP following termination of a Swap Agreement to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Priority of Payments or the Guarantee Priority of Payments
<b>Swap Collateral Bank Account Agreement</b>	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)
<b>Swap Collateral Excluded Amounts</b>	At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the LLP, including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the relevant Swap Agreement and ultimately upon termination of the relevant Swap Agreement
<b>Swap Provider Default</b>	The occurrence of an Event of Default or Termination Event

	(each as defined in the relevant Swap Agreement) with respect to the relevant Swap Provider, where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in the relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event
<b>Swap Provider Downgrade Event</b>	The occurrence of an Additional Termination Event (as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement
<b>Swap Providers</b>	The Covered Bond Swap Providers and the Cover Pool Swap Provider, and each a <b>Swap Provider</b>
<b>Swap Provider Tax Payment</b>	Any indemnity payment received by the LLP from a Swap Provider as a result of a breach of certain tax representations in the relevant Swap Agreement
<b>Swaps</b>	Any Covered Bond Swaps together with the Cover Pool Swap, and each a <b>Swap</b>
<b>Talons</b>	The Talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Covered Bonds (other than Zero Coupon Covered Bonds), such talons being substantially in the form set out in the Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer and includes any replacements for Talons issued pursuant to Condition 10 ( <i>Replacement of Covered Bonds, Receipts, Coupons and Talons</i> ) of the Programme Conditions
<b>TARGET2 System</b>	In accordance with Condition 4.5(a)(ii) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme Conditions, the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor system thereto
<b>Tax Credit</b>	The meaning given in the relevant Swap Agreement
<b>Taxes</b>	All present and future taxes, levies, imposts, duties, 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;
<b>TEFRA</b>	The United States Tax Equity and Fiscal Responsibility Act of 1982;
<b>TEFRA C</b>	U.S. Treasury Regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended);

<b>TEFRA D</b>	U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended);
<b>Temporary Global Covered Bond</b>	A temporary global covered bond substantially in the form set out in the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues), together with the copy of the applicable Final Terms annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer relating to the Programme, the Agency Agreement and the trust presents
<b>Term Advance</b>	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement
<b>Terms and Conditions</b>	The meaning given on page 107 of this Prospectus
<b>Terms and Conditions or Conditions</b>	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
<b>Third Party Amounts</b>	<p>Each of:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(b) payment of certain insurance premiums;</li> <li>(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</li> <li>(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;</li> </ul> <p>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</p>
<b>Title Deeds</b>	In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents (if any) which make up the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage
<b>Tracker Loan</b>	A Loan 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
<b>Tranche</b>	An issue of Covered Bonds (other than N Covered Bonds) which are identical in all respects (including as to listing and admission to trading)
<b>Transaction Account</b>	The account in the name of the LLP held with 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
<b>Transaction Documents</b>	<ul style="list-style-type: none"> <li>(a) Mortgage Sale Agreement</li> <li>(b) each Scottish Declaration of Trust</li> <li>(c) Servicing Agreement</li> <li>(d) Asset Monitor Agreement</li> <li>(e) Intercompany Loan Agreement</li> <li>(f) LLP Deed</li> <li>(g) Cash Management Agreement</li> <li>(h) Cover Pool Swap Agreement</li> <li>(i) each Covered Bond Swap Agreement</li> <li>(j) Bank Account Agreement</li> <li>(k) Swap Collateral Bank Account Agreement</li> <li>(l) Corporate Services Agreement</li> <li>(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)</li> <li>(n) Trust Deed</li> <li>(o) Agency Agreement</li> <li>(p) Programme Agreement</li> <li>(q) the Final Terms as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement</li> <li>(r) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)</li> <li>(s) Master Definitions and Construction Agreement</li> <li>(t) any other agreement or document from time to time designated as such by the Issuer, the LLP and the Bond Trustee and/or Security Trustee</li> </ul>
<b>Transfer Agent</b>	In relation to all or any Series of Registered Covered Bonds, 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
<b>Transfer Agents</b>	The meaning given on page 116 of this Prospectus

<b>Trust Deed</b>	The trust deed entered into on the Programme Date between the Issuer, the LLP, the Bond Trustee and the Security Trustee (as the same may be amended, restated, supplemented, replaced or novated from time to time)
<b>Treaty</b>	The meaning given on page 137 of this Prospectus
<b>TSB Bank</b>	TSB Bank plc
<b>TSB Banking Group</b>	TSB Banking Group plc, registered in England (no. 08871766)
<b>TSB Discretionary Rates</b>	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
<b>TSB Franchise</b>	The meaning given on page 48 of this Prospectus
<b>UCITS Directive</b>	The meaning given on page 245 of this Prospectus
<b>UKAR</b>	UK Asset Resolution Limited
<b>UK EMIR</b>	The meaning given on page 84 of this Prospectus
<b>UK MiFIR</b>	Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA
<b>UK Prospectus Regulation</b>	Regulation (EU) 2017/1129 as it forms part of the UK domestic law by virtue of the EUWA;
<b>UK regulated market of the London Stock Exchange</b>	The meaning given on page 1 of this Prospectus
<b>Underpayment</b>	A reduced payment by a Borrower (including any payment made under a Flexible Loan) and where such reduced payment is in place of the Monthly Payment set out in the Offer Conditions or as agreed by the Seller (acting as a Reasonable, Prudent Mortgage Lender) due to existing overpayments in accordance with its standard lending practice (or any changed Monthly Payment subsequently notified to the Borrower), where there are sufficient available funds to fund the difference between the Monthly Payment and this reduced payment and where the Borrower is not in breach of the Mortgage Conditions for making such payment
<b>Unfair Practices Directive</b>	Directive 2005/29/EC of 11 May 2005 on unfair business-to-consumer commercial practices and amending Council Directive 84/450/ECC and others
<b>UTCCR</b>	The Unfair Terms in Consumer Contracts Regulations 1994 (SI 1994/3159) and the 1999 Regulations
<b>Valuation Report</b>	The valuation report or reports for mortgage purposes obtained by the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation of a Property made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the Seller (or his successor)
<b>Valuer</b>	An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers
<b>Variable Rate Loan</b>	A Loan which is subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage

	Conditions in accordance with the relevant Discretionary Rate (and shall, for the avoidance of doubt, exclude Fixed Rate Loans and Tracker Loans)
<b>VAT</b>	Value Added Tax
<b>Yield Shortfall Test</b>	The meaning given on page 190 of this Prospectus
<b>Whistletree Portfolio</b>	The meaning given on page 48 of this Prospectus
<b>Zero Coupon Covered Bonds</b>	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest

## INDEX OF DEFINED TERMS

\$ .....	12, 274	Asset Segregation .....	276
£ .....	12, 274	Authorised Investments .....	276
¥ .....	12, 274	Authorities .....	277
€ .....	12, 274	Available Principal Receipts.....	277
1999 Regulations .....	254, 274	Available Revenue Receipts.....	277
2012 Act.....	260	Back-Up Cash Manager.....	89, 278
2016 Act.....	167	Back-Up Cash Manager Event .....	206
2016 Act Regulations.....	167	Back-Up Cash Manager Facilitator .....	279
30/360 .....	131, 274	Back-Up Servicer .....	89, 191, 279
30E/360.....	131, 274	Back-Up Servicer Event .....	191
30E/360(ISDA).....	131, 274	Back-Up Servicer Facilitator .....	279
360/360 .....	131, 274	Bank Account .....	211
Account Bank.....	274	Bank Account Agreement.....	279
Account Bank Required Ratings.....	274	Bank Accounts.....	211
Accrual Period .....	130, 274	Bank Rate .....	126, 279
Accrual Yield.....	274	Banking Act.....	50, 279
Accrued Interest.....	274	Banking Reform Act.....	52
Act.....	263	Base Rate Modification .....	156, 279
Actual/360.....	131, 274	Base Rate Modification Certificate ....	156, 279
Actual/365 (Fixed).....	130, 274	Basel III .....	48, 69, 279
Actual/365 (Sterling) .....	131, 275	BCBS .....	69, 279
Actual/Actual .....	130, 275	Bearer Covered Bond .....	117
Actual/Actual (ICMA).....	130, 275	Bearer Covered Bonds.....	279
Actual/Actual (ISDA).....	130, 275	Bearer Definitive Covered Bond .....	279
Additional Business Centre.....	275	Bearer Definitive Covered Bonds.....	116, 280
adjusted .....	132	Bearer Global Covered Bond.....	102
Adjusted Aggregate Loan Amount .....	195, 275	Bearer Global Covered Bonds .....	102, 280
Adjusted Current Balance .....	195, 275	Belmont decision .....	98, 280
Adjusted Required Redemption Amount...201,	275	Bond Basis.....	131, 274
Administration Fee.....	190, 275	Bond Trustee.....	116, 280
Admission .....	275	Borrower.....	280
Advance Date.....	275	Broken Amount .....	280
Agency Agreement .....	116, 266, 275	BRRD .....	48, 280
Agents .....	275	Business Day .....	129, 280
Alternative Base Rate .....	156, 275	Business Day Convention.....	129, 280
AMF.....	269, 275	c .....	12, 281
Amortisation Test.....	275	Calculation Agent .....	122, 280
Amortisation Test Aggregate Loan Amount .....	199, 275	Calculation Agent(s).....	116, 280
Amortisation Test Current Balance.....	199, 275	Calculation Amount.....	137, 280
Amortised Face Amount .....	140, 275	Calculation Date .....	280
applicable Final Terms.....	116, 275	Calculation Period .....	280
Arranger .....	275	Capital Account Ledger.....	280
Arrears Adjusted Current Balance .....	195, 275	Capital Contribution .....	280
Asset Coverage and Investor Report.....	276	Capital Contribution in Kind .....	281
Asset Coverage Test .....	276	Capital Distribution .....	281
Asset Coverage Test Breach Notice.....	276	Capital Requirements Directive.....	281
Asset Monitor.....	276	Capital Requirements Regulation .....	281
Asset Monitor Agreement.....	276	Cash Capital Contribution .....	281
Asset Monitor Report.....	276	Cash Management Agreement.....	281
Asset Percentage .....	198, 276	Cash Manager .....	281
Asset Pool .....	276	Cash Manager Termination Event .....	206
		CBTL .....	252, 281
		CCA .....	71, 82, 281

CCA 2006 .....	281	Covered Bonds .....	1, 116, 283
cent .....	12, 281	Covered Bonds of the relevant Series.....	311
Certificate of Title.....	281	COVID-19 Payment Deferral .....	77
Charged Property .....	211, 281	COVID-19 Payment Deferral Loan.....	77
CJEU .....	256	CPUTR .....	256, 285
Clearing Obligation.....	99	CRA .....	71, 285
Clearing Systems .....	281	CRA Regulation .....	2, 62, 285
Clearstream, Luxembourg.....	102, 118, 281	CRD .....	48
CMA .....	254, 256, 281	CRD IV .....	48
CMA Guidance .....	256	Current Balance .....	285
CML.....	281	current balance determination date.....	285
COBS .....	106	Custodian .....	246, 285
Code .....	133	Custody Swap Collateral Account.....	285
Collateralised GIC .....	281	Customer Files .....	285
Collateralised GIC Account.....	281	Day Count Fraction .....	130, 285
Collateralised GIC Provider.....	282	Dealer.....	1, 28, 286
Collateralised Guaranteed Investment Contract .....	281	Dealers .....	1, 28, 286
Collection Account .....	282	Deed of Charge.....	117, 286
Collection Account Bank.....	282	Defaulted Loan .....	286
Commission's Proposal.....	264	Deferred Consideration.....	286
Common Depository .....	102, 282	Definitive Covered Bond.....	286
Common Safekeeper .....	102, 282	Definitive Covered Bonds .....	116, 286
Companies Act.....	282	Deposit Non-Reserved Amounts .....	198
Compensation Sum .....	251	Deposit Set-off Balance.....	197
Compounded Daily SONIA .....	282	Designated Account.....	135, 286
CONC .....	282	Designated Bank.....	135, 286
Conditions .....	317	Designated Maturity .....	122, 286
Conduct Indemnity.....	45, 282	Designated Member.....	193, 286
Consumer Credit Directive .....	282	Designated Members .....	193, 286
Consumer Rights Act.....	254	Designated Mortgages Amount .....	198
Corporate Services Agreement .....	282	Determination Date.....	286
Corporate Services Provider .....	211, 282	Determination Period.....	132, 286
Counterparty Risk Assessment .....	282	DGSD .....	55
Coupon.....	282	Directors .....	286
Couponholders .....	117, 283	Discretionary Rate .....	286
Coupons .....	117, 283	Discretionary Rate Loans .....	235, 286
Cover Pool Swap.....	284	Distance Marketing Regulations.....	253
Cover Pool Swap Agreement.....	284	Distribution Compliance Period .....	286
Cover Pool Swap Early Termination Event .....	207, 285	distributor.....	7, 106
Cover Pool Swap Provider.....	285	DPA .....	286
Covered Bond .....	283	Due for Payment.....	287
Covered Bond Guarantee.....	120, 283	Due for Payment Date .....	288
Covered Bond Swap .....	283	Earliest Maturing Covered Bonds .....	288
Covered Bond Swap Agreement.....	208, 283	Early Redemption Amount.....	288
Covered Bond Swap Agreements .....	283	Early Repayment Charge.....	236
Covered Bond Swap Early Termination Event .....	210, 283	Early Repayment Charges .....	288
Covered Bond Swap Provider.....	284	EEA .....	8, 11, 106, 267
Covered Bond Swap Rate .....	284	Eligibility Criteria.....	179, 288
Covered Bondholder .....	118, 283, 284	eligible property.....	183
Covered Bondholders.....	116, 284	EMIR .....	84
Covered Bondholders of the relevant Series .....	311	Energy Efficiency Regulations 2015 .....	261
		English Loan.....	288
		English Regulations .....	78
		Equity Release Loan.....	288
		ESMA .....	63, 288

EU .....	9, 11, 288	FSCS Limit .....	197
EU Benchmarks Regulation .....	91	FSMA .....	11, 107, 268, 290
EU CRR .....	70	FTT .....	264
EURIBOR .....	91, 288	Further Advance .....	290
euro .....	12, 137, 274	GBP .....	12
Euro .....	12, 274	General Prohibition .....	168
Eurobond Basis .....	131, 274	Global Covered Bond .....	116, 290
Euroclear .....	102, 118, 288	Group .....	9, 11, 291
European Market Infrastructures Regulation .....	288	Guarantee Priority of Payments .....	226, 291
EUWA .....	1, 107, 268	Guaranteed Amounts .....	291
Excess Proceeds .....	144, 288	Guaranteed Amounts Due Date .....	176, 291
Exchange Date .....	102, 288	H.M. Treasury .....	291
Exchange Event .....	103, 104, 288	Hard Bullet Covered Bonds .....	29, 215, 291
Excluded Scheduled Interest Amounts .....	288, 309	HMRC .....	291
Excluded Scheduled Principal Amounts .....	289, 309	Holder .....	284
Excluded Swap Termination Amount .....	289	holder of Covered Bonds .....	118, 284, 291
Extended Covered Bond .....	289	holding company .....	291
Extended Covered Bonds .....	229	Holdings .....	24, 291
Extended Due for Payment Date .....	289	Homeowner Variable Rate .....	291
Extension Determination Date .....	289	House Price Index .....	291
Extraordinary Resolution .....	289	House Price Indexed Valuation .....	291
FATCA .....	264, 289	i .....	292
FCA .....	1, 11, 289	IASB .....	58
FCA Handbook .....	169	ICSDs .....	211, 292
FCA Remuneration Code .....	171	IGAs .....	264
FCs .....	99	in Arrears .....	275
FIEA .....	268, 289	Index .....	7
Final Maturity Date .....	289	Index Owner .....	7
Final Redemption Amount .....	289	Indexed Valuation .....	292
Final Terms .....	2, 289	Initial Advance .....	292
Financial Conduct Authority .....	289	Initial Portfolio .....	234, 292
Financial Services Act .....	289	Insolvency Act .....	292
Financial Services Authority .....	290	Insolvency Event .....	292
financial statements .....	12, 289	Instalment Amounts .....	293
First Sale Date .....	289	Instalment Covered Bonds .....	293
Fixed Coupon Amount .....	289	Instalment Dates .....	293
Fixed Rate Covered Bonds .....	289	Insurance Acknowledgement .....	293
Fixed Rate Loans .....	236, 290	Insurance Claim Proceeds .....	293
Fixed/Floating Rate Covered Bonds .....	290	Insurance Distribution Directive .....	8, 106, 267
Flexible Draw Capacity .....	198, 290	Insurance Policies .....	293
Flexible Loan .....	290	Insurance Policy .....	293
Flexible Loan Drawing .....	290	Intercompany Loan .....	293
Floating Rate .....	122, 290	Intercompany Loan Agreement .....	293
Floating Rate Convention .....	130, 290	Intercompany Loan Ledger .....	293
Floating Rate Covered Bonds .....	290	Interest Amount .....	127, 293
Floating Rate Option .....	122, 290	Interest Commencement Date .....	293
Following Business Day Convention .....	130, 290	Interest Determination Date .....	293
foreign passthru payments .....	264	Interest Payment Date .....	121, 293
FOS .....	46, 290	Interest Period .....	132, 294
FPC .....	167	Interest Rate Shortfall .....	189, 294
FSA .....	11, 167, 290	Interest Rate Shortfall Test .....	189, 294
FSA 2012 .....	169	Interest-Only Loan .....	235
FSCS .....	55, 290	Investor Put .....	139, 294
		Investor's Currency .....	68, 294
		ISDA .....	294

ISDA Definitions .....	122, 294	Member.....	193, 297
ISDA Determination .....	294	Member State.....	11
ISDA Master Agreement .....	294	Members .....	193, 297
ISDA Rate.....	122, 294	MH/CP Documentation .....	297
Issue Date.....	116, 294	MiFID II .....	7, 106, 297
Issue Price .....	294	MiFID Product Governance Rules .....	7
Issuer.....	1, 11, 25, 116, 294	Minimum Rate of Interest.....	297
Issuer Acceleration Notice .....	143, 294	Minimum Redemption Amount.....	297
Issuer Call .....	294	MMR .....	262
Issuer Event of Default .....	143, 294	Modified Following Business Day Convention .....	130, 297
Issuer Subordinated Loan .....	193, 294	Monthly Payment .....	297
Issuer-ICSDs Agreement .....	211, 294	Monthly Payment Day.....	297
Issuer's 2020 Annual Report and Accounts ..	16	Moody's .....	2, 297
Italian Banking Act.....	269, 294	Mortgage.....	297
Japanese ¥ .....	12, 274	Mortgage Account .....	297
Japanese yen.....	12, 274	Mortgage Code .....	298
JPY .....	274	Mortgage Conditions .....	298
Latest Valuation .....	294	Mortgage Regulation Date.....	248
LBD .....	296	Mortgage Sale Agreement .....	298
Lead Manager .....	295	Mortgage Terms .....	298
Ledger .....	295	MoU.....	254
<i>Lending Criteria</i> .....	239, 295	MREL .....	49
Liquidation Member .....	174, 295	N Covered Bond .....	298
Liquidity Coverage Ratio.....	69, 295	N Covered Bond Assignment Agreement ..	298
Lloyds 2013 Part VII Transfer .....	77, 295	N Covered Bond Conditions.....	298
Lloyds Bank.....	45	N Covered Bond Confirmation.....	298
Lloyds Banking Group.....	295	N Covered Bond Confirmation Terms.....	298
LLP .....	1, 116, 174, 295	N Covered Bondholder .....	298
LLP Acceleration Notice .....	144, 295	Negative Carry Factor.....	197, 298
LLP Accounts .....	295	Net Stable Funding Ratio.....	69, 298
LLP Deed.....	192, 295	New Company .....	161, 298
LLP Event of Default.....	145, 295	New Entity.....	162, 299
LLP Management Board.....	296	New Global Covered Bond.....	299
LLP Payment Date.....	296	New Loan .....	299
LLP Payment Period .....	296	New Loan Type .....	299
LLPA .....	96, 245, 295	New Member .....	299
LLP's 2019 Annual Financial Statements .....	16	New Mortgage Sale Agreement.....	299
Loan .....	296	New Portfolio .....	234, 299
Loan Conditions.....	236	New Portfolio Notice.....	299
Loan Repurchase Notice .....	296	New Rating Criteria.....	152
Loan-to-Value Ratio .....	296	New Regime .....	170
London Banking Day .....	296	New Seller .....	299
London Business Day .....	296	New Seller Loans.....	299
London Stock Exchange .....	1, 296	NFC+s.....	99
Long Maturity Covered Bond .....	134, 296	NGCB .....	102, 299
Margin.....	297	n <sub>i</sub> .....	299
Margin Obligation.....	100	not adjusted.....	132
Master Definitions and Construction Agreement.....	117, 297	Notice to Pay .....	144, 299
Maximum Rate of Interest .....	297	Observation Period .....	300
Maximum Redemption Amount .....	297	Offer Conditions .....	300
MCCB.....	297	Official List.....	1, 300
MCD .....	297	OFT.....	300
MCD Order .....	250	Ombudsman.....	72, 259, 300
MCOB.....	170, 249, 297	Optional Redemption Amount.....	300

Optional Redemption Date .....	300	Prudential Regulatory Authority.....	302
Original Due for Payment Date .....	287, 300	Purchaser .....	305
Outstanding .....	300	Put Notice .....	139, 305
p .....	12, 302	RAO.....	248
part Coupon sheet .....	148, 302	Rate of Interest.....	137, 305
Partial Portfolio .....	202, 302	Rating Agency .....	305
participating Member States .....	264	Rating Agency Confirmation.....	63, 160, 305
Paying Agents .....	116, 302	RCB Regulations .....	2, 243, 305
Payment Day .....	136, 302	RCB Sourcebook .....	68, 144, 243, 305
Payment Holiday.....	302	Reasonable, Prudent Mortgage Lender.....	305
PCA.....	302	Receipt .....	305
pence .....	12, 302	Receiptholders .....	117, 305
Perfection Event.....	181, 302	Receipts .....	117, 305
Permanent Global Covered Bond .....	102, 302	Receiver .....	305
Portfolio .....	234, 302	Record Date .....	135, 305
Portfolio Manager .....	202, 302	Redeemed Covered Bonds.....	138, 306
Post-Enforcement Priority of Payments.....	230, 302	Reference Banks .....	306
Postponed Deferred Consideration .....	302	Reference Price.....	306
Potential Issuer Event of Default .....	156, 302	Reference Rate.....	156, 306
Potential LLP Event of Default.....	156, 302	Register .....	135, 306
PPI.....	251	Registered Covered Bond .....	117, 306
PRA.....	11, 302	Registered Definitive Covered Bond.....	306
PRA Remuneration Code.....	171	Registered Definitive Covered Bonds .....	116, 306
PRA Rulebook .....	169	Registered Global Covered Bond .....	103
PRC.....	167	Registered Global Covered Bonds.....	306
Pre-Acceleration Principal Priority of Payments .....	224, 303	Registers of Scotland .....	306
Pre-Acceleration Priority of Payments .....	303	Registrar.....	116, 306
Pre-Acceleration Revenue Priority of Payments .....	220, 303	Regulated Covered Bonds .....	306
Pre-action Protocol.....	256	Regulated Mortgage Contract.....	306
Preceding Business Day Convention ..	130, 303	Regulation No. 11971 .....	306
Pre-Maturity Liquidity Ledger.....	303	Regulation S .....	3, 306
Pre-Maturity Liquidity Test .....	215, 303	Regulation S Covered Bond .....	307
Pre-Maturity Liquidity Test Breach Period .....	303	Regulation S Covered Bonds.....	267
Pre-Maturity Liquidity Test Date.....	303	Related Security.....	307
PRIIPs Regulation.....	8, 106	Relevant Date .....	142, 307
Principal Amount Outstanding .....	132, 303	relevant Dealer.....	1, 307
Principal Ledger.....	303	Relevant Financial Centre time .....	122
Principal Paying Agent .....	116, 303	Relevant LLP Payment Period.....	189, 307
Principal Receipts .....	303	Relevant Loans .....	180
Priorities of Payments .....	303	Relevant Regulator .....	167
Product Period.....	236, 304	Relevant Regulators.....	167
Product Switch .....	304	Relevant Screen Page .....	307
Programme .....	1, 304	relevant Series of Covered Bonds.....	61, 307
Programme Agreement .....	265, 304	relevant Talon.....	148, 307
Programme Conditions .....	304	Repayment Loan.....	235
Programme Date .....	304	Repossession Act.....	257
Programme Resolution.....	151, 304	Representations and Warranties .....	307
Properties .....	305	Required Current Balance Amount ....	200, 307
Properties in Possession Cover .....	304	Required Redemption Amount .....	201, 307
Property.....	305	Reserve Fund .....	307
Prospectus .....	4, 107, 305	Reserve Fund Required Amount .....	307
Prospectus Regulation.....	5, 106	Reserve Ledger .....	308
		Reset Date.....	122, 308
		Responsible Persons .....	4, 308
		retail investor .....	8, 106, 267

Revenue Ledger .....	308	standard security .....	313
Revenue Receipts.....	308	Standard Variable Rate .....	313
Risk Mitigation Requirements .....	99	sterling .....	12
RWAs.....	9, 309	Sterling.....	274
Sabadell.....	11, 309	Sterling Equivalent .....	313
Sabadell Group.....	11, 309	Stock Exchange .....	156, 313
SABIS .....	309	Subscription Agreement .....	143
Sale Date .....	309	Subsidiary .....	313
Sale Proceeds .....	309	Substitution Assets .....	313
Scheduled Interest.....	309	sub-unit .....	132, 314
Scheduled Payment Date .....	309	Supplemental Liquidity Available Amount .....	201, 314
Scheduled Principal .....	309	Supplemental Liquidity Event .....	218, 314
Scottish Declaration of Trust .....	310	Supplemental Liquidity Reserve Amount .	198, 314
Scottish Loan .....	310	Supplemental Liquidity Reserve Ledger ...	199, 314
Scottish Mortgage .....	310	Supplementary Prospectus.....	17, 314
Scottish Sasine Sub-Security .....	261	Swap .....	314, 316
Scottish Sasine Transfer.....	261	Swap Agreement.....	315
Scottish Sub-Security.....	310	Swap Agreements .....	315
Scottish Supplemental Charge .....	310	Swap Collateral.....	315
Screen Rate Determination .....	310	Swap Collateral Account .....	315
SDLT .....	80	Swap Collateral Account Bank.....	315
Secured Creditors.....	310	Swap Collateral Account Bank Required Ratings .....	315
Secured Obligations .....	310	Swap Collateral Available Amounts .....	315
Securities Act.....	3, 266, 310	Swap Collateral Bank Account Agreement	315
Security .....	211, 310	Swap Collateral Excluded Amounts.....	315
Security Interest .....	310	Swap Provider.....	316
Security Trustee .....	116, 310	Swap Provider Default.....	315
Selected Loan Offer Notice .....	311	Swap Provider Downgrade Event.....	316
Selected Loan Repurchase Notice.....	311	Swap Provider Tax Payment .....	316
Selected Loans .....	311	Swap Providers .....	316
Selection Date .....	139, 311	Swaps.....	314, 316
Self-Certified Loan .....	311	Systems and Procedures Indemnity .....	46
Seller .....	311	Talons .....	117, 316
Seller Power of Attorney .....	311	TARGET2 System.....	129, 316
Sellers.....	311	Tax Credit .....	316
Separation Agreement.....	45, 311	Taxes.....	316
Series.....	117, 311	TEFRA.....	316
Series Reserved Matter .....	311	TEFRA C .....	316
Servicer .....	312	TEFRA D.....	317
Servicer Termination Event .....	190, 312	Temporary Global Covered Bond .....	102, 317
Servicing Agreement .....	312	Term Advance .....	317
Share Trustee .....	312	Terms and Conditions.....	107, 116, 317
Solvency II .....	69	Third Party Amounts .....	317
SONIA .....	312	Title Deeds.....	317
SONIA reference rate .....	312	Tracker Loan.....	317
SONIA Screen Page.....	312	Tracker Rate Loans.....	236
SONIA Spot Rate.....	312	Tranche .....	117, 318
SONIA <sub>1-p</sub> LBD .....	312	Transaction Account.....	318
Specified Currency.....	313	Transaction Documents .....	318
Specified Denomination.....	313	Transfer Agent.....	318
Specified Interest Payment Date .....	313	Transfer Agents .....	116, 318
Specified Period.....	313		
Specified Time .....	313		
Stabilising Manager(s) .....	6, 313		
Standard Documentation.....	313		

Treaty .....	137, 319	UK Prospectus Regulation.....	1, 107
Trust Deed.....	116, 319	UK regulated market of the London Stock Exchange .....	1, 319
TSB .....	164	UKAR .....	319
TSB Bank.....	11, 319	Underpayment .....	319
TSB Banking Group .....	11, 319	Unfair Practices Directive.....	319
TSB Discretionary Rates.....	319	US Dollars .....	274
TSB Franchise.....	48, 319	UTCCR.....	71, 254, 319
U.S. ....	11	Valuation Report.....	319
U.S. Dollars.....	12, 274	Valuer .....	319
U.S.\$ .....	12, 274	Variable Rate Loan.....	319
UCITS Directive .....	243, 319	VAT .....	320
UK.....	2, 8, 11, 106, 267	Whistletree Portfolio.....	48, 320
UK CRA Regulation .....	2	Yen.....	274
UK EMIR.....	84, 99, 152, 319	Yield Shortfall Test .....	190, 320
UK MiFIR.....	1, 106	Zero Coupon Covered Bonds .....	320
UK MiFIR Product Governance Rules ...	8, 106		
UK PRIIPs Regulation.....	8, 107		

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