



## **HBOS Treasury Services plc**

*(incorporated with limited liability in England and Wales)*

# **€14 billion Covered Bond Programme**

**unconditionally guaranteed by**

### **HBOS plc**

*(incorporated with limited liability in Scotland)*

and

### **The Governor and Company of the Bank of Scotland**

*(established by an Act of the Parliament of Scotland in 1695)*

and

**unconditionally and irrevocably guaranteed as to payments of interest and principal by**

### **HBOS Covered Bonds LLP**

*(a limited liability partnership incorporated in England and Wales)*

This Luxembourg Supplement (the **Supplement**) is prepared in connection with the Programme established by the Issuer and is supplemental to the Offering Circular dated 18<sup>th</sup> July, 2003 which comprises the listing particulars.

Application has been made to the Luxembourg Stock Exchange for the Covered Bonds issued under the Programme during a period of 12 months from 13<sup>th</sup> October, 2003 to be listed on the Luxembourg Stock Exchange.

Particular attention is drawn to the section in the Offering Circular dated 18<sup>th</sup> July, 2003 entitled *Investment Considerations*.

#### **Arrangers for the Programme**

**Goldman Sachs International**

**Citigroup**

#### **Dealers**

**Goldman Sachs International**

**Citigroup**

**Dresdner Kleinwort Wasserstein**

13<sup>th</sup> October, 2003

This Supplement should be read in conjunction with, and is supplemental to, the Offering Circular, dated 18<sup>th</sup> July 2003. Terms defined in the Offering Circular have the same meaning as in this Supplement, and references in the Offering Circular to “this Offering Circular” shall mean the Offering Circular as supplemented by this Supplement.

The Issuer and the Guarantors accept responsibility for the information contained in this Supplement and the Offering Circular, and other than as disclosed or contemplated herein or in the documents incorporated by reference, there have been no significant new factors capable of affecting assessment of the Covered Bonds which have arisen between the date of the Offering Circular and the date of this Supplement. To the best of the knowledge and belief of the Issuer and the Guarantors, having taken all reasonable care to ensure that such is the case, the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Supplement does not constitute an offer of, or an invitation to subscribe for or purchase, any Covered Bonds. The distribution of this Supplement and the offering or sale of the Covered Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement comes are required by the Issuer and the Managers to inform themselves and to observe any such restrictions.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche of Covered Bond will be set out in a Pricing Supplement which, with respect to Covered Bonds to be listed on the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of the Covered Bonds of such Tranche.

## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular (provided, however, that such incorporated documents do not form a part of the Listing Particulars):

- (a) the most recently published audited consolidated and non-consolidated annual financial statements and, if published later, the most recently published interim consolidated and non-consolidated financial statements (if any) of each of the Issuer and the Group Guarantors, see *General Information — Auditors* in this Offering Circular for a description of the financial statements currently published by each of the Issuer and the Group Guarantors;
- (b) the most recently published audited non-consolidated annual financial statements and, if published later, the most recently published non-consolidated interim financial statements (if any) of the LLP; and
- (c) all supplements or amendments to this Offering Circular circulated by the Issuer and/or the Guarantors, or any of them, from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular (but not the Listing Particulars) to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference 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 Offering Circular.

The Issuer, the Group Guarantors and the LLP will provide, without charge, a copy of any or all of the documents deemed to be incorporated herein by reference, unless such documents have been modified or superseded as specified above. Such documents will be available upon request from the principal office of J.P. Morgan Bank Luxembourg S.A. in Luxembourg.

## **USE OF PROCEEDS**

The Sterling Equivalent of the net proceeds from each issue of Covered Bonds together with other funds of the Issuer in an aggregate amount equal to the Sterling Equivalent of the gross proceeds from each such issue 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 will be used by the LLP either:

- (i) to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the prescribed limited; and/or
- (ii) 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; and/or
- (iii) to deposit all or part of the proceeds into the GIC Account.

## **THE ISSUER**

### **Recent Developments**

On 3<sup>rd</sup> October, 2003 Gordon McQueen, Chairman and Chief Executive of the Issuer, announced his intention to retire at the end of the year. He will be succeeded as Chief Executive by Lindsay Mackay, currently Head of Treasury of the Issuer.

## CAPITALISATION AND INDEBTEDNESS

### The LLP

The following table shows the unaudited capitalisation and indebtedness of the LLP at 31<sup>st</sup> August, 2003. Since 31<sup>st</sup> August, 2003 there have been no material changes in the LLP's capitalisation, indebtedness, contingent liabilities or guarantees as set forth in the table below. The table below replaces in its entirety the capitalisation and indebtedness table for the LLP set forth in the Offering Circular.

	<b>As at 31<sup>st</sup> August, 2003 £</b>
Capital Contributions	4,878,815,638.53
Term Advances	2,132,400,000.00
<b>Total Capitalisation and Indebtedness</b>	<b>7,011,215,638.53</b>

### The Issuer

The following table and notes thereto show the unaudited capitalisation and indebtedness of the Issuer at 30<sup>th</sup> June, 2003. The table below replaces in its entirety the capitalisation and indebtedness table for the Issuer set forth in the Offering Circular.

	<b>As at 30<sup>th</sup> June, 2003 (£ millions)</b>
<b>Authorized capital</b> (ordinary shares of 25p each)	1000
<b>Issued capital</b> (ordinary shares of 25p each, fully paid) <sup>(1)</sup>	660
Profit and loss account	186
	846
<b>Subordinated loan capital</b> <sup>(2)</sup>	
Undated	357
Dated	397
<b>Total Capital Resources</b>	<b>1,600</b>
<b>Other Borrowings</b> <sup>(3)</sup>	
Deposits by banks	60,899
Customer accounts	16,396
Debt securities in issue	76,629
<b>Total indebtedness</b>	<b>153,924</b>
<b>Total capitalisation and indebtedness</b> <sup>(4)</sup>	<b>155,254</b>

- (1) The Issuer's total capital resources are owned by Bank of Scotland and Bank of Scotland has unconditionally and irrevocably guaranteed due payment of all lawfully incurred present and future indebtedness and other obligations of the Issuer.
- (2) The Subordinated Undated and Dated Loan Capital was comprised as follows:

	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
<b>Undated Subordinated Loan Capital</b>	<b>357</b>
<b>Dated Subordinated Loan Capital</b>	
Dated Subordinated Loan Capital 2006	25
Dated Subordinated Loan Capital 2009	42
Dated Subordinated Loan Capital 2011	30
Dated Subordinated Loan Capital 2012	300
	<b>397</b>

The dated and undated subordinated loan capital, all of which is Sterling denominated, bears interest at a LIBOR related rate. The subordinated loan capital is held by Bank of Scotland. The undated subordinated loan capital has no final date of maturity.

The dated and undated subordinated loan capital is not secured and is not guaranteed. No account has been taken of intra-HBOS Group guarantees.

- (3) As indicated in the table above, as at 30<sup>th</sup> June, 2003, the Issuer had other borrowings of £153,924 million (including deposits by banks of £60,899 million, customer accounts of £16,396 million and debt securities in issue of £76,629 million). Save for £10,830 million of the Issuer's debt securities in issue which are unguaranteed but secured on certain other assets of the Issuer, none of the other borrowings listed in this paragraph are secured or guaranteed. As at 30<sup>th</sup> June, 2003, the Issuer had no contingent liabilities (including guarantees). No account has been taken of intra-HBOS Group guarantees.

The Issuer has unconditionally guaranteed due payment of all Bank of Scotland's lawfully incurred present and future indebtedness and other obligations. Payments under the guarantee by the Issuer in respect of Bank of Scotland's subordinated obligations are subordinated until after the lawful claims of all the Issuer's ordinary or unsubordinated creditors have been satisfied in full.

- (4) Since 30<sup>th</sup> June, 2003 there have been no material changes in the Issuer's capitalisation, indebtedness, contingent liabilities or guarantees.

## The HBOS Group

The following table and notes thereto show the unaudited capitalisation and indebtedness of the HBOS Group at 30<sup>th</sup> June, 2003. The table below replaces in its entirety the capitalisation and indebtedness table for the HBOS Group set forth in the Offering Circular.

	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
<b>Authorised capital</b>	
9 <sup>1</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Shares (of £1 each)	375
9 <sup>3</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Shares (of £1 each)	125
6.125% Non-Cumulative Redeemable Preference Shares (of £1 each)	200
Sterling Preference Shares (of £1 each)	2,000
8.117% Non-Cumulative Perpetual Preference Shares Class A (of £10 each)	3
7.754% Non-Cumulative Perpetual Preference Shares Class B (of £10 each)	1
Ordinary Shares (of 25p) each	1,185
	<hr/> 3,889 <hr/>
	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(€ millions)</b>
Euro Preference Shares	1,500
	<hr/> 1,500 <hr/>
	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(US\$ millions)</b>
US\$ Preference Shares	2,500
	<hr/> 2,500 <hr/>



**Issued capital**

9 <sup>1</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Shares (of £1 each, fully paid)	300
9 <sup>3</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Shares (of £1 each, fully paid)	100
Ordinary Shares (of 25p each, fully paid)	959
Reserves	13,495

Shareholders' Funds (including non-equity interests)	14,854
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Minority Interests – Equity	461
Minority and Other Interests - Non Equity <sup>(1)</sup>	2,350

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2,811
**Subordinated loan capital<sup>(2)</sup>**

Undated <sup>(3)</sup>	4,048
Dated <sup>(4)</sup>	7,427

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**Total Capital Resources**
29,140

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**Other borrowings<sup>(5)</sup>**

Deposits by banks	41,712
Customer accounts	161,333
Debt securities in issue	91,817

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**Total Indebtedness**
294,862

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**Total Capitalisation and Indebtedness<sup>(6)</sup>**
324,002

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(1) Minority and Other Interests - Non Equity were comprised as follows:

	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
US\$1 billion Preferred Securities*	641
£600 million Preferred Securities*	600
£250 million Preferred Securities**	250
£150 million Preferred Securities**	150
£245 million Preferred Securities*	245
€415 million Preferred Securities*	289
£198 million non-cumulative preference shares	198
Unamortised Premiums, Discounts and Issue Costs	(23)
	<hr/> 2,350 <hr/>

\* HBOS plc provides a subordinated guarantee in respect of each of the issue of US\$1 billion 6.85% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities issued by HBOS Capital Funding No. 1 L.P., the issue of £600,000,000 6.461% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities issued by HBOS Capital Funding L.P., the issue of £245,000,000 7.881% Guaranteed Non-voting, Non-cumulative, Preferred Securities issued by HBOS Sterling Finance (Jersey) L.P., and the issue of €415,000,000 Fixed to Floating Guaranteed Non-voting, Non-cumulative, Preferred Securities issued by HBOS Euro Finance (Jersey) L.P.

\*\* Bank of Scotland has provided a subordinated guarantee in respect of each of the issues of £250,000,000 8.117% Non-cumulative Perpetual Preferred Securities Class A and £150,000,000 7.754% Non-cumulative Perpetual Preferred Securities Class B by Bank of Scotland Capital Funding L.P. All other non-equity minority interests are unguaranteed.

- (2) All loan capital issued by the HBOS Group, as detailed in the tables below, has been issued on an unsecured basis. Unless otherwise stated, issues of loan capital are unguaranteed.
- (3) The Subordinated Undated Loan Capital was comprised as follows:

	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
€500 million Fixed to Floating Rate Undated Subordinated Notes	348
£150 million 7.286% Series A Perpetual Regulatory Tier One Securities	150
£150 million 7.281% Series B Perpetual Regulatory Tier One Securities	150
£300 million 7.5% Undated Subordinated Step-Up Notes	300
JPY 42.5 billion 3.50% Undated Subordinated Yen Step-Up Notes	214
US\$300 million Reset Notes	182
£200 million Perpetual Notes	200
£200 million 7.375% Undated Subordinated Guaranteed Bonds*	200
€300 million Floating Rate Undated Subordinated Step-Up Notes	209
US\$250 million Floating Rate Primary Capital Notes	151
£150 million Instruments	150
£150 million Instruments	150
JPY 17 billion Instruments	97
£100 million Instruments	100
£100 million 12% Perpetual Subordinated Bonds	100
£100 million 8.75% Perpetual Subordinated Bonds	100
£75 million 13.625% Perpetual Subordinated Bonds	75
JPY 9 billion Instruments	46
£50 million 9.375% Perpetual Subordinated Bonds	50
£500 million 5.75% Undated Subordinated Step-up Notes	500
£600 million 5.75% Undated Subordinated Step-up Notes	600
Unamortised Premiums, Discounts and Issue Costs	(24)
	<b>4,048</b>

\* Clerical Medical Investment Group (Holdings) Limited (CMIG) (a wholly owned subsidiary of HBOS plc) has provided a subordinated guarantee to Clerical Medical Finance plc (CMF) (a wholly owned subsidiary of CMIG) in relation to the issue by CMF of £200 million 7.375% Undated Subordinated Guaranteed Bonds.

(4) The Subordinated Dated Loan Capital was comprised as follows:

	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
US\$300 million 8.80% Notes 2004*	182
£400 million 8.75% Subordinated Notes 2006	400
US\$150 million 8.85% Notes 2006*	91
£75 million 9.125% Subordinated Notes 2006	75
£60 million 9.00% Instruments 2006	60
€650 million 4.75% Subordinated Bonds 2009	452
US\$500 million Floating Rate Subordinated Step-up Callable Notes 2009	303
€500 million 5.50% Instruments 2009	348
£75 million Floating Rate Subordinated Notes 2009	75
US\$500 million Notes 2010*	303
£75 million Floating Rate Instruments 2010	75
US\$150 million Notes 2011*	91
€7 million Floating Rate Notes 2011	5
€750 million Subordinated Fixed Rate Notes 2012	522
US\$450 million Subordinated Floating Rate Notes 2012	272
£200 million Floating Rate Step-up Callable Subordinated Notes 2012	200
€12.8 million 6.25% Instruments 2012	9
A\$75 million Callable Notes 2012	31
€1,000 million Subordinated Callable Fixed/Floating Rate Instruments 2013	696
€325 million 6.125% Notes 2013	226
US\$1 billion Subordinated Guaranteed Notes 2013**	605
JPY 60 billion 0.55% Subordinated Callable Notes 2013	307
£250 million 11% Subordinated Bonds 2014	250
€1 billion 4.875% Subordinated Notes 2015	696
£150 million 10.5% Subordinated Bonds 2018	150
£250 million 6.375% Instruments 2019	250
£500 million 9.375% Subordinated Bonds 2021	500
€400 million 6.45% Fixed/Floating Subordinated Guaranteed Bonds 2023***	278
Unamortised premiums, discounts and issue costs	(25)
	<b>7,427</b>

\* These notes, the proceeds of which are on-lent to Bank of Scotland, are liabilities of Scotland International Finance No. 2 B.V. ("SIF No.2"), a wholly-owned subsidiary undertaking of Bank of Scotland, and are guaranteed unconditionally by Bank of Scotland on a subordinated basis.

\*\* These notes, the proceeds of the which are on-lent to HBOS plc, are liabilities of SIF No. 2, a wholly owned subsidiary undertaking of Bank of Scotland, and are guaranteed on a subordinated basis jointly and severally by HBOS plc and Bank of Scotland.

\*\*\* CMIG has provided a subordinated guarantee to CMF in relation to the issue by CMF of 6.45% Fixed/Floating Subordinated Guaranteed Bonds 2023.

(5) As indicated in the table on page 9, as at 30<sup>th</sup> June 2003, the HBOS Group had other borrowings of £294,862 million (including deposits by banks of £41,712 million, customer accounts of £161,333 million and debt securities in issue of £91,817 million). Save for £295 million of the HBOS Group's debt securities in issue which are unguaranteed but secured on advances to customers and certain other assets of the HBOS Group and £10,830 million of the HBOS Group's debt securities in issue which are unguaranteed but secured on asset backed securities of the HBOS Group, none of the other borrowings listed is secured or guaranteed. As at 30<sup>th</sup> June, 2003,

the HBOS Group had contingent liabilities (including guarantees) of £3,255 million. No account has been taken of intra-HBOS Group guarantees.

- (6) Save as disclosed above, since 30<sup>th</sup> June, 2003 there have been no material changes in the HBOS Group's capitalisation, indebtedness, contingent liabilities or guarantees.

### **The Bank of Scotland Group**

The following table and notes thereto show the unaudited capitalisation and indebtedness of the Bank of Scotland Group at 30<sup>th</sup> June, 2003. The table below replaces in its entirety the capitalisation and indebtedness table for the Bank of Scotland Group set forth in the Offering Circular.

	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
<b>Authorised capital</b>	
9 <sup>1</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Stock (of £1 each)	375
9 <sup>3</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Stock (of £1 each)	125
8.117% Non-Cumulative Preference Stock Class A	3
7.754% Non-Cumulative Preference Stock Class B	1
Ordinary stock (units of 25p each)	446
	<u>950</u>
	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
<b>Issued capital</b>	
9 <sup>1</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Stock (of £1 each, fully paid)	300
9 <sup>3</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Stock (of £1 each, fully paid)	100
Ordinary stock (units of 25p each, fully paid)	381
Reserves	5,879
Proprietors' funds (including non-equity interests)	<u>6,660</u>
Minority interests (equity)	229
Minority and other interests (non-equity)	400
	<u>629</u>
<b>Subordinated loan capital <sup>(1)</sup></b>	
Undated <sup>(2)</sup>	2,020
Dated <sup>(3)</sup>	3,751
<b>Total Capital Resources</b>	<u>13,060</u>
<b>Other Borrowings<sup>(4)</sup></b>	
Deposits by banks	46,757
Customer accounts	64,908
Debt securities in issue	88,127
<b>Total Indebtedness</b>	<u>199,792</u>
<b>Total Capitalisation and Indebtedness<sup>(5)</sup></b>	<u>212,852</u>

- (1) All loan capital issued by the Bank of Scotland Group, as detailed in the tables above, has been issued on an unsecured basis. Unless otherwise stated, issues of the loan capital are unguaranteed. Unless otherwise stated, no account has been taken of intra-HBOS Group guarantees.
- (2) The Subordinated Undated Loan Capital was comprised as follows:

	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
US\$250 million Floating Rate Primary Capital Notes	151
£200 million Perpetual Notes	200
£100 million Instruments	100
JPY 17 billion Instruments	97
JPY 9 billion Instruments	46
£150 million Instruments	150
£150 million Instruments	150
US\$300 million Reset Notes	182
£150 million 7.286% Series A Perpetual Regulatory Tier 1 Securities	150
£150 million 7.281% Series B Perpetual Regulatory Tier 1 Securities	150
€500 million Fixed to Floating Rate Undated Subordinated Loan Notes	348
£300 million 7.5% Floating Rate Subordinated Loan Notes	300
Unamortised Premiums, Discounts and Issue Costs	(4)
	<u>2,020</u>

The Instruments detailed under the heading "**Subordinated Undated Loan Capital**" above may, at the option of Bank of Scotland or relevant subsidiary undertaking on giving 30 days notice, be redeemed at par or exchanged for new instruments on 10<sup>th</sup> August, 2015 (£100 million); 9<sup>th</sup> February, 2016 (JPY 17 billion); 30<sup>th</sup> May, 2016 (JPY 9 billion); 30<sup>th</sup> October, 2006 (£150 million) and 10<sup>th</sup> February, 2023 (£150 million). The new instruments (and any further new instruments issued) may be similarly redeemed or exchanged for further new instruments at the option of Bank of Scotland on the fifth anniversary of their respective date(s) of issue. The JPY 17 billion Instruments have been converted into an obligation of US\$160 million, bearing interest at US\$ LIBOR plus 1.01% by means of swap arrangements.

The Reset Subordinated Notes may be redeemed at the option of Bank of Scotland at par on 20<sup>th</sup> November, 2007, at which time the interest rate becomes US\$ LIBOR plus 1.625%, or on any interest payment date thereafter.

On 28<sup>th</sup> February, 2001, £300 million Perpetual Regulatory Tier One Securities were issued by Bank of Scotland (£297 million net of expenses). These qualify as Tier 1 regulatory capital. A £150 million Series A Issue has a fixed coupon of 7.286% to 2016 and a Series B Issue of £150 million has a fixed coupon of 7.281% to 2026. Thereafter, if not redeemed on their respective dates, for each Issue the coupon will be reset and will be further reset at five yearly intervals. There is an option to settle the coupon payment through the issue of ordinary stocks. Coupon payments may be deferred but Bank of Scotland may not declare or pay dividends on any of its ordinary stocks whilst any coupon payments are deferred.

The subordinated undated loan capital has no final date of maturity. All or some of the Capital Notes may be redeemed at the option of Bank of Scotland at par on any interest payment date. The £200 million Perpetual Notes may, at the option of Bank of Scotland on 4<sup>th</sup> November, 2013, be redeemed at par or exchanged for New Notes. The New Notes (and any further New Notes issued) may be similarly

redeemed or exchanged for further New Notes at the option of Bank of Scotland on the fifth anniversary of their respective date(s) of issue. "New Notes" as used herein shall mean further notes the terms of which are identical to those of the existing Notes save that the rate of interest payable on then New Notes shall be greater than the rate payable on the existing Notes.

(3) The Subordinated Dated Loan Capital was comprised as follows:

	<b>As at 30<sup>th</sup> June, 2003</b>
	<b>(£ millions)</b>
US\$300 million 8.80% Notes 2004*	182
£60 million 9.00% Instruments 2006	60
US\$150 million 8.85% Notes 2006*	91
£75 million Floating Rate Instruments 2010	75
US\$150 million Notes 2011*	91
€500 million 5.50% Instruments 2009	348
£250 million 6.375% Instruments 2019	250
US\$500 million Notes 2010*	303
€325 million 6.125% Notes 2013	226
€12.8 million 6.25% Instruments 2012	9
€7 million Floating Rate Notes 2011	5
€1,000 million Subordinated Callable Fixed/Floating Rate Instruments 2013	696
€750 million Subordinated Fixed Rate Notes 2012	522
US\$450 million Subordinated Floating Rate Notes 2012	272
A\$75 million Callable Notes 2012	31
US\$ 1 billion Subordinated Guaranteed Notes 2013**	605
Unamortised Premiums, Discounts and Issue Costs	(15)
	<b>3,751</b>

\* These notes, the proceeds of which are on-lent to Bank of Scotland are liabilities of SIF No. 2, a wholly owned subsidiary undertaking of Bank of Scotland, and are guaranteed by Bank of Scotland on a subordinated basis.

\*\* These notes, the proceeds of which are on-lent to the Company, are liabilities of SIF No.2, a wholly owned subsidiary undertaking of Bank of Scotland, and are guaranteed by the Company and Bank of Scotland jointly and severally on a subordinated basis.

- (4) As indicated in the table on page 12, as at 30<sup>th</sup> June, 2003, the Bank of Scotland Group had other borrowings of £199,792 million (including deposits by banks of £46,757 million, customer accounts of £64,908 million and debt securities in issue of £88,127 million). Save for £295 million of the Bank of Scotland Group's debt securities in issue which are unguaranteed but secured on advances to customers and certain other assets of the Bank of Scotland Group and £10,830 million, of the Bank of Scotland Group's debt securities in issue which are unguaranteed but secured on asset backed securities of the Bank of Scotland Group, none of the other borrowings listed are secured or guaranteed. As at 30<sup>th</sup> June, 2003, the Bank of Scotland Group had contingent liabilities (including guarantees) of £3,677 million. No account has been taken of intra-HBOS Group guarantees.
- (5) On 30<sup>th</sup> September, 2003 Bank of Scotland issued 118,900,000 ordinary stock units of 25p each to HBOS for a consideration of £850,135,000.
- (6) Save as disclosed above, since 30<sup>th</sup> June, 2003 there have been no material changes in the Bank of Scotland Group's capitalisation, indebtedness, contingent liabilities or guarantees.

## GENERAL INFORMATION

### *Listing of the Programme on the Luxembourg Stock Exchange*

A legal notice relating to the Programme and the constitutional documents of the Issuer are being lodged with the Luxembourg trade and companies register (*Register de commerce et des sociétés, Luxembourg*) where such documents may be examined and copies obtained. The Luxembourg Stock Exchange has allocated the number 12901 to the Programme for listing purposes. Covered Bonds issued under the Programme during the period from the date hereof to 13<sup>th</sup> October 2004 are eligible for listing on the Luxembourg Stock Exchange.

### *Documents available*

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will be made available from the principal office of J.P. Morgan Bank Luxembourg S.A. in Luxembourg:

- (i) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the Guarantors;
- (ii) the consolidated audited financial statements of each of the Issuer and each of the Group Guarantors in respect of the financial periods ended 31<sup>st</sup> December, 2001 and 2002;
- (iii) the most recently published audited annual financial statements of the Issuer, the Group Guarantors and the LLP and the most recently published unaudited interim financial statements (if any) of the Issuer and the Group Guarantors;
- (iv) the accountant's report issued by KPMG Audit Plc, the auditors of the LLP, in respect of the LLP's financial statements as at the date of the Offering Circular;
- (v) the forms of the Global Bonds, the Covered Bonds in definitive form, the Receipts, the Coupons and the Talons;
- (vi) a copy of this Luxembourg Supplement and the Offering Circular dated 18<sup>th</sup> July 2003;
- (vii) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (including a Pricing Supplement relating to an unlisted Covered Bond) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (viii) each of the following Transaction Documents, namely:
  - Mortgage Sale Agreement
  - each Scottish Declaration of Trust
  - each Servicing Agreement
  - Asset Monitor Agreement
  - Intercompany Loan Agreement
  - LLP Deed
  - Deed of Admission
  - Cash Management Agreement
  - each Interest Swap Agreement
  - each Covered Bond Swap Agreement

- Guaranteed Investment Contract
- Stand-by Guaranteed Investment Contract
- Bank Account Agreement
- Stand-by Bank Account Agreement
- Corporate Services Agreement
- Deed of Charge (and any documents entered into pursuant to the Deed of Charge)
- Trust Deed
- Agency Agreement
- Programme Agreement
- each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)
- Master Definitions and Construction Agreement.

***Replacement of Issuer or Guarantor***

So long as the Notes are admitted to listing on the Luxembourg Stock Exchange, the Issuer or a Guarantor shall notify the Luxembourg Stock Exchange of any replacement or substitution of the Issuer or a Guarantor by filing with the Luxembourg Stock Exchange a supplement to this Offering Circular. In addition, the Issuer or such Guarantor will publish a notice in respect of such replacement or substitution in accordance with Condition 13 of the Terms and Conditions of the Covered Bonds in this Offering Circular.





## **HBOS Treasury Services plc**

*(incorporated with limited liability in England and Wales)*

**€14 billion**

## **Covered Bond Programme**

**unconditionally guaranteed by**

**HBOS plc**

*(incorporated with limited liability in Scotland)*

and

**The Governor and Company of the Bank of Scotland**

*(established by an Act of the Parliament of Scotland in 1695)*

and

**unconditionally and irrevocably guaranteed as to payments of interest and principal by**

**HBOS Covered Bonds LLP**

*(a limited liability partnership incorporated in England and Wales)*

Under this €14 billion covered bond programme (the **Programme**), HBOS Treasury Services plc (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below).

The payments of all amounts due in respect of the Covered Bonds have been unconditionally guaranteed on a joint and several basis by HBOS plc (**HBOS**) and The Governor and Company of the Bank of Scotland (**Bank of Scotland** and together with HBOS in its capacity as guarantor, the **Group Guarantors**). HBOS Covered Bonds LLP (the **LLP** and, together with the Group Guarantors, the **Guarantors**) 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.

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €14 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under *Summary of the Programme* and any additional Dealer 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 Offering Circular to the **relevant Dealer(s)** shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Covered Bonds.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Covered Bonds issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Covered Bonds to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to the London Stock Exchange's market for listed securities constitute official listing on the London Stock Exchange. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under *Terms and Conditions of the Covered Bonds*) of Covered Bonds will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Programme provides that Covered Bonds may be listed on such other or further stock exchange(s) as may be agreed between the Issuer, the Guarantors, the Bond Trustee (as defined herein), the Security Trustee (as defined herein) and the relevant Dealer(s). The Issuer may also issue unlisted Covered Bonds provided that the terms of any such issue are made available to all holders of listed Covered Bonds.

The Issuer and the Guarantors may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds admitted to the Official List only) supplementary listing particulars or further listing particulars, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

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

Particular attention is drawn to the section herein entitled *Investment Considerations*.

**Arrangers for the Programme**

**Goldman Sachs International**

**Citigroup**

**Dealers**

**Goldman Sachs International**

**Citigroup**

**Dresdner Kleinwort Wasserstein**

The date of this Offering Circular is 18th July, 2003.

The Issuer and the Guarantors accept responsibility for the information contained in this offering circular (the Offering Circular). To the best of the knowledge and belief of the Issuer and the Guarantors (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

A copy of this Offering Circular, which comprises the listing particulars (the Listing Particulars) approved by the UK Listing Authority as required by the Financial Services and Markets Act 2000, as amended (FSMA) in relation to Covered Bonds admitted to the Official List and admitted to trading on the London Stock Exchange's market for listed securities and issued during the period of 12 months from the date of this Offering Circular, has been delivered for registration to the Registrar of Companies in Scotland and in England and Wales as required by section 83 of that Act. Copies of each Pricing Supplement (in the case of Covered Bonds to be admitted to the Official List) will be available from FT Business Research Centre, operated by FT Interactive Data at Fitzroy House, 13-17 Epworth Street, London EC2A 4DL and (in the case of Covered Bonds to be admitted to the Official List and also all unlisted Covered Bonds) from the specified office set out below of each of the Paying Agents (as defined below).

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see *Documents Incorporated by Reference* below). This Offering Circular shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular but not part of the Listing Particulars. Any reference in this Offering Circular to Listing Particulars means this Offering Circular excluding all information incorporated by reference. The Issuer and the Guarantors have confirmed that any information incorporated by reference, including any such information to which readers of this document are expressly referred, has not been and does not need to be included in the Listing Particulars to satisfy the requirements of FSMA or the listing rules of the UK Listing Authority. The Issuer and the Guarantors believe that none of the information incorporated in the Offering Circular by reference conflicts in any material respect with the information included in the Listing Particulars.

Neither the Dealers, the Bond Trustee nor the Security Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers, the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer and the Guarantors in connection with the Programme. Neither the Dealers nor the Bond Trustee nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer and the Guarantors in connection with the Programme.

No person is or has been authorised by the Issuer, the Guarantors, any of the Dealers, the Bond Trustee or the Security Trustee to give any information or to make any representation not contained in or not consistent with this Offering Circular 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 Guarantors, any of the Dealers, the Bond Trustee or the Security Trustee.

Neither this Offering Circular 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 Guarantors, the Sellers (as defined below), any of the Dealers, the Bond Trustee or the Security Trustee that any recipient of this Offering Circular 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/or the Guarantors. Neither this Offering Circular 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 Guarantors, the Sellers, any of the Dealers, the Bond Trustee or the Security Trustee to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and/or HBOS and/or Bank of Scotland and/or the LLP and/or the Sellers 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 Dealers, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer, the Guarantors or the Sellers during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents

incorporated by reference into this Offering Circular when deciding whether or not to purchase any Covered Bonds.

This Offering Circular 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 Offering Circular and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Guarantors, the Sellers, the Dealers, the Bond Trustee and the Security Trustee do not represent that this Offering Circular 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 Guarantors, the Sellers, the Dealers, the Bond Trustee or the Security Trustee (save for the approval of this Offering Circular as listing particulars by the UK Listing Authority and delivery of a copy of this Offering Circular to the Registrar of Companies in Scotland and in England and Wales) which would permit a public offering of any Covered Bonds or distribution of this Offering Circular 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 Offering Circular 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 Offering Circular or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Covered Bonds in the United States, the United Kingdom, Japan and The Netherlands, see *Subscription and Sale*.

The Covered Bonds and the guarantees from the Guarantors have not been and will not be registered under the U.S. Securities Act of 1933. The Covered Bonds are in bearer form and are therefore subject to U.S. tax law requirements. Subject to certain exceptions, the Covered Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

All references in this document to Sterling and £ refer to pounds sterling, references to euro and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended, references to U.S. Dollars and \$ refer to United States dollars and references to JPY and ¥ refer to Japanese Yen.

In connection with the issue and distribution of any Tranche of Covered Bonds, the Dealer (if any) disclosed as the stabilising manager in the applicable Pricing Supplement or any person acting for it may over-allot 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 for a limited period. However, there may be no obligation on the stabilising manager or any of its agents to do this. Such stabilising, if commenced, shall be carried out in accordance with all applicable laws and regulations, may be discontinued at any time and must be brought to an end after a limited period.

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular (provided, however, that such incorporated documents do not form a part of the Listing Particulars):

- (a) the most recently published audited consolidated and non-consolidated annual financial statements and, if published later, the most recently published interim consolidated and non-consolidated financial statements (if any) of each of the Issuer and the Group Guarantors, see *General Information - Auditors* for a description of the financial statements currently published by each of the Issuer and the Group Guarantors;
- (b) the most recently published audited non-consolidated annual financial statements and, if published later, the most recently published non-consolidated interim financial statements (if any) of the LLP; and
- (c) all supplements or amendments to this Offering Circular circulated by the Issuer and/or the Guarantors, or any of them, from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular (but not the Listing Particulars) to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference 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 Offering Circular.

The Issuer, the Group Guarantors and the LLP will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed either to the Issuer, the Group Guarantors or the LLP, at their respective offices set out at the end of this Offering Circular.

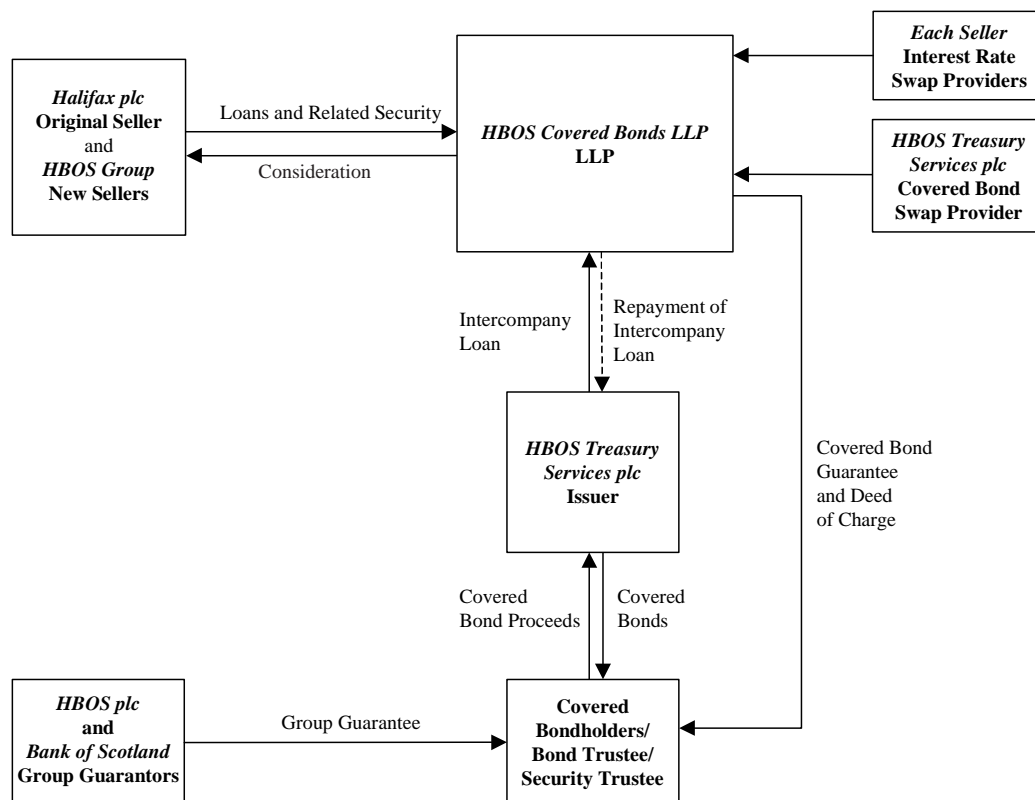
The Issuer, the Group Guarantors and the LLP have each undertaken to the Dealers in the Programme Agreement (as defined in *Subscription and Sale*) to comply with sections 81 and 83 of FSMA.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

## STRUCTURE OVERVIEW

The information in this section is a summary of the structure relating to the Programme and does not purport to be complete. The information is taken from, and is qualified in its entirety by, the remainder of this Offering Circular. Words and expressions defined elsewhere in this Offering Circular shall have the same meanings in this summary. An index of certain defined terms used in this document is contained at the end of this Offering Circular.

### Structure Diagram



### Structure Overview

- Programme:** Under the terms of the Programme, the Issuer will issue Covered Bonds to Covered Bondholders on each issue date (each, an **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 Sterling Equivalent of the gross proceeds of each Series or, as applicable, Tranche of Covered Bonds. The Term Advances will not be repaid by the LLP until all amounts payable under the corresponding Series of Covered Bonds have been repaid in full. Payments by the Issuer of amounts due under the Covered Bonds will be satisfied out of its own moneys or, failing that, out of the Group Guarantee and 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.
- Group Guarantee:** The Group Guarantors have, under the terms of the Trust Deed, provided a guarantee, on a joint and several basis (as between themselves) and severally (as between themselves and the LLP), in respect of all Covered Bonds issued from time to time by the Issuer under the Programme and all other amounts payable by the Issuer under the Trust Deed. The obligations of each of the Group Guarantors under the Group Guarantee constitute direct, unsecured and unconditional obligations of each Group Guarantor and rank *pari passu* among themselves and equally with all other unsecured and unsubordinated obligations.
- Covered Bond Guarantee:** Under the terms of the Trust Deed, the LLP has also provided a guarantee on a several basis (as between the Group Guarantors and itself) 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 or the Group Guarantors. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following the occurrence of an HBOS Event of Default and the service of a Notice to Pay on the LLP) unconditional obligations of the LLP, secured as provided in the Deed of Charge. 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 LLP's Assets:* The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (i) to purchase the Initial Portfolio and each New Portfolio, consisting of Loans and their Related Security, from the Sellers in accordance with 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) if an existing Series, or part of an existing Series, 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 (iv) to make a deposit in the GIC Account. To protect the value of the Portfolio under the terms of the LLP Deed, the LLP and the Members 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 relevant Seller for the sale of Loans and their Related Security to the LLP on any Transfer Date will be a combination of (i) a cash payment paid by the LLP to the relevant Seller and/or (ii) the relevant 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 sold by the relevant Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP) and (iii) Deferred Consideration.
- *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, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.
- *Cashflows:* Prior to service of a Notice to Pay on the LLP under the Covered Bond Guarantee the LLP will:
  - apply Available Revenue Receipts to pay Deferred Consideration to each Seller in respect of the Loans sold by each Seller to the LLP, but only after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including certain expenses, amounts due to the Interest Rate Swap Providers, amounts to be credited (if any) to the Reserve Fund and the Pre-Maturity Liquidity Ledger and interest due and payable on the Term Advances). For further details of the Pre-Acceleration Revenue Priority of Payments, see *Cashflows* below; and
  - apply Available Principal Receipts towards making Capital Distributions to the Members but only after, *inter alia*, funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Test and acquiring New Loans and their Related Security offered by the Sellers to the LLP. For further details of the Pre-Acceleration Principal Priority of Payments, see *Cashflows* below.

Following service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice) the LLP will use all monies (other than Third Party Amounts) 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 Sellers (as Members of the LLP) will only be entitled to receive any remaining income of the LLP after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

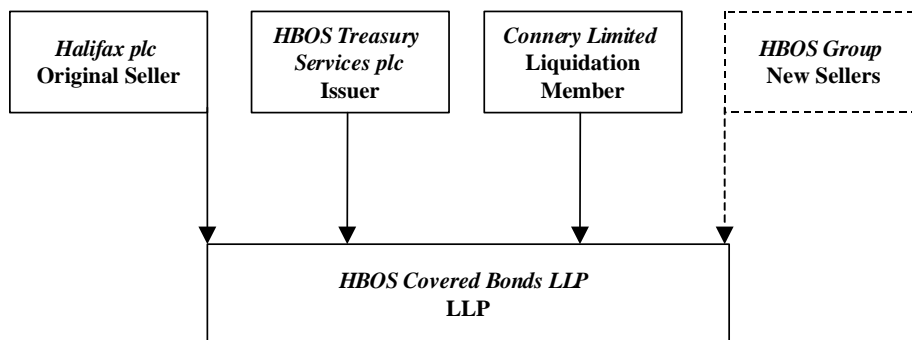
Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Covered Bonds will become immediately due and repayable and the Bond Trustee will then have a claim against the LLP under the Covered Bond Guarantee, for the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds and the security created by the LLP over the Charged Property will become enforceable. Any moneys recovered by the Security Trustee from realisation of the Charged Property following enforcement of the Security created by the LLP in accordance with the Deed of Charge will be distributed according to the Post-Enforcement Priority of Payments.

- *Asset Coverage:* 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, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Asset Coverage Test will be tested by the Cash Manager on each Calculation Date. A breach of the Asset Coverage Test will constitute an HBOS Event of Default to the extent that the same has not been cured on or before the next Calculation Date, which will require the Bond Trustee to serve a Notice to Pay on the LLP under the Covered Bond Guarantee.
- *Amortisation Test:* In addition, following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice) and, 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 following an HBOS Event of Default, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Amortisation Test will be tested by the Cash Manager on each Calculation Date following an HBOS Event of Default. A breach of the Amortisation Test will constitute an LLP Event of Default, which will entitle the Bond Trustee to declare the Covered Bonds immediately due and repayable and entitle the Security Trustee to enforce the Security over the Charged Property.
- *Servicing:* In its capacity as Original Servicer, the Original Seller has entered into the Original Servicing Agreement with the LLP and the Security Trustee, pursuant to which the Original Servicer has agreed to provide administrative services in respect of the Loans and their Related Security sold by the Original Seller to the LLP and the Loans and their Related Security sold by New Sellers to the LLP, unless any New Seller and the Original Servicer agree that such New Seller shall act as Servicer in relation to the Loans and their Related Security sold by such New Seller to the LLP.
- *New Sellers:* Subject to meeting certain conditions precedent set out in the Transaction Documents, New Sellers will accede to the Programme by, amongst other things:
  - acceding to the terms of the Mortgage Sale Agreement and, accordingly, selling Loans and their Related Security to the LLP pursuant to the terms of the Mortgage Sale Agreement;
  - acceding to the terms of the LLP Deed;
  - if any New Seller and the Original Servicer agree that such New Seller shall act as Servicer in relation to the Loans and their Related Security sold by such New Seller to the LLP, entering into a New Servicing Agreement with the LLP and the Security Trustee on substantially the same terms as the Original Servicing Agreement; and
  - acceding to the terms of the Programme Agreement.

The prior consent of the Bond Trustee on behalf of the Covered Bondholders and/or the Security Trustee will not be required and will not be obtained in relation to the accession of any New Seller to the Programme, provided that the relevant conditions precedent are satisfied at the time of the intended accession.
- *Further Information:* For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Offering Circular, *Summary of the Programme*, *Terms and Conditions of the Covered Bonds*, *Summary of the Principal Documents*, *Credit Structure*, *Cashflows* and *The Portfolio*, below.

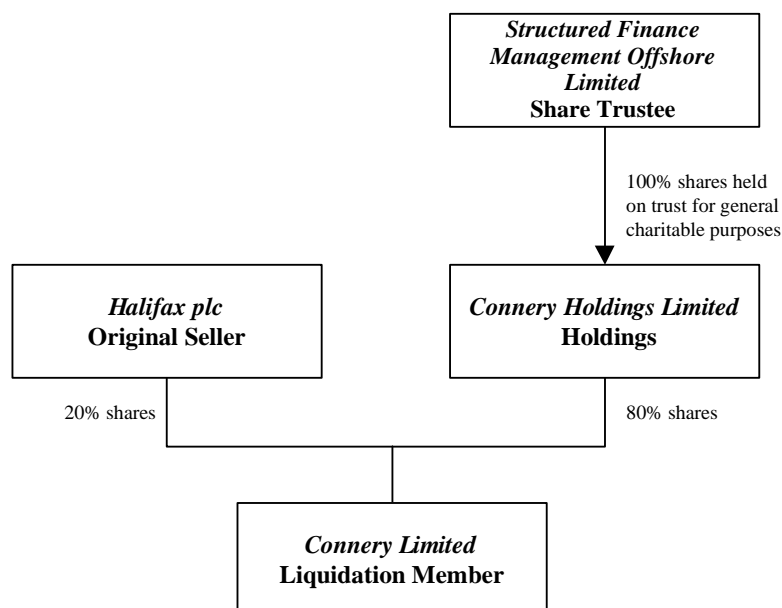


## Ownership Structure of HBOS Covered Bonds LLP



- As at the Programme Date the Members of the LLP are the Original Seller, the Issuer and the Liquidation Member.
- Any New Seller that wishes to sell Loans and their Related Security to the LLP will, amongst other things, 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 Management Board (comprised of, as at the Programme Date, directors and/or employees of the Original Seller and the Issuer) 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.

## Ownership Structure of Connery Limited



## SUMMARY OF THE PROGRAMME

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

- Issuer:** HBOS Treasury Services plc, incorporated in England and Wales with limited liability (registered no. 2692890). The Issuer is a direct wholly-owned subsidiary of Bank of Scotland.
- For a more detailed description of the Issuer see *The Issuer*, below.
- Group Guarantors:** HBOS and Bank of Scotland. HBOS, a public limited company incorporated in Scotland (registered no. SC218813) and Bank of Scotland, established by an Act of the Parliament of Scotland in 1695, have unconditionally guaranteed on a joint and several basis all Covered Bonds issued from time to time under the Programme and all other obligations of the Issuer under the Trust Deed.
- For a more detailed description of the Group Guarantors see *The Group Guarantors*, below.
- The LLP:** HBOS Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC304674). The LLP is a subsidiary of the Original Seller and its Members on the Programme Date are the Original Seller, the Issuer and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, Loans and their Related Security from the relevant Sellers pursuant to the terms of the Mortgage Sale Agreement. The LLP will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.
- The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following the occurrence of an HBOS Event of Default and service on the LLP of a Notice to Pay. The obligations of the LLP under such guarantee and the other Transaction Documents to which it is a party are secured by the assets from time to time of the LLP and recourse against the LLP is limited to such assets.
- For a more detailed description of the LLP see *The LLP*, below.
- Original Seller:** Halifax plc (**Halifax**), a bank incorporated in England and Wales (registered no. 2367076), which is in the business of originating residential mortgage loans and other banking activities.
- For a more detailed description of Halifax see *The Original Seller*, below.
- New Sellers:** Any other member of the HBOS Group which accedes to, amongst other things, the Mortgage Sale Agreement, the LLP Deed and the Programme Agreement from time to time.
- Sellers:** The Original Seller and any New Sellers.
- Original Servicer:** Pursuant to the terms of the Original Servicing Agreement, Halifax has been appointed to service, on behalf of the LLP, the Loans and Related Security sold by the Original Seller and the Loans and their Related Security sold by New Sellers to the LLP, unless any New Seller and the Original Servicer agree that such New Seller shall act as servicer in relation to the Loans and their Related Security sold by such New Seller to the LLP.
- New Servicers:** Each New Seller may be appointed to service, on behalf of the LLP, the Loans and Related Security sold by such New Seller to the LLP pursuant to the terms of a New Servicing Agreement.

Servicers:	As applicable, the Original Servicer and/or each New Servicer.
Cash Manager:	Halifax has also been appointed to, <i>inter alia</i> , provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test and the Amortisation Test pursuant to the terms of the Cash Management Agreement.
Issuing and Principal Paying Agent and Agent Bank:	Citibank, N.A., London branch, acting through its offices at 5 Carmelite Street, London EC4Y 0PA has been appointed pursuant to the Agency Agreement as issuing and principal paying agent and agent bank.
Bond Trustee:	Citicorp Trustee Company Limited, having its registered office at Citigroup Centre, 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 terms of the Trust Deed.
Security Trustee:	Citicorp Trustee Company Limited, having its registered office at Citigroup Centre, 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 other Secured Creditors) under the Deed of Charge.
Asset Monitor:	KPMG Audit Plc, having its registered office at 8 Salisbury Square, London, EC4Y 8BB has been appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.
Covered Bond Swap Provider:	<p>HBOS Treasury Services plc (in its capacity as the Covered Bond Swap Provider) has agreed to act as Covered Bond Swap Provider to the LLP to hedge (after service on the LLP of a Notice to Pay) certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP 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. The Covered Bond Swap Provider will be required to obtain a guarantee of its obligations or put in place some other arrangement in the event that the ratings or the Deemed Ratings, as applicable, of the Covered Bond Swap Provider fall below a specified ratings level.</p> <p>For a more detailed description of the Covered Bond Swap Provider, see <i>The Issuer</i> below.</p>
Original Interest Rate Swap Provider:	<p>Halifax (in its capacity as the Original Interest Rate Swap Provider) has agreed to act as a swap provider to the LLP in respect of possible variances between the rates of interest payable on the Loans sold by the Original Seller to the LLP and the rate of interest applicable to the relevant Term Advances by entering into the Original Interest Rate Swap with the LLP and the Security Trustee under the Original Interest Rate Swap Agreement. The Original Interest Rate Swap Provider will be required to obtain a guarantee of its obligations or put in place some other arrangement in the event that the ratings of the Original Interest Rate Swap Provider fall below a specified ratings level.</p> <p>For a more detailed description of the Original Interest Rate Swap Provider, see <i>The Original Seller</i>, below.</p>
New Interest Rate Swap Providers:	Each New Seller (in its capacity as a New Interest Rate Swap Provider) will act as a swap provider to the LLP in respect of possible

	variances between the rates of interest payable on the Loans sold by the relevant New Seller to the LLP and the rate of interest applicable to the relevant Term Advances by entering into a New Interest Rate Swap with the LLP and the Security Trustee under a New Interest Rate Swap Agreement. Each New Interest Rate Swap Provider will be required to obtain a guarantee of its obligations or to put in place some other arrangement in the event that the ratings of the relevant New Interest Rate Swap Provider falls below a specified ratings level.
Interest Rate Swap Providers:	The Original Interest Rate Swap Provider and any New Interest Rate Swap Providers.
GIC Provider:	Bank of Scotland has agreed to act as GIC Provider to the LLP pursuant to the terms of the Guaranteed Investment Contract.
Stand-by GIC Provider:	Citibank, N.A. has agreed to act as Stand-by GIC Provider to the LLP pursuant to the terms of the Stand-by Guaranteed Investment Contract.
Account Bank:	Bank of Scotland has agreed to act as Account Bank to the LLP pursuant to the terms of the Bank Account Agreement.
Stand-by Account Bank:	Citibank, N.A. has agreed to act as Stand-by Account Bank to the LLP pursuant to the terms of the Stand-by Bank Account Agreement and, in certain circumstances giving rise to the termination of the Bank Account Agreement, will perform the duties set out in the Stand-by Bank Account Agreement.
Liquidation Member:	Connery Limited (the <b>Liquidation Member</b> ), a special purpose vehicle incorporated in Jersey as a private limited company (registered no. 85666). The Liquidation Member is 20% owned by Halifax and 80% owned by Holdings.
Holdings:	Connery Holdings Limited ( <b>Holdings</b> ), a special purpose vehicle incorporated in Jersey as a private limited company (registered no. 85667). All of the shares of Holdings are held by a trustee (the <b>Share Trustee</b> ) on trust for general charitable purposes.
Share Trustee:	Structured Finance Management Offshore Limited, having its registered office at 47 Esplanade, St. Helier, Jersey JE1 0BD.
Corporate Services Provider:	Structured Finance Management Offshore Limited, having its registered office at 47 Esplanade, St. Helier, Jersey JE1 0BD, has been appointed to provide certain corporate services to the Liquidation Member and Holdings pursuant to the Corporate Services Agreement.
Description:	Covered Bond Programme
Arrangers:	Goldman Sachs International Citigroup Global Markets Limited
Dealers:	Goldman Sachs International Citigroup Global Markets Limited Dresdner Bank AG London Branch  and any other Dealers appointed from time to time in accordance with the Programme Agreement.
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</i> ) including the following restrictions applicable at the date of this Offering Circular:

## Swiss Francs

Issues of Covered Bonds denominated in Swiss francs or carrying a Swiss franc-related element with a maturity of more than one year (other than Covered Bonds privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2nd December, 1996. Under the said regulations, the relevant Dealer(s) or, in the case of a syndicated issue, the lead manager (the **Swiss Dealer**), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Covered Bonds.

Programme Size:	Up to €14 billion (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer and the Guarantors may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed outside the United States to persons other than U.S. persons (as such terms are defined in Regulation S under the Securities Act) by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in <i>Subscription and Sale</i> , below.
Specified Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Pricing Supplement).
Redenomination:	The applicable Pricing Supplement may provide that certain Covered Bonds may be redenominated in euro.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer(s), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Covered Bonds may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Covered Bonds:	The Covered Bonds will be issued in bearer form as described in <i>Form of the Covered Bonds</i> .
Fixed Rate Covered Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Pricing Supplement).
Floating Rate Covered Bonds:	Floating Rate Covered Bonds will bear interest at a rate determined: <ul style="list-style-type: none"><li>(i) 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 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., (<b>ISDA</b>) and as amended and</li></ul>

	<p>updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or</p> <p>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</p> <p>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Pricing Supplement).</p> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds.</p>
Index Linked Covered Bonds:	<p>Payments of principal in respect of Index Linked Redemption Covered Bonds or of interest in respect of Index Linked Interest Covered Bonds will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Pricing Supplement).</p>
Other provisions in relation to Floating Rate Covered Bonds and Index Linked Interest Covered Bonds:	<p>Floating Rate Covered Bonds and Index Linked Interest Covered Bonds may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).</p>
Dual Currency Covered Bonds:	<p>Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Covered Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Pricing Supplement).</p>
Zero Coupon Covered Bonds:	<p>Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment, as described in Condition 6(h).</p>
Redemption:	<p>The applicable Pricing Supplement will indicate either that the relevant Covered Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or if it becomes unlawful for any Term Advance to remain outstanding or following an HBOS Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the Covered Bondholders, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Pricing Supplement).</p> <p>The applicable Pricing Supplement may provide that Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.</p>
Denomination of Covered Bonds:	<p>Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) save that the minimum denomination of each Covered Bond will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.</p>
Taxation:	<p>All payments in respect of the Covered Bonds will be made without withholding or deduction for or on account of taxes imposed by any</p>

	<p>Tax Jurisdiction, subject as provided in Condition 7. In the event that any such withholding or deduction is made, the Issuer or, as the case may be, the Group Guarantors will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted. The LLP will not be liable to pay any such additional amounts under the Covered Bond Guarantee.</p>
Cross Default:	<p>Each Series of Covered Bonds will cross accelerate at the same time but will not otherwise contain a cross default provision.</p>
Status of the Covered Bonds:	<p>The Covered Bonds issued from time to time in accordance with the Programme will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.</p>
Guarantees:	<p>The Covered Bonds will be unconditionally and jointly and severally guaranteed by the Group Guarantors. The obligations of the Group Guarantors under their guarantee constitute direct, unconditional, unsubordinated and unsecured obligations of each Group Guarantor and rank <i>pari passu</i> and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Group Guarantor from time to time outstanding.</p> <p>Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably and severally (as between the Group Guarantors and the LLP) 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 an HBOS Event of Default occurs, an HBOS Acceleration Notice is served on the Issuer and the Group Guarantors and a Notice to Pay is served on the LLP. The obligations of the LLP under its 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.</p>
Listing:	<p>Application has been made for Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. The Covered Bonds may also be listed, quoted and/or traded on or by such other or further competent listing authority(ies), stock exchange(s) and/or quoted system(s) as may be agreed between the Issuer and the relevant Dealer(s) in relation to each Series.</p> <p>Unlisted Covered Bonds may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Covered Bonds are to be listed, quoted and/or traded and, if so, on or by which competent listing authority(ies) or stock exchange(s) and/or quotation system(s).</p>
Governing Law:	<p>The Covered Bonds will be governed by, and construed in accordance with, English law.</p>
Selling Restrictions:	<p>There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the United Kingdom, Japan and The Netherlands. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See <i>Subscription and Sale</i>.</p>

## INVESTMENT CONSIDERATIONS

*This section describes the principal investment considerations associated with an investment in the Covered Bonds. Prospective purchasers of Covered Bonds should consider carefully all the information contained in this document, including the considerations set out below, before making any investment decision. This section of the Offering Circular is split into two main sections - General Investment Considerations and Investment Considerations relating to the LLP.*

### GENERAL INVESTMENT CONSIDERATIONS

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

The Issuer and the Group Guarantors are liable to make payments when due on the Covered Bonds. The obligations of the Issuer and the Group Guarantors under the Covered Bonds are direct, unsecured and unconditional obligations, ranking *pari passu* with their respective other direct, unsecured, unconditional and unsubordinated obligations.

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of an HBOS Event of Default, service by the Bond Trustee on the Issuer and the Group Guarantors of an HBOS Acceleration Notice and on the LLP of a written demand to pay under the Covered Bond Guarantee (a **Notice to Pay**). The occurrence of an HBOS Event of Default does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts due under the Covered Bond Guarantee would constitute an LLP Event of Default which would entitle the Bond Trustee to accelerate the Covered Bonds of all Series and the Security Trustee to enforce the Security.

#### **Group Guarantee may be withdrawn**

The Group Guarantee may be withdrawn if the Issuer becomes a rated entity and the long-term unsecured, unguaranteed and unsubordinated debt obligations of the Issuer are rated by the Rating Agencies at least equal to the then highest ratings of the Group Guarantors (the **Requisite Ratings**) or a further guarantee is provided by another member of the HBOS Group which is on substantially similar terms to the Group Guarantee and the long-term unsecured, unguaranteed and unsubordinated debt obligations of such member providing such further guarantee has the Requisite Ratings.

In addition, any one Group Guarantor may withdraw as a Group Guarantor if, at the time, either the Issuer or the remaining Group Guarantor has the Requisite Ratings or, if that is not the case, if another member of the HBOS Group which provides a further guarantee on terms substantially similar to those of the Group Guarantee has the Requisite Ratings at the relevant time.

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

The Covered Bonds will not represent an obligation or be the responsibility of Halifax, Citigroup Global Markets Limited, Goldman Sachs International, Dresdner Bank AG London Branch, 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 Guarantors. The Issuer and the Guarantors 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.

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

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the security granted by the LLP under the Deed of Charge. If an HBOS Event of Default occurs all Covered Bonds of all Series will accelerate at the same time as against the Issuer and Group Guarantors (following service of an HBOS Acceleration Notice) but will be subject to payments made by the LLP under the Covered Bond Guarantee. If an LLP Event of Default occurs, all Covered Bonds of all Series will accelerate against the LLP (following service of an LLP Acceleration Notice). 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 (i) to acquire Loans and their Related Security from the Sellers and/or (ii) to acquire Substitution Assets up to the prescribed



limit, and/or (iii) 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 and/or (iv) to make a deposit in the GIC Account; and

- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Rating Agencies (addressed to the Issuer, the Bond Trustee and the Security Trustee) that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

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

In the exercise of its powers, trusts, authorities and discretions, the Deed of Charge requires the Security Trustee to consider the interests of each of the Secured Creditors. In the event that with respect to the exercise of any of its powers, trusts, authorities or discretions the Security Trustee determines in its absolute discretion that any of the Secured Creditors (other than the Covered Bondholders) would be materially prejudiced thereby or any such Secured Creditor informs the Security Trustee in writing that it would be materially prejudiced thereby, the Security Trustee shall only exercise the same with the written consent of such Secured Creditor(s) and provided that the Security Trustee is satisfied that such exercise will not be materially prejudicial to the interests of the Covered Bondholders.

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

#### **Absence of Secondary Market**

There is not, at present, an active and liquid secondary market for the Covered Bonds, and there can be no assurance that a secondary market for the Covered Bonds will develop. If a secondary market does develop, 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.

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

The ratings assigned to the Covered Bonds address the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date. The ratings also address the likelihood of timely payment of principal in relation to the Hard Bullet Covered Bonds on the Final Maturity Date thereof but may only address the likelihood of ultimate payment of principal in relation to other types of Covered Bonds. The expected ratings of the Covered Bonds are set out in the relevant Pricing Supplement for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced.

#### **The Security Trustee may agree to modifications to the Transaction Documents without the Secured Creditors' prior consent**

Pursuant to the terms of the Deed of Charge, the Security Trustee may, without the consent or sanction of the Secured Creditors, concur with any person in making or sanctioning any modifications to the Transaction Documents to which the Security Trustee is a party:

- provided that the Security Trustee is of the opinion that such modifications will not be materially prejudicial to the interests of any of the Secured Creditors or, if it is not of that opinion in relation to any Secured Creditor or any Secured Creditor has informed the Security Trustee in writing that such modification will be materially prejudicial to its interests, such Secured Creditor has given its written consent to such modifications; or

- which in the opinion of the Security Trustee are made to correct a manifest error or an error established as such to the satisfaction of the Security Trustee or are of a formal, minor or technical nature or are made to comply with mandatory provisions of law.

**The Bond Trustee may agree to modifications to the Transaction Documents without the Covered Bondholders' or other Secured Creditors' prior consent**

Pursuant to the terms of the Trust Deed, the Bond Trustee may, without the consent or sanction of any of the Covered Bondholders or any of the other Secured Creditors (other than the Security Trustee (where applicable)), concur with any person in making or sanctioning any modifications to the Transaction Documents:

- provided that the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interests of any of the Secured Creditors or, if it is not of that opinion in relation to any Secured Creditor or any Secured Creditor has informed the Bond Trustee in writing that such modification will be materially prejudicial to its interests, such Secured Creditor has given its written consent to such modifications; or
- which in the opinion of the Bond Trustee are made to correct a manifest error or an error established as such to the satisfaction of the Bond Trustee or of a formal, minor or technical nature or are made to comply with mandatory provisions of law.

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

Any Extraordinary Resolution to direct the Bond Trustee to serve an HBOS Acceleration Notice following an HBOS 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.

**European Monetary Union**

If the United Kingdom joins the European Monetary Union prior to the maturity of the Covered Bonds, there is no assurance that this would not adversely affect the realisable value of the Portfolio or any part thereof or pending such realisation (or if the Portfolio or any part thereof cannot be sold), the ability of the LLP to make payments of interest and principal on the Covered Bonds.

It is possible that prior to the maturity of the Covered Bonds the United Kingdom may become a participating member state in the European economic and monetary union and that the euro may become the lawful currency of the United Kingdom. In that event, (a) all amounts payable in respect of any Covered Bonds denominated in pounds Sterling may become payable in euro; (b) applicable provisions of law may allow or require the Covered Bonds to be re-denominated into euro and additional measures to be taken in respect of such Covered Bonds; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds Sterling used to determine the rates of interest on such Covered Bonds or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Covered Bonds.

**Changes of law**

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

***Insolvency Act 2000***

Significant changes to the United Kingdom insolvency regime have recently been enacted, including the Insolvency Act 2000. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting together a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. The moratorium provisions of the Insolvency Act 2000 do not expressly state that they apply to limited liability partnerships (such as the LLP). However, as these provisions were introduced by making amendments to the existing insolvency legislation (which does apply to limited liability partnerships), the provision will apply to the LLP as if it were a company.

A “small” company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £2.8 million, (ii) its balance sheet total is not more than £1.4 million and (iii) the number of employees is not more than 50. The position as to whether or not a company is a “small” company may change from time to time and consequently no assurance can be given that the Issuer or the LLP will not, at any given time, be determined to be a “small” company. The United Kingdom Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for “small” companies and can make different provisions for different cases. In this respect, the United Kingdom Government White Paper “Modernising Company Law” issued on 16th July, 2002 included a proposal to increase the limits for the definition of a small company to the EU maximum (£4.8 million turnover, £2.4 million balance sheet total, 50 employees). No assurance can be given that any such modification or different provisions will not be detrimental to the interests of Covered Bondholders.

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

If the LLP is determined to be a “small” company and determined not to fall within one of the exceptions (by reason of modification of the exceptions or otherwise), then the enforcement of the Security by the Security Trustee may, for a period, be prohibited by the imposition of a moratorium.

### ***Enterprise Act 2002***

On 7th November, 2002, the Enterprise Act 2002 received Royal Assent in the United Kingdom. The Act contains significant reforms to both personal and corporate insolvency law. These reforms, which are expected to be implemented in or around September 2003, will restrict the right of the holder of a floating charge to appoint an administrative receiver and instead will give primacy to collective insolvency procedures and, in particular, administration. The Government’s aim is that, rather than having primary regard to the interests of secured creditors, any insolvency official should have regard to the interests of all creditors, both secured and unsecured, and the primary emphasis will be on rescuing the company. Presently, the holder of a floating charge over the whole or substantially the whole of the assets of a company has the ability to block the appointment of an administrator by appointing an administrative receiver, who primarily acts in the interests of the floating charge holder though there are residual duties to the chargor and others having a residual interest in the charged property.

The Enterprise Act 2002 (including the restriction on the appointment of an administrative receiver) does not expressly state that it applies to limited liability partnerships (such as the LLP). However, as the corporate insolvency provisions of the Enterprise Act 2002 will be introduced by making amendments to the existing insolvency legislation (which does apply to limited liability partnerships), the provisions of the Enterprise Act 2002 will apply to the LLP as if it were a company.

The Enterprise Act 2002 contains provisions which would allow the appointment of an administrative receiver in relation to certain transactions in the capital markets. The current wording of the relevant exception provides that the right to appoint an administrative receiver would be retained for certain types of security that form part of a capital markets arrangement (as defined in the Enterprise Act 2002) that involves indebtedness of at least £50,000,000 (or, when the agreement was entered into, it was expected to incur a debt of at least £50,000,000) and the issue of a capital markets investment (also defined but generally a rated, listed or traded bond). The definition of a capital market arrangement includes an arrangement which involves the granting of security to a trustee in favour of the holder(s) of a capital market investment issued by a party to the arrangement. Accordingly, the capital market exception appears to be intended to allow an administrative receiver to be appointed in respect of security arrangements such as the security granted by the LLP to the Security Trustee on behalf of the Secured Creditors (including the Covered Bondholders), although no assurance can be given in this regard. The Secretary of State for Trade

and Industry has the power to modify the capital market exception by secondary legislation. No assurance may be given that any modification of the capital market exception will not be detrimental to the interests of the Covered Bondholders. In a press notice issued by the Department of Trade and Industry on 9th November, 2001, the Secretary of State for Trade and Industry confirmed that the Government's proposed abolition of administrative receivership would not apply to corporate lending agreements predating the commencement of the relevant provisions, and that the current insolvency law provisions would continue to apply to such lending agreements supported by a floating charge. The Enterprise Act 2002 does not state expressly that the existing administrative receivership regime will be available in respect of security created before the relevant provisions come into force. If the Government reconsiders its position and determines that the corporate insolvency provisions of the Enterprise Act 2002 will apply retrospectively, then no assurance can be given that the prohibition will not apply to the security granted by the LLP.

The Enterprise Act 2002 will also introduce a new out-of-court route into administration for a qualifying floating charge holder, the directors of a company or the company itself. There will be a notice period during which the holder of the floating charge can either agree to the administrator proposed by the directors of the company or appoint an alternative administrator, although the moratorium will take effect immediately after notice is given. If the qualifying floating charge holder does not respond to the directors' notice of intention to appoint, the company's appointee will automatically take office after the notice period has elapsed. Where the holder of the floating charge retains the power to appoint an administrative receiver, it may prevent the appointment of an administrator using the out-of-court method by appointing an administrative receiver prior to the appointment of the administrator being completed.

As described below (*Investment Considerations relating to the LLP - Fixed charges may take effect under English law as floating charges*), the Enterprise Act 2002 will abolish the current preferential status of certain crown debts, but unsecured creditors will be entitled to a prescribed percentage of the proceeds of realisation that would have otherwise been available to the floating charge holder up to a maximum "ring-fenced" amount of £600,000. However, as the requirement to set aside a prescribed percentage will not apply to floating charges which were granted prior to the relevant provisions of the Enterprise Act 2002 coming into force, any administrative receiver, administrator or liquidator appointed in respect of the LLP will not be required to set aside the prescribed percentage of the floating charge realisations in respect of the floating charge contained in the Deed of Charge.

The Enterprise Act 2002 gives primary emphasis to the rescue of the company as a going concern. The purpose of realising property to make a distribution to one or more secured or preferential creditors is subordinated to the primary purposes of rescuing the company as a going concern or achieving a better result for the creditors as a whole than would be likely if the company were wound up. These purposes could conflict with the wishes or interests of Covered Bondholders. Nevertheless, the Enterprise Act 2002 makes it clear that the administrator's statement of proposals may not include any action which affects the right of a secured creditor to enforce its security.

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

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

#### **INVESTMENT CONSIDERATIONS RELATING TO THE LLP**

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

Following service of an HBOS Acceleration Notice on the Issuer and the Group Guarantors, 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 on each Scheduled Payment Date. In these circumstances the LLP will not be obliged to pay any other amounts which become payable for any other reason.

Payments by the LLP 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. 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.

If the LLP fails to make a payment when due under the Covered Bond Guarantee or any other LLP Event of Default occurs then the Bond Trustee may accelerate the Covered Bonds (if not already accelerated) by service of an LLP Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds, although in such circumstances the LLP will not be obliged to gross up in respect of any withholding which may be required in respect of any payment. Following service of an LLP Acceleration Notice, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement 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.

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

Following the occurrence of an HBOS Event of Default, the Bond Trustee may receive moneys from the Issuer, the Group Guarantors or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer or the Group Guarantors (the **Excess Proceeds**). The Excess Proceeds shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee shall discharge the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons and the obligations of the Group Guarantors under the Group Guarantee. However, the obligations of the LLP under the Covered Bond Guarantee are unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any 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.

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

Following the occurrence of an HBOS Event of Default and service of an HBOS Acceleration Notice on the Issuer and Group Guarantors, all amounts payable under the Covered Bonds will be accelerated by the Bond Trustee as against the Issuer and the Group Guarantors following which a Notice to Pay will be served by the Bond Trustee on the LLP. The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on the realisable value of Selected Loans and their Related Security in the Portfolio, the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof and amounts received from the Swap Providers. The LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If an LLP Event of Default occurs and 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 and the Group Guarantors for the shortfall. There is no guarantee that the Issuer and the Group Guarantors will have sufficient funds to pay that shortfall.

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Loan Amount is greater than the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this) (see *Summary of the Principal Documents - LLP Deed - Asset Coverage Test* and *Credit Structure - Asset Coverage Test*).

### **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 Original Servicer has been (and New Servicers may be) appointed to service Loans in the Portfolio sold to the LLP and the Cash Manager has been appointed to monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to 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 a Servicer has failed to adequately administer 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 and the Covered Bond Guarantee, as described in the following two investment considerations.

If a Servicer Event of Default occurs pursuant to the terms of a Servicing Agreement, then the LLP and/or the Security Trustee will be entitled to terminate the appointment of the relevant Servicer and appoint a new servicer in its place. There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer may be required to be authorised under FSMA once mortgage administration becomes a regulated activity. The ability of a substitute servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Portfolio or any part thereof, and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, if a Servicer ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by Standard & Poor's of at least BBB- or by Fitch of at least BBB- it will use reasonable efforts to enter into a master servicing agreement with a third party.

None of the Servicers have (or will have, as applicable) any obligation themselves to advance payments that Borrowers fail to make in a timely fashion. Covered Bondholders will have no right to consent to or approve of any actions taken by a Servicer under a 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 any Servicer of its obligations.

### **Reliance on Swap Providers**

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or rates of interest which track a base rate) and the rate of interest payable on the outstanding Term Advances, the LLP has entered into the Original Interest Rate Swap Agreement with the Original Interest Rate Swap Provider and, if any New Seller accedes to the Programme, the LLP will enter into a New Interest Rate Swap Agreement with the New Interest Rate Swap Provider. In addition, to provide a hedge (following service on the LLP of a Notice to Pay) against interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts paid by the LLP under the Covered Bond Guarantee in respect of the Covered Bonds, the LLP will enter into the Covered Bond Swap Agreements (together with the Interest Swap Agreements, the **Swap Agreements** and each a **Swap Agreement**) with the Covered Bond Swap Provider (together with the Interest Swap Providers, the **Swap Providers** and each a **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. 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 the Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on the payment date under the Swap Agreements, the LLP will be exposed to changes in the relevant currency exchange rates to Sterling and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the Covered Bond Guarantee.

If a Swap terminates, then the LLP may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the LLP will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the LLP will be able to enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement

swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by the Rating Agencies.

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

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

With respect to the Covered Bond Swaps, the LLP will pay a monthly amount, on each LLP Payment Date (following an HBOS Event of Default and service of a Notice to Pay on the LLP), to the Covered Bond Swap Provider based on one-month Sterling deposits. The Covered Bond Swap Provider will not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to twelve months until amounts are Due for Payment by the LLP under the Covered Bond Guarantee. If the Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap and the Covered Bond Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with LLP's payment obligations under the Covered Bond Guarantee. Hence, the difference in timing between the obligations of the LLP and the Covered Bond Swap Provider under the Covered Bond Swaps may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

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

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

- the Sellers selling Loans and their Related Security (or New Types of Loans and their Related Security) to the LLP;
- New Sellers acceding to the Transaction and selling Loans and their Related Security (or New Types of Loans and their Related Security) to the LLP; and
- each Seller repurchasing Loans and their Related Security pursuant to its obligations under, or its right of pre-emption under, the Mortgage Sale Agreement.

However, each Loan will be required to meet the Eligibility Criteria and the Representations and Warranties set out in the Mortgage Sale Agreement - see *Summary of the Principal Documents - Mortgage Sale Agreement - Sale by Sellers of Loans and Related Security* (although the Eligibility Criteria and Representations and Warranties may change in certain circumstances - see *The Security Trustee may agree to modifications to the Transaction Documents without the Secured Creditors' prior consent* above). 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 and the Cash Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

#### **Scottish and Northern Irish Loans**

It should be noted that Loans and their Related Security governed by Scots law and relating to Scottish properties will be included in the Portfolio on the First Transfer Date and may also be sold to the LLP in the future. It is also intended to add Loans and their Related Security governed by Northern Irish law and relating to Northern Irish properties in the future. The consent of Covered Bondholders will not be obtained in relation to any changes required to the Transaction Documents in order to include Northern Irish loans in the Portfolio.

#### **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 for the security to be said to “fix” over those assets. If the charges take effect as floating charges instead of fixed charges, then the claims of the Security Trustee will be subject to the matters which are given priority over a floating charge by law, including (*inter alia*) prior charges, certain subsequent charges, the expenses of any winding up or administration and the claims of preferential creditors.

After the Enterprise Act 2002 has come into force, the preferential status of certain crown debts will be abolished (including claims of the United Kingdom tax authorities). While a ring-fencing mechanism will be introduced whereby a certain percentage of floating charge realisations will be required to be made available to unsecured creditors, this will not apply to floating charges which were granted prior to the relevant provisions of the Enterprise Act 2002 coming into force. As such, any administrative receiver, administrator or liquidator appointed in respect of the LLP will not 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. The Enterprise Act 2002 will not abolish the preferential status of non-crown debts (including certain amounts owed to employees in respect of contributions to pension schemes and wages). It should be noted, however, that the LLP has agreed in the Transaction Documents not to carry on any business other than as required pursuant to the terms of the Transaction Documents and it has no employees and no premises. Accordingly, there should be no preferential claims owed to employees.

For further information on the effect of the Enterprise Act 2002 coming into effect, see *Changes of law - Enterprise Act 2002* above.

### **Maintenance of Portfolio**

*Asset Coverage Test:* Pursuant to the terms of the Mortgage Sale Agreement, each Seller will agree to use all reasonable efforts to transfer Loans and their Related Security to the LLP in order to ensure that the Portfolio is in compliance with the Asset Coverage Test. In consideration thereof, the relevant Seller will receive a combination of (i) a cash payment paid by the LLP and/or (ii) the relevant Seller will be treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the Current Balance of the Loans sold by the relevant Seller to the LLP as at the relevant Transfer Date and the cash payment (if any) paid by the LLP for such Loans) and (iii) Deferred Consideration.

Alternatively, the Members of the LLP (other than the Liquidation Member) 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 which is not cured on the next Calculation Date this would constitute an HBOS Event of Default. There is no specific recourse by the LLP to the Sellers in respect of the failure to sell Loans and their Related Security to the LLP nor is there any specific recourse to the Members if they do not make Cash Capital Contributions to the LLP.

*Amortisation Test:* Pursuant to the LLP Deed, 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 the service of an LLP Acceleration Notice, the Amortisation Test Aggregate Loan Amount is in an amount at least equal to the aggregate 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 to ensure that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee.

If the collateral value of the Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test or 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 the occurrence of HBOS Event of Default, the Asset Monitor will test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year on the Calculation Date immediately preceding each anniversary of the Programme Date and more frequently in certain circumstances. Following the occurrence of an HBOS Event of Default, 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 Principal Documents - Asset Monitor Agreement*.

The Security Trustee shall not be responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test, the Pre-Maturity Liquidity Test or the Amortisation Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.



### **Sale of Selected Loans and their Related Security prior to maturity of Hard Bullet Covered Bonds where Pre-Maturity Test is breached or following the occurrence of an HBOS Event of Default**

If the Pre-Maturity 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 or Group Guarantors fail to pay. If a Notice to Pay is served on the LLP, then the LLP will be obliged to sell Selected Loans and their Related Security (selected on a random basis) in order to make payments to the LLP's creditors including to make payments under the Covered Bond Guarantee (see *Summary of the Principal Documents - LLP Deed - Sale of Selected Loans and their Related Security following an HBOS Event of Default*).

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.

### **Realisation of Charged Property following the occurrence of an LLP Event of Default**

If an LLP Event of Default occurs and an LLP Acceleration Notice is served on 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 (together with all other amounts standing to the credit of the LLP Accounts) 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 Transaction Documents.

If 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.

### **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**

Following the occurrence of an HBOS Event of Default and the service on the LLP of a Notice to Pay, the realisable value of Selected Loans and their Related Security comprised in the Portfolio may be reduced (which may affect the ability of the LLP to make payments under the Covered Bond Guarantee) by:

- no representations or warranties being given by the LLP or (unless otherwise agreed with the relevant Seller) the Sellers;
- default by Borrowers of amounts due on their Loans;
- changes to the lending criteria of the Sellers;
- the Loans of New Sellers being included in the Portfolio;
- 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;
- limited recourse to the Sellers;
- possible regulatory changes by the Office of Fair Trading, the Financial Services Authority and other regulatory authorities;
- regulations in the United Kingdom that could lead to some terms of the Loans being unenforceable; and
- decisions of the Ombudsman, which could lead to some terms of the Loans being varied.

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

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

Following a breach of the Pre-Maturity Test (see *Credit Structure - Pre-Maturity Liquidity* below) and/or the occurrence of an HBOS Event of Default, the LLP will be obliged to sell Selected Loans and their

Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Sellers pursuant to the terms of the Mortgage Sale Agreement (see *Summary of the Principal Documents - LLP Deed - Method of Sale of Selected Loans and their Related Security*). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee). There is no assurance that the Sellers would give any warranties or representations in respect of the Selected Loans and their Related Security. Any Representations or Warranties previously given by the Sellers in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Sellers are 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 which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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

Borrowers may default on their obligations due under the Loans. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. 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.

Prior to the occurrence of an HBOS Event of Default or an LLP Event of Default, each Seller has agreed or will agree, as applicable, to repurchase each Defaulted Loan sold by it to the LLP for an amount equal to the Current Balance of the relevant Loan plus expenses. Failure by each Seller to repurchase a Defaulted Loan within the specified time will mean that the Current Balance of the relevant Loan will be omitted from any calculation of the Asset Coverage Test.

#### ***Changes to the Lending Criteria of the Sellers***

Each of the Loans originated by each Seller will have been originated in accordance with its Lending Criteria at the time of origination. It is expected that each Seller's Lending Criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, mortgage indemnity guarantee policies, high loan-to-value fees, status of applicants and credit history. In the event of the sale or transfer of any Loans and Related Security (sold by any Seller) to the LLP, each Seller will warrant only that such Loans and Related Security were originated in accordance with such Seller's Lending Criteria applicable at the time of origination. Each Seller retains the right to revise its Lending Criteria from time to time. 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 that are not repurchased by the relevant Seller thereof will be excluded from the calculation of the Asset Coverage Test.

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

New Sellers may 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 Transaction (more fully described under *Summary of the Principal Documents - Mortgage Sale Agreement - Original Seller and New Sellers*, below) are met.

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 of Loans originated by the Original Seller. If the Lending Criteria differ in a way that affects the credit worthiness of the Loans, 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 that are not repurchased by the relevant Seller thereof will be excluded from the calculation of the Asset Coverage Test.

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

The sale by the Sellers to the LLP of English Loans and their Related Security will take effect by way of an equitable assignment. The sale by the Sellers to the LLP of Scottish Loans will be given effect by way of Scottish Declarations of Trust under which the beneficial interest in the Scottish Loans will be transferred to the LLP. As a result, legal title to English Loans and their Related Security and Scottish Loans and their Related Security will remain with the relevant Seller. The LLP, however, will have the right to demand that the relevant Seller give 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 then the LLP will not give notice of the sale of the English Loans and their Related Security to any Borrower or apply to H.M. Land Registry or the Central Land Charges Registry to register or record its equitable interest in the 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, the following risks exist:

- first, if the relevant Seller wrongly sells a Loan and its Related Security, which has already been sold 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 she or he 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 relevant Seller of its contractual obligations or fraud, negligence or mistake on the part of the relevant Seller or the LLP or their respective personnel or agents; and
- second, the rights of the LLP may be subject to the rights of the Borrowers against the relevant Seller, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the relevant Seller, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the relevant Seller.

If any of the risks described in the above two bullet points 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 a Seller (such as, for example, set-off rights associated with Borrowers holding deposits with Sellers) 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.

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

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

As described in the immediately preceding investment consideration, the sale by each Seller to the LLP of English Loans will be given effect by an equitable assignment, with each sale of Scottish Loans being given effect by a Scottish Declaration of Trust. As a result, legal title to both the English Loans and the Scottish Loans and their Related Security sold by Sellers to the LLP will remain with the relevant Seller. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the relevant 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 relevant Seller is required to make payments under them to the Borrowers. For instance:

- under a Flexible Loan, Borrowers are permitted to make larger repayments than are due on a given payment date or draw further amounts under the Loan in some circumstances. Any drawings under Flexible Loans will be funded solely by the relevant Seller;

- under a delayed cashback loan, the Borrower is entitled to receive a payment from the relevant Seller as an incentive for entering into the Loan at a specified time following completion of the Loan. Any such payment will be funded solely by the relevant Seller; and
- under a home cash reserve loan, the Borrower has the benefit of a facility linked to his or her Mortgage, entitling that Borrower to draw additional funds from time to time up to a specified limit (no redraw facility is available under the home cash reserve). Any such drawing will be funded solely by the relevant Seller.

New products offered by the Sellers in the future may have similar characteristics involving payments due by the relevant Seller to the Borrower.

Set-off rights may occur if a Seller fails to make the payments due to the Borrower - for example, where the relevant Seller fails to advance to a Borrower a drawing under a Flexible Loan or a home cash reserve loan which the Borrower is entitled to draw or if a Seller fails to pay to a Borrower any delayed cashback which the relevant Seller had agreed to pay to that Borrower after completion of the relevant Loan.

If the relevant Seller fails to make the payment due, then the relevant Borrower may set-off the amount of any damages claim arising from that Seller's breach of contract against the relevant Seller's (and, as assignee of the Loans, the LLP's) claim for payment of principal and/or interest under the Loan as and when it becomes due. These set-off claims will constitute "transaction set-off" as described in the immediately preceding investment consideration.

The amount of the damages claim in respect of a failure by the relevant Seller to make the payment due will, in many cases, be the cost to the Borrower of finding an alternative source of finance. The Borrower may obtain a Loan elsewhere in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable to obtain an alternative loan, he or she may have a claim in respect of other losses arising from the relevant Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Loan was taken out.

In respect of a delayed cashback loan, the damages claim of the relevant Borrower is likely to be in an amount equal to the amount due under the delayed cashback loan together with interest and expenses and consequential losses (if any).

A Borrower may also attempt to set-off against his or her mortgage payments an amount greater than the amount of his or her damages claim. In that case, the relevant 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 or decree is obtained.

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

#### ***Limited recourse to the Sellers***

The LLP will not, and 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 relevant Sellers in respect of the Loans sold by them to the LLP.

If any Loan sold by a Seller does not materially comply with any of the Representations and Warranties made by that Seller as at the Transfer Date of that Loan, then the relevant Seller will be required to remedy the breach within 20 London Business Days of that Seller becoming aware of the same or of receipt by it of a notice from the LLP requiring the Seller to remedy the breach.

If the relevant Seller fails to remedy the breach of a Representation and Warranty within 20 London Business Days, then that Seller will be required to repurchase on or before the next following Calculation Date (or such other date that may be agreed between the LLP and the Seller) the relevant Loan or Loans under the relevant Mortgage Account and their Related Security at their Current Balance as of the date of repurchase together with expenses.

In addition, each Seller will be required to repurchase Defaulted Loans in the Portfolio sold by it to the LLP, within 20 London Business Days of that Seller becoming aware of the Defaulted Loan in the Portfolio or of receipt by it of a notice from the LLP. The relevant Seller will be required to repurchase the relevant Loan or Loans under the relevant Mortgage Account and their Related Security at their Current Balance as at the date of repurchase together with expenses.

There can be no assurance that the relevant Seller will have the financial resources to repurchase the Loan or Loans under the relevant Mortgage Account and their Related Security. However, if the relevant Seller does not repurchase those Loans and their Related Security which are in breach of the Representations and Warranties or does not repurchase those Loans and their Related Security which are Defaulted Loans, 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 or the Issuer in respect of a breach of a Representation or Warranty or failure to buy back a Defaulted Loan. There is no other recourse to the assets of the Sellers if an HBOS Event of Default occurs or an LLP Event of Default occurs.

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

In the United Kingdom, the Office of Fair Trading (the **OFT**) is responsible for the issue of licences under, and the superintendence of the working and the enforcement of, the Consumer Credit Act 1974 (the **CCA**), related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take actions when necessary with regard to the mortgage market in the United Kingdom.

The FSMA represents a major overhaul of financial services regulation in the United Kingdom and brought a wide range of financial activities under a single regime of statutory-based regulation. FSMA is being brought into effect in stages. The first stage (known as **N2**) came into effect on 1st December, 2001. Rules relating to the regulation of mortgages will come into effect at a later stage (known as **N3**), currently expected to be on 31st October, 2004.

FSMA applies to any “regulated activity”. H.M. Treasury has made the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, as amended, specifying that entering into and (in certain circumstances) administering a “regulated mortgage contract” are regulated activities (although the relevant provisions will not come into force until **N3**). In August 2002, H.M. Treasury published its final draft Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order, specifying that arranging and advising on a regulated mortgage contract are also to be regulated activities.

The main effect will be that each entity carrying on a regulated activity will be required to hold authorisation and permission from the Financial Services Authority (the **FSA**) to carry on that activity. Generally, each financial promotion will have to be issued or approved by a person holding authorisation and permission from the FSA. If requirements as to authorisation of lenders and brokers and as to advertising are not complied with, the regulated mortgage contract will be unenforceable against the borrower except with the approval of a court.

The Sellers will be required to hold authorisation and permission to enter into and to administer regulated mortgage contracts. Brokers will be required to hold authorisation and permission from the FSA to arrange and, where applicable, to advise on regulated mortgage contracts.

In August 2002, H.M. Treasury published feedback to its third consultation on mortgage regulation. This feedback confirmed H.M. Treasury’s intention that an entity (such as the LLP) will not carry on any regulated activity in relation to regulated mortgage contracts that are administered pursuant to an administration agreement by an entity having the required authorisation and permission. If such administration agreement were to terminate, however, that entity (for example, the LLP) would have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement administrator having the required authorisation and permission.

In August 2002, the FSA published feedback to its consultation on conduct of business rules on entering into and administering regulated mortgage contracts. This feedback annexes near-final draft rules on certain post-origination matters, such as product disclosure on and after origination and, where applicable, provision of an FSA information sheet on mortgage arrears.

In August 2002, the FSA also published its consultation on arranging and advising on regulated mortgage contracts. This consultation annexes draft rules on certain pre-origination matters, such as financial promotions, and draft pre-application illustrations.

Rules and guidance for conduct of business requirements for regulated persons in respect of regulated mortgage contracts, including in relation to disclosure, fair treatment of consumers, the extension of the complaints and compensation regime to cover regulated mortgage contracts, and client money rules, are expected to be finalised by the FSA in the fourth quarter of 2003.

In November 2002, the Department of Trade and Industry (the **DTI**) announced its intention to remove the financial limit in the CCA. A credit agreement is regulated by the CCA where the amount of “credit” as defined in the CCA does not exceed the financial limit, which is £25,000 for credit agreements made on or

after 1st May, 1998, or lower amounts for credit agreements made before that date. If this change is implemented (which is expected not later than October 2004), then any Loan or Additional Loan Advance originated or varied bilaterally after this time, other than a regulated mortgage contract under the FSMA or an exempt agreement under the CCA, will be regulated by the CCA. Such Loan or Additional Loan Advance will have to comply with requirements as to form and content of the credit agreement and, if it does not comply, will be unenforceable against the borrower. Further consultation on exempt agreements, and consultation on requirements as to form and content of regulated agreements, are expected to be published by the DTI in the latter part of 2003.

No assurance can be given that additional regulations from the OFT, the FSA or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Sellers' particular sector in that market or specifically in relation to any of the Sellers. Any such action or developments may have a material adverse effect on the Sellers, the LLP 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.

Meanwhile, in the United Kingdom, self-regulation of mortgage business exists under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The Original Seller currently subscribes to the CML Code. Membership of the CML and compliance with the CML Code are voluntary. The CML Code sets out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30th April, 1998 lender-subscribers to the CML Code may not accept mortgage business introduced by intermediaries who were not registered with (before 1st November, 2000) the Mortgage Code Register of Intermediaries or (on and after 1st November, 2000) the Mortgage Code Compliance Board.

In March 2001, the European Commission published a recommendation to member states urging their lenders to subscribe to the code issued by the European Mortgage Federation (the **EMF Code**). On 26th July, 2001 the CML decided to subscribe to the code collectively on behalf of its members. Lenders had until 30th September, 2002 to implement the EMF Code, an important element of which is the provision to consumers of a "European Standardised Information Sheet" (an **ESIS**) similar to the pre-application illustration proposed by the FSA. Following postponement of regulation by the FSA of mortgage business, United Kingdom lenders generally are not in a position to begin to provide an ESIS to consumers until N3. The CML has discussed this with the European Commission and the European Mortgage Federation. While compliance with the EMF Code is voluntary, if the EMF Code is not effective, the European Commission is likely to see further pressure from consumer bodies to issue a directive on mortgage credit or to extend its proposal for a directive on consumer credit to all mortgage credit.

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on the harmonisation of the laws, regulations and administrative provisions of the member states concerning credit for consumers, including surety agreements entered into by consumers. If the proposed directive is finalised, member states will have two years in which to bring national implementing legislation into force. The proposal includes (among other things) specific documentation and procedural requirements in respect of mortgage loan origination and administration; for example, a key requirement under the proposed directive is that each Additional Loan Advance must be subject to new underwriting and a new contract. Penalties for non-compliance with these requirements will be determined by the member states, and may include provision that credit agreements that do not comply will be unenforceable against the borrower.

In its current form, the proposed directive will not apply to residential mortgage loans for home purchase or home improvement, other than loans where all or part of the mortgage credit is for equity release, such as an Additional Loan Advance. Additionally, the proposed directive will not apply to residential mortgage loans originated before national implementing legislation comes into force, with exceptions; for example, the requirement for new underwriting will apply to any Additional Loan Advances made after national implementing legislation comes into force. Accordingly, if implemented in its current form, the proposed directive will apply to each Loan that includes an equity release element, if the Loan is originated, or an Additional Loan Advance is made within that Loan, after the implementation date.

Until the final text of the directive is decided and the details of United Kingdom implementing legislation are published, it is not certain what effect the adoption and implementation of the directive would have on the Loans, the Sellers, the LLP 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.

***Regulations in the United Kingdom could lead to some terms of the Loans being unenforceable***

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **UTCCR**), which, together with (insofar as applicable) the Unfair Terms in Consumer Contracts Regulations 1994, apply to agreements made on or after 1st July, 1995 and will therefore affect all or almost all of the Loans in the Portfolio from time to time, and provide that:

- a consumer may challenge a term in an agreement on the basis that it is “unfair” within the UTCCR and therefore not binding on the consumer; and
- the OFT and any “qualifying body” within the UTCCR (such as the FSA) may seek to injunct a business against relying on unfair terms.

The UTCCR will not generally affect “core terms” which define the main subject matter of the contract, such as the borrower’s obligation to repay the principal, but may affect terms that are not considered to be core terms, such as the lender’s power to vary the interest rate.

For example, if a term of a Loan permitting the lender to vary the interest rate (as the Original Servicer is permitted to do) is found to be unfair, the Borrower will not be liable to pay 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. Any such non-recovery, claim or set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

In February 2000, the OFT issued a guidance note on what the OFT considers to be fair terms and unfair terms for interest variation in mortgage contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender’s control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term is likely to be regarded as unfair under the UTCCR unless the lender (i) notifies each affected borrower in writing at least 30 days before the rate change and (ii) permits the affected borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The Original Seller has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the Loans or its business. The guidance note has been withdrawn from the OFT website and is currently being revised by the OFT and FSA, but there is no indication as to when the revised guidance will be issued and what changes, if any, may arise from it.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the United Kingdom’s Unfair Contract Terms Act 1977 and the UTCCR into a single piece of legislation and a final report (together with a draft bill) is expected by early 2004. The Law Commissions have a duty under section 3 of the United Kingdom’s Law Commissions Act 1965 to keep the law under review for a number of purposes, including its simplification. The proposals are primarily to simplify the legislation on unfair terms. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that the legislation should not affect core terms in so far as they are not substantially different from what the borrower should reasonably expect and are transparent. It is too early to tell how the proposals, if enacted, would affect the Loans in the Portfolio.

No assurance can be given that changes in the UTCCR, if enacted, or changes to guidance on interest variation terms, if adopted, will not have an adverse effect on the Loans, the Sellers, the LLP 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.

Under FSMA, the Financial Ombudsman Service (the **Ombudsman**) is required to make decisions on, among other things, complaints relating to the terms in agreements on the basis of what, in the Ombudsman’s opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

The Ombudsman may order a money award to the borrower, which may adversely affect the value at which the Loans in the Portfolio could be realised and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

**Decisions of the Ombudsman could lead to some terms of the Loans being varied, which may adversely affect payments under the Covered Bond Guarantee**

In January 2002, the Ombudsman made a determination on Halifax's appeal to an earlier decision by an adjudicator at the Financial Ombudsman Service concerning a case involving HVR 1 and HVR 2 (a second Variable Base Rate that was made available to Borrowers by Halifax between 1st March, 2001 and 1st February, 2002). In March 2001, two joint Borrowers with a capped rate loan originated when Halifax offered only a single standard variable base rate contacted Halifax and requested that their loan be linked to HVR 2. Halifax informed the Borrowers that, because they were still in their product period, they could either transfer to HVR 2 when their product period expired or transfer to HVR 2 immediately and pay the applicable early repayment fee. The Borrowers complained to the Financial Ombudsman Service and, on 29th January, 2002, on appeal by Halifax, the Ombudsman determined in the Borrowers' favour and recommended that Halifax recalculate the Borrowers' mortgage by reference to HVR 2 from the date when Halifax should have granted their request in March 2001, refund any overpayments and pay £150 for any inconvenience caused. HVR 2 was withdrawn and ceased to be available to new Borrowers with effect from 1st February, 2002.

The Ombudsman's decision only applies to the two Borrowers and their particular circumstances, though other Borrowers may also complain to the Ombudsman. In March 2002, Halifax announced that Borrowers under loans who were in similar circumstances and who had asked to be transferred to HVR 2 when it was available would be invited to make a Product Switch to HVR 2 and to obtain a refund for all overpayments of interest since the date they had asked to be transferred. For each of those loans, the Borrowers would also receive £150 for any inconvenience caused. The Borrowers under loans who requested to be transferred after HVR 2 was withdrawn and before the announcement in March 2002 were not offered a switch or a refund, though Halifax has given or will give each of these customers an *ex gratia* payment of £100.

Since then, the Ombudsman has, in similar cases, confirmed that affected Borrowers were only entitled to a refund of overpayments of interest from the date when they asked to be transferred to HVR 2 and not from the date when HVR 2 first became available, and also that affected Borrowers were not entitled to apply to be transferred to HVR 2 after it was withdrawn.

Halifax does not believe that any decision of the Ombudsman to date or any other decision by any competent authority in the future (in respect of Halifax's two former variable base rates, HVR 1 and HVR 2) would affect the yield on the Loans in such a way as to have a material adverse effect on the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due.

As regards other Borrowers, in the event that a decision (in respect of Halifax's Variable Base Rate) by the Ombudsman or any other competent authority finds that a Borrower's Loan should be linked to HVR 2, then that Borrower may set-off the overpaid sum against the amount owing under his or her Loan if the Original Seller does not reimburse that Borrower. Any such non-recovery, claim or set-off ultimately may adversely affect the LLP's ability to make payments under the Covered Bond Guarantee.

**Limited Liability Partnerships**

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



## FORM OF THE COVERED BONDS

Each Tranche of Covered Bonds will be in bearer form and will be initially issued in the form of a temporary global covered bond without interest coupons attached (a **Temporary Global Covered Bond**) or, if so specified in the applicable Pricing Supplement (the **applicable Pricing Supplement**), a permanent global covered bond without interest coupons attached (a **Permanent Global Covered Bond** and, together with the Temporary Global Covered Bonds, the **Global Covered Bonds** and each a **Global Covered Bond**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear Bank S.A./N.V. as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Whilst any 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 Covered Bonds due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Covered Bond only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such 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 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 (i) interests in a Permanent Global Covered Bond of the same Series or (ii) for definitive Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Covered Bonds, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of non-US beneficial ownership as described above unless such certification has already been given. 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 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 (as the case may be) of the Permanent Global Covered Bond without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon either (i) 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 Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, 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 or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to Covered Bondholders of each Series in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the 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 Agent.

Global Covered Bonds and Covered Bonds in definitive form will be issued pursuant to the Agency Agreement.

The following legend will appear on all Covered Bonds which have an original maturity of more than 1 year and on all receipts and interest coupons relating to such Covered Bonds:

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

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

Covered Bonds which are represented by a 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.

Pursuant to the Agency Agreement (as defined under *Terms and Conditions of the Covered Bonds*), the 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 assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the United States Securities Act of 1933, as amended (the **Securities Act**)) applicable to the Covered Bonds of such Tranche.

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

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

## FORM OF PRICING SUPPLEMENT

*Set out below is the form of Pricing Supplement which, subject to any necessary amendment, will be completed for each Tranche of Covered Bonds issued under the Programme.*

[Date]

### HBOS Treasury Services plc

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]  
Unconditionally guaranteed by HBOS plc and The Governor and  
Company of the Bank of Scotland**

**and**

**Irrevocably and unconditionally guaranteed as to payment of principal and interest by  
HBOS Covered Bonds LLP  
under the €14 billion  
Covered Bond Programme**

This document constitutes the Pricing Supplement relating to the issue of Covered Bonds described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 18th July, 2003. This Pricing Supplement contains the final terms of the Covered Bonds, is supplemental to and must be read in conjunction with such Offering Circular.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs.]*

- |    |       |  |  |
|----|-------|--|--|
| 1. | (i)   | Issuer:  | HBOS Treasury Services plc   |
|    | (ii)  | Guarantors:  | HBOS plc, The Governor and Company of the Bank of Scotland and HBOS Covered Bonds LLP  |
| 2. | (i)   | Series Number:                                     | [ ]  |
|    | (ii)  | Tranche Number:                                    | [ ]<br><i>(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)</i>       |
| 3. |       | Specified Currency or Currencies:                  | [ ]  |
| 4. |       | Aggregate Nominal Amount:                          |  |
|    | [(i)  | Series:  | [ ]  |
|    | (ii)  | Tranche:   | [ ]  |
| 5. | [(i)] | Issue Price:                                       | [ ] per cent. of the Aggregate Nominal Amount<br>[plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
|    | [(ii) | Net proceeds<br>(Required only for listed issues): | [ ]  |
| 6. |       | Specified Denominations:                           | [ ]  |
| 7. | (i)   | Issue Date:  | [ ]  |
|    | (ii)  | Interest Commencement Date:                        | [ ]  |
| 8. |       | Final Maturity Date:                               | <i>[Fixed rate - specify date]</i><br><i>Floating rate - Interest Payment Date falling in or nearest to [specify month]]</i>                     |

9. Interest Basis: ☐ per cent. Fixed Rate]  
☐[LIBOR/EURIBOR] +/- ☐ per cent. Floating Rate]  
☐Zero Coupon]  
☐Index Linked Interest]  
☐Dual Currency Interest]  
☐specify other]  
(further particulars specified below)
10. Redemption/Payment Basis: ☐Redemption at par]  
☐Index Linked Redemption]  
☐Dual Currency Redemption]  
☐Instalment]  
☐Hard Bullet Covered Bond]  
☐specify other]
11. Change of Interest Basis or Redemption/ Payment Basis: ☐Specify details of any provision for change of Covered Bonds into another Interest Basis or Redemption/Payment Basis]
12. Call Option: ☐Issuer Call]  
☐((further particulars specified below)]
13. (i) Status of the Covered Bonds: Senior  
(ii) Status of the Guarantees: Senior
14. Listing: ☐London/Luxembourg/specify other/None]
15. Method of distribution: ☐Syndicated/Non-syndicated]

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

16. **Fixed Rate Covered Bond Provisions** ☐Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: ☐ per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]  
*(If payable other than annually, consider amending Condition 4)*
- (ii) Interest Payment Date(s): ☐ in each year up to and including the Final Maturity Date]/specify other]  
*(NB: This will need to be amended in the case of long or short coupons)*
- (iii) Fixed Coupon Amount(s): ☐ per ☐ in nominal amount
- (iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
- (v) Day Count Fraction: ☐30/360 or Actual/Actual (ISMA) or specify other]]
- (vi) Determination Date(s): ☐ in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon  
NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration  
NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA)]*

- (vii) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [None/*Give details*]
17. **Floating Rate Covered Bond Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (ii) Business Day Convention: Following Business Day Convention
- (iii) Additional Business Centre(s): [ ]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (vi) Screen Rate Determination:
- Reference Rate: [ ]  
(Either *LIBOR*, *EURIBOR* or other, although additional information is required if other - including fallback provisions in the Agency Agreement)
  - Interest Determination Date(s): [ ]  
(Second London Business Day prior to the start of each Interest Period if *LIBOR* (other than Sterling or euro *LIBOR*), first day of each Interest Period if Sterling *LIBOR* and the second day on which the *TARGET* System is open prior to the start of each Interest Period if *EURIBOR* or euro *LIBOR*)
  - Relevant Screen Page: [ ]  
(In the case of *EURIBOR*, if not *Moneyline Telerate* Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- 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/365  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
(See Condition 4 for alternatives)

- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Conditions: ☐
18. **Zero Coupon Covered Bond Provisions** ☐ [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Accrual Yield: ☐ per cent. per annum
- (ii) Reference Price: ☐
- (iii) Any other formula/basis of determining amount payable: ☐
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: ☐ [Conditions 6(e)(iii) and (j) apply/specify other]  
(Consider applicable day count fraction if not U.S. dollar denominated)
19. **Index Linked Interest Provisions** ☐ [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: ☐ [give or annex details]
- (ii) Calculation Agent responsible for calculating the principal and/or interest due: ☐
- (iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: ☐
- (iv) Specified Period(s)/Specified Interest Payment Dates: ☐
- (v) Business Day Convention: ☐ [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vi) Additional Business Centre(s): ☐
- (vii) Minimum Rate of Interest: ☐ per cent. per annum
- (viii) Maximum Rate of Interest: ☐ per cent. per annum
- (ix) Day Count Fraction: ☐
20. **Dual Currency Covered Bond Provisions** ☐ [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: ☐ [give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable: ☐

- (iii) Provisions applicable where calculation [ ]  
by reference to Rate of Exchange  
impossible or impracticable:
- (iv) Person at whose option Specified Currency(ies) is/ [ ]  
are payable:

## PROVISIONS RELATING TO REDEMPTION

21. **Issuer Call:** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-  
paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount of each [ ] per Covered Bond of [ ] specified denomination  
Covered Bond and method, if any, of  
calculation of such amount(s):
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [ ]
- (b) Maximum Redemption Amount: [ ]
- (iv) Notice period (if other than as set out [ ]  
in the Conditions):
22. Final Redemption Amount of each Covered [Nominal Amount/specify other/see Appendix]  
Bond:
23. Early Redemption Amount of each Covered [ ]  
Bond payable on redemption for taxation  
reasons, on acceleration following an HBOS  
Event of Default as against the Issuer and the  
Group Guarantors or an LLP Event of  
Default and/or the method of calculating  
the same (if required or if different from that  
set out in Condition 6(d)):

## GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

24. Form of Covered Bonds: [Temporary Global Covered Bond exchangeable  
for a Permanent Global Covered Bond which is  
exchangeable for Covered Bonds in definitive  
form]  
  
[Temporary Global Covered Bond exchangeable  
for Covered Bonds in definitive form]  
  
[Permanent Global Covered Bond exchangeable  
for Covered Bonds in definitive form]
25. Additional Financial Centre(s) or other [Not Applicable/give details]  
special provisions relating to Payment Dates: (Note that this item relates to the place of payment  
and not Interest Period end dates to which items  
17(iii) and 19(vi) relate)
26. Talons for future Coupons or Receipts to be [Yes/No. If yes, give details]  
attached to Definitive Bonds (and dates on  
which such Talons mature):
27. Details relating to Instalment Covered Bonds:
- (i) [Instalment Amount(s): [Not Applicable/give details]
- (ii) [Instalment Date(s): [Not Applicable/give details]

28. Redenomination applicable: Redenomination [not] applicable  
*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*

29. Other terms or special conditions: [Not Applicable/give details]

#### **DISTRIBUTION**

30. (i) If syndicated, names of Managers: [Not Applicable/give names]

(ii) Stabilising Manager (if any): [Not Applicable/give name]

31. If non-syndicated, name of relevant Dealer(s): [ ]

32. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]

33. Additional selling restrictions: [Not Applicable/give details]

#### **OPERATIONAL INFORMATION**

34. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

35. Delivery: Delivery [against/free of] payment

36. Additional Paying Agent(s) (if any): [ ]

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ISIN: [ ]

Common Code: [ ]

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#### **[LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Covered Bonds described herein pursuant to the €14,000,000,000 Euro Medium Term Covered Bond Programme of HBOS Treasury Services plc.]

#### **RESPONSIBILITY**

Each of the Issuer, the Group Guarantors and the LLP accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

Signed on behalf of HBOS plc:

By: .....

By: .....

*Duly authorised*

*Duly authorised*

Signed on behalf of The Governor and Company of the Bank of Scotland:

Signed on behalf of the LLP:

By: .....

By: .....

*Duly authorised*

*Duly authorised*

*If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Covered Bonds as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 3, 4, 5, 6 (except Condition 6(b)), 10, 11, 12, 13 (insofar as such Covered Bonds are not listed or admitted to trade on any stock exchange) or 16, they will not necessitate the preparation of supplementary Listing Particulars. If the Terms and Conditions of the Covered Bonds of any Series are to be modified in any other respect, supplementary Listing Particulars will be prepared, if appropriate.*



## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) 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 Pricing Supplement in relation to any Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and definitive Covered Bond.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by HBOS Treasury Services plc (the **Issuer**) constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 18th July, 2003 (the **Programme Date**) made between the Issuer, HBOS plc as guarantor (**HBOS**) and The Governor and Company of the Bank of Scotland as guarantor (**Bank of Scotland** and, together with HBOS in its capacity as guarantor, the **Group Guarantors** and each a **Group Guarantor**), HBOS Covered Bonds LLP as guarantor (the **LLP** and, together with the Group Guarantors, the **Guarantors** and each a **Guarantor**, which expression shall include any additional or successor guarantor) and Citicorp Trustee Company Limited as bond trustee (in such capacity, the **Bond Trustee**, which expression shall include any successor as Bond Trustee) and as security trustee (in such capacity, the **Security Trustee**, which expression shall include any successor as Security Trustee).

Save as provided for in Conditions 9 and 14 references herein to the **Covered Bonds** shall be references to the Covered Bonds of this Series and shall mean:

- (i) in relation to any Covered Bonds represented by a global bond (a **Global Covered Bond**), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Covered Bond; and
- (iii) any definitive Covered Bonds issued in exchange for a Global Covered Bond.

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated the Programme Date and made between the Issuer, the Group Guarantors, the LLP, the Bond Trustee, Citibank, N.A., London branch, as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

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

The Pricing Supplement for this Covered Bond (or the relevant provisions thereof) is attached to or endorsed on this Covered Bond and supplements these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Covered Bond. References to the applicable Pricing Supplement are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on 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 (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), and for 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 **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) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Group Guarantors have, in the Trust Deed, unconditionally guaranteed (on a joint and several basis as between themselves) the due and punctual payment of principal and interest and other amounts due by the Issuer under or in respect of the Covered Bonds and the Trust Deed as and when the same shall become due and payable (including accelerated amounts).

The LLP has, in the Trust Deed, irrevocably and unconditionally guaranteed (on a several basis as between the Group Guarantors and itself) the due and punctual payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment, but only after service of a Notice to Pay on the LLP following an HBOS Event of Default and service by the Bond Trustee of an HBOS Acceleration Notice on the Issuer and Group Guarantors.

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 the Programme Date and made between the LLP, Citicorp Trustee Company Limited as Bond Trustee and Security Trustee and certain other Secured Creditors.

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

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified office of each of the Paying Agents. Copies of the applicable Pricing Supplements for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the specified office of each of the Paying Agents and any Covered Bondholder must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity. The Covered Bondholders, the 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 Pricing Supplement which are applicable to them and to have notice of each Pricing Supplement relating to each other Series.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the applicable Pricing Supplement and/or the master definitions and construction agreement made between the parties to the Transaction Documents on or about the Programme Date (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 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.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond, an Index Linked Interest Covered Bond, a Dual Currency Interest Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Covered Bond may be an Index Linked Redemption Covered Bond, an Instalment Covered Bond, a Dual Currency Redemption Covered Bond or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

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 Conditions are not applicable.

Subject as set out below, title to the Covered Bonds, Receipts and Coupons will pass by delivery. The Issuer, the Group Guarantors, the LLP, the Paying Agents, the Security Trustee and the Bond

Trustee may (except as otherwise required by law) deem and treat the bearer of any Covered Bond, Receipt or Coupon 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 are represented by a Global Covered Bond held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of 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) shall be treated by the Issuer, the Group Guarantors, 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, for which purpose the bearer of the relevant Global Covered Bond shall be treated by the Issuer, the Group Guarantors, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Covered Bonds as aforesaid, the Bond Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error or an error established as such to the satisfaction of the Bond Trustee, be conclusive and binding on all concerned.

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 and Clearstream, Luxembourg, 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 additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Agent and the Bond Trustee.

## **2. STATUS OF THE COVERED BONDS AND THE GUARANTEES**

### **(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 unsecured and unsubordinated obligations of the Issuer, present and future, other than any obligations preferred by mandatory provisions of applicable law.

### **(b) Status of the Group Guarantee**

The payment of principal and interest in respect of the Covered Bonds and all other moneys (including default interest) payable by the Issuer under or pursuant to the Trust Deed has been unconditionally guaranteed (on a joint and several basis as between themselves) by the Group Guarantors (the **Group Guarantee**) in the Trust Deed. The obligations of the Group Guarantors under the Group Guarantee are direct, unconditional (subject to a written demand by the Bond Trustee on the Group Guarantors for payment under the Group Guarantee), unsubordinated and unsecured obligations of each Group Guarantor and claims under the Group Guarantee rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Group Guarantor, present and future, other than any obligations preferred by mandatory provisions of applicable law.

### **(c) 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 (on a several basis as between the Group Guarantors on the one hand and the LLP on the other) by the LLP (the **Covered Bond Guarantee**) in the Trust Deed. However, the LLP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amount when the same shall become Due for Payment under the

Covered Bonds or the Trust Deed until the occurrence of an HBOS Event of Default, service by the Bond Trustee on the Issuer and Group Guarantors of an HBOS Acceleration Notice and service by the Bond Trustee on the LLP of a Notice to Pay. The obligations of the LLP under the Covered Bond Guarantee are direct, (following an HBOS Event of Default, service of an HBOS Acceleration Notice and service of a Notice to Pay) unconditional and unsubordinated obligations of the LLP, which are secured as provided in the Deed of Charge.

As security for the LLP's obligations under the Covered Bond Guarantee and the other Transaction Documents (as defined in the Master Definitions and Construction Agreement) 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).

### 3. REDENOMINATION

#### (a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Covered Bondholders, the Receiptholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security Trustee, the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13, elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro.

The election will have effect as follows:

- (i) the Covered Bonds and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Covered Bond and Receipt equal to the nominal amount of that Covered Bond or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, in consultation with the Agent and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the competent listing authority, stock exchange, and/or quotation system (if any) on or by which the Covered Bonds may be listed, quoted and/or traded and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent and the Bond Trustee may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Covered Bondholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds, Receipts and Coupons so issued will also become void on that date although those Covered Bonds, Receipts and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds, Receipts and Coupons will be issued in exchange for Covered Bonds, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;
- (v) after the Redenomination Date, all payments in respect of the Covered Bonds, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro 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;

- (vi) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, 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;
- (vii) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to this Condition (and the Transaction Documents) as the Issuer may decide, after consultation with the Agent and the Bond Trustee, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

(b) *Definitions*

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

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

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

**Redenomination Date** means (in the case of interest bearing Covered Bonds) any date for payment of interest under the Covered Bonds or (in the case of Zero Coupon Covered Bonds) any date, in each case specified by the Issuer in the notice given to the Covered Bondholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the relevant Specified Currency first participates in the third stage of European economic and monetary union.

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

#### 4. **INTEREST**

(a) *Interest on Fixed Rate Covered Bonds*

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period 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 Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

- (i) if “Actual/Actual (ISMA)” is specified in the applicable Pricing Supplement:
  - (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 during which the Accrual Period ends, the number

of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

- (B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
  - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (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) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final 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); and

**Principal Amount Outstanding** means in respect of a Covered Bond 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.

**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, one cent.

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

(i) *Interest Payment Dates*

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

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, 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 Pricing Supplement 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. In these Conditions, the expression **Interest Period** shall mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Pricing Supplement 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:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the **Floating Rate Convention**, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) 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 (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) 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

- (2) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) 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
- (4) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Pricing Supplement; 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 (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds and Index Linked Interest Covered Bonds will be determined in the manner specified in the applicable Pricing Supplement.

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

Where ISDA Determination is specified in the applicable Pricing Supplement 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 Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 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:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period as specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (**LIBOR**) or on the Euro-zone inter-bank offered rate (**EURIBOR**), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

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

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

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

- (1) the offered quotation; or
- (2) 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 which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

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

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement 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 (ii) 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 Pricing Supplement 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 (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

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

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Covered Bonds or Index Linked Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4(b):

- (i) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the



actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (ii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, 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;
- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Bond Trustee and any competent listing authority, stock exchange and/or quotation system on or by which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds are for the time being listed, quoted and/or traded and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each competent listing authority, stock exchange and/or quotation system on or by which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds are for the time being listed, quoted and/or traded and to the Covered Bondholders in accordance with Condition 13. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Determination or Calculation by Bond Trustee*

If for any reason at any relevant time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (iv) above, the Bond Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), 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 and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this

Condition 4(b), whether by the Agent or, if applicable, the Calculation Agent, or the Bond Trustee shall (in the absence of wilful default, bad faith or manifest error or an error established as such to the satisfaction of the Bond Trustee) be binding on the Issuer, the Group Guarantors, the LLP, the Agent, the Calculation Agent (if applicable), the other Paying Agents, the Bond Trustee and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Group Guarantors, the LLP, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Agent or, (if applicable), the Calculation Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Covered Bonds*

The rate or amount of interest payable in respect of Dual Currency Interest Covered Bonds shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Accrual of interest*

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

## 5. PAYMENTS

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro and U.S. Dollars will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively);
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and
- (iii) payments in 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 State and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank.

In no event will payment be made by a cheque mailed to an address in the United States. Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment in these Conditions, the Trust Deed, the Agency Agreement and the Pricing Supplement, but without prejudice to the provisions of Condition 7. References to Specified Currency will include any successor currency under applicable law.

(b) *Presentation of definitive Covered Bonds, Receipts and Coupons*

Payments of principal in respect of definitive Covered Bonds will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Covered Bonds, and payments of interest in respect of definitive Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States.

Payments of instalments of principal (if any) in respect of definitive Covered Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Covered

Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Covered Bond to which it appertains. Receipts presented without the definitive Covered Bond to which they appertain do not constitute valid obligations of the Issuer or any Guarantor. Upon the date on which any definitive Covered Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

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

Upon any Fixed Rate Covered Bond in definitive form becoming due and repayable prior to its Final Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

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

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

(c) *Payments in respect of Global Covered Bonds*

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to definitive Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Global Covered Bond by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) *General provisions applicable to payments*

The bearer of a Global Covered Bond shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer or, as the case may be, either of the Group Guarantors or the LLP and the Bond Trustee will be discharged by payment to, or to the order of, the bearer of such Global Covered Bond 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, as the case may be, the Group Guarantors or the LLP or the Bond Trustee to, or to the order of, the holder of such Global Covered Bond.

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

- (i) 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 interest on the Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, the Group Guarantors and the LLP, adverse tax consequences to the Issuer, the Group Guarantors or the LLP.

(e) *Payment Day*

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) London;
  - (C) any Additional Financial Centre specified in the applicable Pricing Supplement; and
- (ii) 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 (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(f) *Interpretation of principal and interest*

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

- (i) any additional amounts which may be payable with respect to principal under Condition 7 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Covered Bonds;
- (iii) the Early Redemption Amount of the Covered Bonds;
- (iv) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (v) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6(d));
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds; and
- (viii) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds.

Any reference in these 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 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

## 6. REDEMPTION AND PURCHASE

### (a) *Redemption at maturity*

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

### (b) *Redemption for tax reasons*

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Covered Bond is neither a Floating Rate Covered Bond, an Index Linked Interest Covered Bond nor a Dual Currency Interest Covered Bond) or on any Interest Payment Date (if this Covered Bond is either a Floating Rate Covered Bond, an Index Linked Interest Covered Bond or a Dual Currency Interest Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and the Agent and, in accordance with Condition 13, the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that:

- (i) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 or either of the Group Guarantors would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Covered Bonds; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, either of the Group Guarantors taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, either of the Group Guarantors would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Bond Trustee a certificate signed by two directors of the Issuer or, as the case may be, two directors of the relevant Group Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Covered Bondholders, the Receiptholders and the Couponholders.

Covered Bonds redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in paragraph (d) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### (c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Covered Bondholders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Bond Trustee and to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such partial redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. 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, 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 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. 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 paragraph (c) and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 13 at least five days prior to the Selection Date.

(d) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 9, each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Covered Bond (other than a Zero Coupon Covered Bond but including an Instalment Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

**y** is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the 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 and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(e) *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 paragraph (d) above.

(f) *Purchases*

The Issuer, either Group Guarantor, the LLP or any of the Group Guarantors' Subsidiaries may at any time purchase Covered Bonds (provided that, in the case of definitive Covered Bonds, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, either Group Guarantor or the LLP, surrendered to any Paying Agent for cancellation.

(g) *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled (together with 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 cancelled pursuant to paragraph (f) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(h) *Late payment on Zero Coupon Covered Bonds*

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to paragraph (a), (b) or (c) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in paragraph (d)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Agent or the Bond Trustee and notice to that effect has been given to the Covered Bondholders in accordance with Condition 13.

(i) *Legislative Exchange*

Following the coming into force in the United Kingdom, at any time after the Programme Date, of (i) any legislation similar to covered bond legislation in force in any other European Union country or (ii) any rules, regulations or guidelines published by any governmental authority that provides for bonds issued by United Kingdom issuers to qualify for the same benefits available to covered bonds issued under covered bond legislation in force in any other European Union country, the Issuer may, at its option and without the consent of the Bond Trustee, the Security Trustee or the Covered Bondholders, exchange all (but not some only) of the Covered Bonds of all Series then outstanding (the **Existing Covered Bonds**) for new Covered Bonds which qualify as covered bonds under such new legislation, rules, regulations or guidelines (the **New Covered Bonds**) in identical form, amounts and denominations as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (the **Legislative Exchange**) if not more than 60 nor less than 30 days' notice to the Covered Bondholders (in accordance with Condition 13) and the Bond Trustee is given and provided that:

- (i) on the date on which such notice expires the Issuer delivers to the Bond Trustee a certificate signed by two directors of each of the Issuer and the Group Guarantors and a certificate signed by a Designated Member of the LLP confirming that, in the case of the Issuer and the Group Guarantors, no HBOS Event of Default or Potential HBOS Event of Default and, in the case of the LLP, no LLP Event of Default or Potential LLP Event of Default, shall have occurred and be continuing;
- (ii) each of the Rating Agencies then rating the Existing Covered Bonds has confirmed in writing that the New Covered Bonds will be assigned the same ratings as are then applicable to the Existing Covered Bonds; and
- (iii) if the Existing Covered Bonds are listed, quoted and/or traded on or by a competent and/or relevant listing authority, stock exchange and/or quotation system on or before the date on which such notice expires the Issuer delivers to the Bond Trustee a certificate signed by two directors of the Issuer confirming that all applicable rules of such competent and/or relevant listing authority, stock exchange and/or quotation system have been or will be complied with.

The Existing Covered Bonds will be cancelled concurrently with the issue of the New Covered Bonds and with effect on and from the date of issue thereof all references herein to Covered Bonds shall be deemed to be references to the New Covered Bonds.

(j) *Redemption due to illegality*

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and the Agent 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.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Bond Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all Covered Bondholders, Receiptholders and Couponholders.

Covered Bonds redeemed pursuant to this Condition 6(j) will be redeemed at their Early Redemption Amount referred to in paragraph 6(e) above together (if appropriate) with interest accrued to (but excluding) the date of redemption.

## 7. TAXATION

All payments of principal and interest in respect of the Covered Bonds, Receipts and Coupons by the Issuer, the LLP or the Group Guarantors, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In the event of a withholding or deduction being made by either the Issuer or the Group Guarantors in respect of a payment made by any of them, the Issuer or, as the case may be, either Group Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest 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 liable for such taxes or duties in respect of such Covered Bond, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(e)); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council (the **ECOFIN Council**) meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Bond Trustee or the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 13.



Should any payments made by the LLP under the Covered Bond Guarantee be made subject to any withholding or deduction on account of taxes or duties of whatever nature imposed or levied by or on account of any Tax Jurisdiction the LLP will not be obliged to pay any additional amounts as a consequence.

## 8. PRESCRIPTION

The Covered Bonds, Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor, subject in each case to the provisions of Conditions 3 and 5(b).

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

## 9. EVENTS OF DEFAULT AND ENFORCEMENT

### (a) *HBOS Events of Default*

The Bond Trustee at its discretion may (except in relation to the default set out in sub-paragraphs (i) and (viii) below in which case the Bond Trustee shall) and if so requested in writing by the holders of not less than twenty-five per cent. of the Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9(a) means the Covered Bonds of all Series together as if they were a Single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured to its satisfaction), but in the case of the happening of any of the events described in paragraph (ii) below or, in relation to the Group Guarantors only, paragraphs (iii) to (vi) (inclusive) only if the Bond Trustee shall have certified in writing to the Issuer and the Group Guarantors that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, give notice (an **HBOS Acceleration Notice**) in writing to the Issuer and the Group Guarantors that as against the Issuer and the Group Guarantors (but not against the LLP) 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 accrued interest as provided in the Trust Deed if any of the following events (each an **HBOS Event of Default**) shall occur and be continuing:

- (i) default is made by the Issuer and (following the delivery of a written demand on the Group Guarantors by the Bond Trustee for payment under the terms of the Group Guarantee) the Group Guarantors in the payment of any principal, or redemption amount or interest on the Covered Bonds of any Series when due (unless the Bond Trustee is satisfied that the default has arisen by reason of technical default or error and the Issuer and the Group Guarantors have the moneys available to make payment and payment is made within three London Business Days of the due date thereof); or
- (ii) a default is made in the performance by the Issuer or any Group Guarantor of any obligation (other than any obligation for the payment of principal, redemption amount or interest in respect of the Covered Bonds of any Series) under the provisions of the Covered Bonds of any Series or the Trust Deed or any other Transaction Document to which the Issuer or any Group Guarantor is a party which (unless certified by the Bond Trustee, in its opinion, to be incapable of remedy) shall continue for more than thirty days after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given to the Issuer and the Group Guarantors by the Bond Trustee in accordance with the Trust Deed; or
- (iii) an order is made or an effective resolution passed for the bankruptcy or liquidation or winding up or sequestration of the Issuer or either Group Guarantor (except a bankruptcy, liquidation, winding up or sequestration for the purpose of a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer or either Group Guarantor, the terms of which have previously been approved by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 14); or

- (iv) the Issuer or either Group Guarantor ceases to carry on its business or substantially all its business (except a cessation for the purpose of a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer or either Group Guarantor, the terms of which have previously been approved by an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 14); or
- (v) proceedings shall be initiated against the Issuer or either Group Guarantor under any applicable liquidation, winding-up, sequestration, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer or either Group Guarantor, the terms of which have previously been approved by an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 14); or a receiver, administrator, trustee or other similar official shall be appointed in relation to the Issuer or either Group Guarantor or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within thirty days; or if the Issuer or either Group Guarantor shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, sequestration, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer or either Group Guarantor, the terms of which have previously been approved by an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 14) or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) the Issuer or either Group Guarantor shall be unable to pay its debts as they fall due (within the meaning of section 123(1)(b) to (e) and section 123(2) of the Insolvency Act 1986 (as that section may be amended)) or shall admit inability to pay its debts as they fall due or shall stop payment in respect of any debts that are due (save, in the case of stopping payments, in each case in respect of any obligation for the payment of principal, redemption amount or interest in respect of the Covered Bonds of any Series) or shall be adjudged or found bankrupt or insolvent; or
- (vii) except as provided by the terms of the Group Guarantee, the Group Guarantee is not, or is claimed by the relevant Group Guarantor not to be, in full force and effect; or
- (viii) a failure to satisfy the Asset Coverage Test (as set out in the LLP Deed) on any Calculation Date which has not been cured by the LLP by the next following Calculation Date; or
- (ix) if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached less than six months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds, and the LLP has not cured the breach as described in the LLP Deed before the earlier to occur of (i) ten London Business Days from the date that the Sellers are notified of the breach of the Pre-Maturity Test and (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer and Group Guarantors pursuant to this Condition 9(a), the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP pursuant to the Covered Bond Guarantee and 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 the occurrence of an HBOS Event of Default and service of an HBOS Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer and/or Group Guarantors in accordance with the first paragraph of Condition 9(c) (*Enforcement*).

The Trust Deed provides that all moneys received by the Bond Trustee from the Issuer, either of the Group Guarantors or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer or the Group Guarantors following the occurrence of an HBOS Event of Default and service of an HBOS Acceleration Notice and a Notice to Pay (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the

Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee shall discharge the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons and the obligations of the Group Guarantors under the Group Guarantee. However, the obligations of the LLP under the Covered Bond Guarantee are 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.

(b) *LLP Events of Default*

The Bond Trustee at its discretion may, and if so requested in writing by the holders of not less than twenty-five per cent. of the Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9(b) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a Single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured to its satisfaction), but in the case of the happening of any of the events described in paragraph (ii) below, only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, give notice (the **LLP Acceleration Notice**) in writing to the Issuer, copied to the LLP, that each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer and each Group Guarantor (if not already due and repayable against them following an HBOS Event of Default) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest 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:

- (i) default is made by the LLP in the payment of any Guaranteed Amount when Due for Payment in respect of the Covered Bonds of any Series unless the Bond Trustee is satisfied that the default has arisen by reason of technical default or error and the LLP has the moneys available to make payment and payment is made within three London Business Days of the due date; or
- (ii) a default is made in the performance or observance by the LLP of any obligation binding upon it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document to which the LLP is a party which (unless certified by the Bond Trustee, in its opinion, to be incapable of remedy) shall continue for more than thirty days after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given to the LLP by the Bond Trustee in accordance with the Trust Deed; or
- (iii) an order is made or an effective resolution passed for the liquidation or winding up of the LLP; or
- (iv) the LLP ceases to carry on its business or substantially all its business; or
- (v) proceedings shall be 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 for an administration order); or a receiver, administrator, trustee or other similar official shall be appointed in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (vii) the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect; or

(viii) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any Calculation Date following an HBOS Event of Default.

For the purposes hereof:

**Amortisation Test** means the Amortisation Test Aggregate Loan Amount (as defined in the Master Definitions and Construction Agreement) which shall be an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on each Calculation Date following an HBOS Event of Default.

Following the occurrence of an LLP Event of Default and 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(c) (Enforcement) and the Covered Bondholders shall have a claim against the LLP, under the Covered Bond Guarantee, for the Early Redemption Amount together with accrued interest as provided in the Trust Deed in respect of each Covered Bond.

(c) *Enforcement*

The Bond Trustee may at any time after service of an HBOS Acceleration Notice (in the case of the Issuer and Group Guarantors) or an LLP Acceleration Notice (in the case of the LLP), at its discretion and without further notice, take such proceedings against the Issuer and/or either Group Guarantor or the LLP, as the case maybe, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Receipts, and the Coupons, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution (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 twenty-five per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured to its satisfaction.

The Security Trustee may at any time, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge and may, at any time after the Security has become enforceable, take such steps as it may think fit to enforce the Security, but it shall not be bound to take any such steps unless (i) it shall have been so directed by an Extraordinary Resolution (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or a request in writing by the holders of not less than twenty-five per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid); and (ii) it shall have been directed in writing to do so by each of the other Secured Creditors (other than the Issuer, the Group Guarantors or the Sellers); and (iii) it shall have been indemnified and/or secured to its satisfaction.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer, either Group Guarantor or the LLP or to take any action with respect to the Trust Deed, 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 for a period of 30 days and the failure shall be continuing.

## **10. REPLACEMENT OF COVERED BONDS, RECEIPTS, COUPONS AND TALONS**

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **11. PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Bond Trustee (such approval not to be unreasonably withheld or delayed), to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent;
- (b) so long as the Covered Bonds are listed, quoted and/or traded on or by any competent listing authority, on any stock exchange or quotation system, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant competent listing authority, stock exchange or quotation system; and
- (c) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to such Directive is introduced, the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any 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 thereof shall have been given to the Covered Bondholders in accordance with Condition 13.

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

## 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 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 Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8.

## 13. NOTICES

All notices regarding the Covered Bonds will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London and, (for so long as any Covered Bonds are listed on the Luxembourg Stock Exchange) if published in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Financial Times* in London and (in relation to Covered Bonds listed on the Luxembourg Stock Exchange) in the *Luxemburger Wort* and the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any competent listing authority, stock exchange or quotation system on or by which the Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing, quotation and/or trading. 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. If publication as provided above is not practicable, a 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) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed, quoted and/or traded on or by any competent listing authority, stock exchange or quotation system and the rules of that competent listing authority, stock exchange or quotation system 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 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.

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 relative Covered Bond or

Covered Bonds, with the Agent. Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

#### 14. MEETINGS OF COVERED BONDHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of the Covered Bondholders of any Series to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Covered Bonds of such Series or the related Receipts and/or Coupons or of any of the Transaction Documents (subject as provided below and in the Trust Deed). Such a meeting may be convened by the Issuer, either Group Guarantor, the LLP or the Bond Trustee and shall be convened by the Issuer if required in writing by Covered Bondholders of a Series of Covered Bonds holding not less than five per cent. of the Principal Amount Outstanding of the Covered Bonds of such Series for the time being remaining outstanding. The quorum at any such meeting in respect of any Series of Covered Bonds for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. of the 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 nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds of a Series, the related Receipts or the Coupons or the Trust Deed (including a reduction or cancellation of the amount payable in respect of such Covered Bonds, the alteration of the currency in which payments under such Covered Bonds are to be made, the alteration of the majority required to pass an Extraordinary Resolution, any amendment to any of the Guarantees or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the Covered Bondholders of any Series) or the sanction of any scheme or proposal for the exchange of such Covered Bonds in respect of such Series of Covered Bonds (each, a **Series Reserved Matter** all as more particularly set out in the Trust Deed)), the quorum shall be one or more persons holding or representing not less than two-thirds of the Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of the such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, either Group Guarantor, the LLP or the Bond Trustee or by Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing not less than fifty per cent. in aggregate of the Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Series of Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Sterling, the nominal amount of the Covered Bonds of any Series not denominated in Sterling shall be converted into Sterling at the relevant Covered Bond Swap Rate.

The Bond Trustee, the Security Trustee 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 (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

- (a) any modification of the Covered Bonds of one or more Series, the related Receipts and/or Coupons or any Transaction Document provided that (i) in the opinion of the Bond Trustee and the Security Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series or any of the other Secured Creditors (other than the LLP and the Sellers) (in which respect the Bond Trustee and the Security Trustee may rely upon the consent in writing of any other Secured Creditor as to the absence of material prejudice to the interests of such Secured Creditor) and (ii) it has not been informed in writing by any Secured Creditor (other than any Covered Bondholder(s)) that such Secured Creditor will be materially prejudiced thereby (other than a Secured Creditor who has given his/her written consent as aforesaid); or
- (b) any modification of the Covered Bonds of any one or more Series, the related Receipts and/or Coupons or any Transaction Document which is of a formal, minor or technical nature or is made to correct a manifest error or an error established as such to the satisfaction of the Bond Trustee or to comply with 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 or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as aforesaid, that any HBOS Event of Default or LLP Event of Default or Potential HBOS Event of Default or Potential LLP Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the Secured Creditors (in which respect the Bond Trustee may (without further enquiry) rely upon the consent in writing of any other Secured Creditor as to the absence of material prejudice to the interests of such Secured Creditor) provided that the Bond Trustee has not been informed by any Secured Creditor (other than any Covered Bondholder(s)) that such Secured Creditor will be materially prejudiced thereby (other than a Secured Creditor who has given its written consent as aforesaid).

Any such modification, waiver, authorisation or determination shall be binding on all Covered Bondholders of all Series of Covered Bonds for the time being outstanding, the related Receiptholders and the Couponholders and the other 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, determination or substitution), the Bond Trustee and 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, either of the Group Guarantors, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

Provided that the Bond Trustee and the Security Trustee shall have received a certificate of two directors of the Issuer and the relevant Group Guarantor and a certificate of a Designated Member of the LLP stating that immediately after giving effect to such transaction no HBOS Event of Default (in respect of the Issuer or the relevant Group Guarantor) or LLP Event of Default, respectively and no Potential HBOS Event of Default (in respect of the Issuer or the relevant Group Guarantor) or

Potential LLP Event of Default, respectively, shall have happened and be continuing and certain other conditions as are specified in the Trust Deed are satisfied, but without the consent of the Covered Bondholders of any Series of Covered Bonds for the time being outstanding or of the holders of the Coupons and Receipts appertaining thereto, or of any other Secured Creditor: (a) either Group Guarantor may assume the obligations of the Issuer as principal obligor under the Trust Deed and all other Transaction Documents in respect of all Series of Covered Bonds subject to the Covered Bonds of all Series being or remaining unconditionally guaranteed by the Group Guarantors on the same basis (save for such Group Guarantor to become the principal obligor) or (b) another Subsidiary (as defined in the Trust Deed) of either Group Guarantor may assume the obligations of the Issuer as principal obligor under the Trust Deed and the other Transaction Documents in respect of all Series of Covered Bonds subject to the Covered Bonds of all Series being or remaining unconditionally guaranteed by the Group Guarantors on the same basis. The Trust Deed provides that any such assumption shall be notified to the holders of all Series of Covered Bonds (in accordance with the relevant terms and conditions of such Covered Bonds).

Provided that the Bond Trustee and the Security Trustee shall have received a certificate of two directors of the Issuer and the relevant Group Guarantor and a certificate of a Designated Member of the LLP stating that immediately after giving effect to such resignation or assumption no HBOS Event of Default (in respect of the Issuer or the relevant Guarantor) and no LLP Event of Default, respectively, and no Potential HBOS Event of Default (in respect of the Issuer or the relevant Guarantor) and no Potential LLP Event of Default, respectively, shall have happened and be continuing and certain other conditions as are specified in the Trust Deed are satisfied, but without the consent of the Covered Bondholders of any Series of Covered Bonds for the time being outstanding or of the holders of the Coupons and the Receipts appertaining thereto or any other Secured Creditor, HBOS and/or Bank of Scotland (each in their capacity as Group Guarantor) may resign as a Group Guarantor (or Group Guarantors) provided that the long-term unsecured, unsubordinated and unguaranteed debt ratings of the Issuer (if independently rated) or any remaining Group Guarantor or any Replacement Guarantor are at least equal to the ratings (at the time of the resignation) of the highest rated Group Guarantor and for such purpose **Replacement Guarantor** means any other member of the HBOS Group (as defined in the Trust Deed) who assumes the obligations of the resigning Guarantor (or Guarantors) under the Trust Deed in respect of such Covered Bonds. The Trust Deed provides that any such resignation or assumption shall be notified to the holders of such Covered Bonds (in accordance with the relevant terms and conditions of such Covered Bonds).

The Issuer and the Group Guarantors may each, without the consent of the holders of the Covered Bonds of any Series or any Receipts or Coupons relating thereto, or any other Secured Creditor consolidate with, merge or amalgamate into or transfer their respective assets substantially as an entirety to, any corporation organised under the laws of the United Kingdom, or any political subdivision thereof, provided that (i) a certificate of two Directors of the Issuer and the Group Guarantors and a certificate of a Designated Member of the LLP is delivered to the Bond Trustee and the Security Trustee to the effect that immediately after giving effect to such transaction no HBOS Event of Default in respect of the Issuer or the relevant Group Guarantor and no LLP Event of Default, respectively, and no Potential HBOS Event of Default in respect of the Issuer or the relevant Group Guarantor and no Potential LLP Event of Default, respectively, will have happened and be continuing and (ii) unless the Issuer or either Group Guarantor, as the case may be, is the surviving entity, the Issuer or, as the case may be, either Group Guarantor shall procure that the surviving or transferee company assumes its obligations as Issuer or, as the case may be, Group Guarantor under the Trust Deed, each other relevant Transaction Document and all of the outstanding Covered Bonds of all Series, in place of the Issuer or, as the case may be, either Group Guarantor and (iii) in the case of an assumption of the obligations of the Issuer by a successor or transferee company, the guarantee of both Group Guarantors and the guarantee of the LLP are fully effective on the same basis in relation to the obligations of such successor or transferee company and (iv) certain other conditions set out in the Trust Deed are met. Upon the assumption of the obligations of the Issuer or either Group Guarantor by such surviving or transferee company, the predecessor Issuer or Group Guarantor, as the case may be, shall (subject to the provisions of the Trust Deed) have no further liabilities under or in respect of the Trust Deed or the outstanding Covered Bonds of each Series then outstanding or any Coupons or Receipts appertaining thereto and the other Transaction Documents. Any such assumption shall be subject to the relevant provisions of the Trust Deed. The Trust Deed provides that any such assumption shall be notified to the holders of all Series of Covered Bonds in



accordance with the relevant terms and conditions of such Covered Bonds and the other Secured Creditors.

For the purposes hereof:

**Potential HBOS 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 HBOS 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.

**Rating Agency Confirmation** means a confirmation in writing by the Rating Agencies that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter.

**15. INDEMNIFICATION OF THE BOND TRUSTEE AND/OR SECURITY TRUSTEE AND BOND TRUSTEE AND/OR SECURITY TRUSTEE CONTRACTING WITH THE ISSUER AND/OR BANK OF SCOTLAND AND/OR HBOS 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 shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a written resolution of such Covered Bondholders of not less than fifty per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (i) to enter into business transactions with the Issuer, either of the Group Guarantors, the LLP and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, either of the Group Guarantors, the LLP and/or any of their respective Subsidiaries and affiliates, (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, Receipholders or Couponholders or the 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 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 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 or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Portfolio, including, without limitation, whether the Portfolio is in 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. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders to create and issue further bonds having terms and conditions the same as the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

## **17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person 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.

## **18. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **(a) *Governing law***

The Trust Deed, the Agency Agreement, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents (other than each Scottish Declaration of Trust, certain documents to be granted pursuant to the Deed of Charge and the Corporate Services Agreement) 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. The Corporate Services Agreement is governed by, and shall be construed in accordance with, Jersey law.

### **(b) *Submission to jurisdiction***

Each of the Group Guarantors agrees, for the exclusive benefit of the Bond Trustee, the Covered Bondholders, the Receiptholders, the Couponholders and the other Secured Creditors, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Covered Bonds, the Receipts, the Coupons and/or the other Transaction Documents and that accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents (other than each Scottish Declaration of Trust, certain documents to be granted pursuant to the Deed of Charge and the Corporate Services Agreement) may be brought in such courts.

Each of the Group Guarantors hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against either of the Group Guarantors in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

### **(c) *Appointment of Process Agent***

Each of the Group Guarantors appoints the Issuer at its registered office at 33 Old Broad Street, London EC2N 1HZ for the attention of the Head of Legal and Regulatory Risk as its agent for service of process, and undertakes that, in the event of the Issuer ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

## **USE OF PROCEEDS**

The Sterling Equivalent of 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 either:

- (i) to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the prescribed limit; and/or
- (ii) 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; and/or
- (iii) to deposit all or part of the proceeds into the GIC Account.

## THE ISSUER

The Issuer, a direct, wholly owned subsidiary of Bank of Scotland, was registered in England and Wales on 26th February, 1992 as Bank of Scotland Treasury Services PLC (registered number 2692890) for the purpose of taking over and developing Bank of Scotland's treasury operations. Following the merger of Halifax Group and Bank of Scotland in 2001, substantially all of the treasury business of Halifax plc was transferred to the Issuer with effect from 1st June, 2002. On 14th June, 2002, the Issuer changed its name from Bank of Scotland Treasury Services PLC to HBOS Treasury Services plc. The Issuer is an "authorised person" under FSMA.

Bank of Scotland has unconditionally and irrevocably guaranteed due payment of all lawfully incurred present and future indebtedness and other obligations of the Issuer. The Issuer has unconditionally guaranteed due payment of all Bank of Scotland's lawfully incurred present and future indebtedness and other obligations. Payments under the guarantee by the Issuer in respect of Bank of Scotland's subordinated obligations are subordinated until after the lawful claims of all the Issuer's ordinary or unsubordinated creditors have been satisfied in full.

The Issuer provides centralised wholesale multi-currency funding, liquidity management and treasury services to HBOS and its subsidiary undertakings in the United Kingdom and Ireland. From 1st April, 2003, the Issuer also has management responsibility for the treasury function in BOS International (Australia) Limited. The Issuer manages the market risk arising from the HBOS Group's Retail Banking, Business Banking and Corporate Banking Divisions. It operates in the world's foreign exchange and money markets and also provides a range of treasury services to certain of the HBOS Group's customers from offices in London and Glasgow. The Issuer also trades in foreign exchange and in a limited range of derivative instruments primarily for risk management purposes. It leads the debt capital issuance and asset securitisation activities of the HBOS Group in the United Kingdom. The Issuer's registered office is located at 33 Old Broad Street, London EC2N 1HZ, England. The Issuer has no subsidiaries.

## THE GROUP GUARANTORS

### HBOS

On 10th September, 2001, Bank of Scotland and Halifax Group plc (**Halifax Group**) merged under HBOS. HBOS is the ultimate holding company for the Original Seller, Bank of Scotland and a number of other subsidiaries principally carrying on financial services business. HBOS is a public limited company incorporated in Scotland (registered number SC218813) under the Companies Act 1985 with its head office, corporate headquarters and registered office at The Mound, Edinburgh EH1 1YZ, Scotland.

HBOS together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act 1985) are collectively referred to as the **HBOS Group**. At December 31, 2002, HBOS Group had approximately 700 (directly and indirectly held) subsidiaries.

### Bank of Scotland

Bank of Scotland, which was established by an Act of the Parliament of Scotland in 1695, is a United Kingdom clearing bank with its headquarters in Edinburgh. Bank of Scotland is an “authorised person” under FSMA. As at 31st December, 2002, Bank of Scotland operated from locations throughout the world including 354 branch outlets in Scotland, London and other regional commercial centres in England, as well as from overseas branches in New York City, Hong Kong, Paris, Amsterdam, Grand Cayman, Frankfurt and Madrid and representative offices in Chicago, Illinois; Houston, Texas; Los Angeles, California; Seattle, Washington; and Minneapolis, Minnesota. It is a member of the British Bankers’ Association and the Committee of Scottish Clearing Bankers. The Bank Notes (Scotland) Act 1845 confirmed Bank of Scotland’s right to issue bank notes in Scotland. At 31st December, 2002 circulation of such notes was approximately £821 million. At 31st December, 2002, Bank of Scotland had approximately 360 (directly and indirectly held) subsidiaries. Bank of Scotland together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act 1985) are collectively referred to as the **Bank of Scotland Group**. The head office of Bank of Scotland is located at The Mound, Edinburgh EH1 1YZ, Scotland.

## THE LLP

### Introduction

The LLP was incorporated in England and Wales on 15th May, 2003 as a limited liability partnership (registered number OC304674) with limited liability under the LLPA 2000 by the Original Seller and the Issuer as its Members. The Liquidation Member was admitted as a Member of the LLP on pursuant to a deed of admission entered into on or before the Programme Date between the Original Seller, the Issuer, the LLP and the Liquidation Member (the **Deed of Admission**). The principal place of business of the LLP is at Trinity Road, Halifax, West Yorkshire HX1 2RG. The LLP has no subsidiaries.

### Principal Activities

The principal objects 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 and to do all such things as are incidental or conducive to the carrying on of that business and to borrow money.

The LLP has not engaged since its 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 2000, activities contemplated under the Transaction Documents to which it is or will be a party, applying for a standard licence under the Consumer Credit Act 1974, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to the foregoing.

### Members

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

Name	Registered Office
Halifax plc	Trinity Road Halifax West Yorkshire HX1 2RG
HBOS Treasury Services plc	33 Old Broad Street London EC2N 1HZ
Connery Limited	47 Esplanade St. Helier Jersey JE1 0BD

The LLP has no employees.

### Directors of the Members

The following table sets out the directors of Connery Limited and their respective business addresses and occupations.

Name	Business Address	Business Occupation
Michael George Best	47 Esplanade St. Helier Jersey JE1 0BD	Director of special purpose companies
Peter John Richardson	47. Esplanade St Helier Jersey JE1 0BD	Director of special purpose companies
David Balai	33 Old Broad Street London EC2N 1HZ	Head of Capital Markets and Securitisation, HBOS Treasury Services plc

The directors of Halifax plc and of HBOS Treasury Services plc are set out under *The HBOS Group* below.

### Capitalisation and Indebtedness Statement

The following table shows the capitalisation of the LLP as at the Programme Date:

	<b>As at 18th July, 2003 £</b>
Capital Contributions .....	0
Term Advances .....	0
Total capitalisation and indebtedness .....	<u>0</u>

The LLP has no loan capital, term loans, other borrowings or indebtedness or contingent liabilities or guarantees as at the Programme Date other than the Covered Bond Guarantee.

### Accountants' Report

The following is the text of a report received by the Members of the LLP from KPMG Audit Plc, the registered accountants to the LLP. The financial information contained therein does not comprise the LLP's statutory accounts. No statutory accounts have been prepared or delivered to the Registrar of Companies in England and Wales since incorporation. The LLP's accounting reference date is 31st December with the first statutory accounts being drawn up to 31st December, 2003.



KPMG Audit Plc

Canary Wharf  
1 Canada Square  
London  
E14 5AG  
United Kingdom

Tel +44 (0) 20 7311 1000  
DX 38050 Blackfriars

The Members  
HBOS Covered Bonds LLP  
Trinity Road  
Halifax  
West Yorkshire  
HX1 2RG

18th July, 2003

Dear Sirs

**Programme for the Issuance of Covered Bonds (the “Programme”) by HBOS Treasury Services plc (the “Issuer”) the repayment of which is guaranteed by HBOS plc and The Governor and Company of the Bank of Scotland (each a “Group Guarantor”) and by HBOS Covered Bonds LLP (the “LLP” and, together with the Group Guarantors, the “Guarantors”)**

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 18th July, 2003 (the “Offering Circular”) of the Issuer.

#### 1. Basis of Preparation

The financial information set out in paragraphs 5 to 6 is based on the financial statements of the LLP from incorporation to 18th July, 2003 prepared on the basis described in note 6.1 to which no adjustments were considered necessary.

#### 2. Responsibility

Such financial statements are the responsibility of the members of the LLP.

The Issuer and the Guarantors are responsible for the contents of the Offering Circular dated 18th July, 2003 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

#### 3. Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

#### 4. Opinion

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the LLP at 18th July, 2003.

#### 5. Balance Sheet as at 18th July, 2003

	£
Current assets .....	0
Cash at bank and in hand.....	0



## 6. Notes

### 6.1 Accounting Policies

The financial information has been prepared under the historical cost convention and in accordance with accounting standards currently applicable in the United Kingdom.

### 6.2 Trading Activity

The LLP was incorporated on 15th May, 2003 with the name HBOS Covered Bonds LLP. The LLP has not yet commenced business, no audited financial statements have been prepared and no dividends have been declared or paid since the date of incorporation.

### 6.3 Registration

During the period the LLP has applied for and obtained registrations as follows:

- Data Protection Act 1998 - Register of Data Controllers - Register of Data Users And Computer Bureaux, registration number Z8031261;
- Consumer Credit Act 1974 - consumer credit licence, licence number 539824.

### 6.4 Members' Capital

On incorporation the members' capital was 0.

### 6.5 Auditors

KPMG Audit Plc was appointed as auditor on 16th June, 2003.

Yours faithfully

*KPMG Audit Plc*

## THE ORIGINAL SELLER

### **The Original Seller**

Halifax Building Society was founded in 1853 as the Halifax Permanent Benefit Building and Investment Society. In 1928, it merged with Halifax Equitable Building Society to form Halifax Building Society. On 2nd June, 1997 Halifax Building Society, at the time the United Kingdom's largest building society, transferred its business to the Original Seller, which on that date became authorised under the UK Banking Act 1987. The UK Banking Act 1987 was repealed when section 19 of FSMA was brought into force on 30th November, 2001. The Original Seller is now authorised as required under FSMA. Upon completion of the transfer, Halifax Building Society ceased to exist. The Original Seller was incorporated in England and Wales with registered number 02367076 on 31st March, 1989. On 4th December, 1996 the Original Seller changed its name to Halifax plc and re-registered as a public limited company. On 1st June, 1999, through a scheme of arrangement, Halifax Group plc acquired and became the holding company of the Original Seller. On 10th September, 2001 Halifax Group plc and The Governor and Company of the Bank of Scotland were acquired by a new holding company, HBOS plc as more fully described in *The Group Guarantors - HBOS*. On 1st July, 2002 Halifax plc became a directly held undertaking of HBOS plc having formerly been a subsidiary undertaking of Halifax Group plc.

The Original Seller had total consolidated assets at 31st December, 2002 of £141,218 million (at 31st December, 2001 this figure was £171,471 million (as restated)). In the year to 31st December, 2002, the Original Seller's consolidated profit on ordinary activities before tax was £1,187 million (for the year to 31st December, 2001 this figure was £1,148 million (as restated)).

### **Mortgage Business**

The total consolidated value of the Original Seller's mortgage loans and advances secured on residential properties as at 31st December, 2002 was approximately £122.1 billion (for 2001 this figure was £110.1 billion).

# THE HBOS GROUP

## Introduction

The HBOS Group is a diversified financial services group engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the United Kingdom and internationally.

On 10th September, 2001 Bank of Scotland and Halifax Group merged under HBOS. HBOS is the ultimate holding company for the Original Seller, Bank of Scotland and a number of other subsidiary undertakings principally carrying on financial services business. HBOS is a public limited company incorporated in Scotland (registered number SC218813) under the Companies Act 1985 with its head office, corporate headquarters and registered office at The Mound, Edinburgh EH1 1YZ. Subsequent to the merger, all of Halifax Group's innovative Tier 1 and Tier 2 capital and any guarantee obligations thereunder were transferred to HBOS on 1st July, 2002.

The HBOS Group's products and services can be categorised into the following business sectors:

- Retail Banking
- Business Banking
- Corporate Banking
- Insurance & Investment
- Treasury

## Retail Banking

The retail operations and consumer credit businesses of Halifax Group were combined with the personal banking division of Bank of Scotland to form the Retail Banking Division of the HBOS Group employing over 40,000 people in over 1,000 branches and 10 call centres throughout the United Kingdom as at 31st December, 2002.

The HBOS Group had over 22 million customers as at 31st December, 2002 and offers an extensive range of personal finance products and services including mortgages, savings, current accounts, credit cards, online services, share dealing and estate agency. In addition to Halifax and Bank of Scotland, other brands within the Retail Banking Division include Intelligent Finance, Birmingham Midshires and The Mortgage Business.

As at 31st December, 2002, the HBOS Group was the largest retail mortgage provider in the United Kingdom, with residential mortgages of approximately £150 billion and held savings and banking balances of over £100 billion.

## Business Banking

The Business Banking Division provides a range of finance products and services principally to small and medium-sized enterprises (SMEs) through a network of branches and business centres in the United Kingdom and Ireland as well as through internet banking, mail and telephone. The HBOS Group provides a full banking service to SMEs including deposits and investments, business finance, commercial mortgages, free internet banking, merchant services and business insurance. The Business Banking Division also provides specialist services such as asset finance, cashflow finance, motor finance, vehicle management and contract hire. The Business Banking Division employed over 7,000 employees in the United Kingdom, Ireland and Australia as at 31st December, 2002.

The HBOS Group provided finance products and services to approximately 33 per cent., as at September 2002, of the SME market in Scotland and is aiming to capture a significant amount of SME business in England and Wales.

## Corporate Banking

The Corporate Banking Division focuses on larger businesses (typically those with an annual turnover in excess of £10 million) and comprises a number of relationship banking and specialist lending teams with responsibilities including working capital finance, term loans, asset finance, multi-currency loans and deposits, project and specialist finance, acquisition finance and syndicated lending. The key objective of these teams is to expand and strengthen the HBOS Group's corporate market share by pursuing a relationship and partnership driven approach and delivering specialist services to existing and new customers.

The HBOS Group employed over 1,400 staff in the Corporate Banking Division in over 20 locations in Scotland and England, with international operations in New York City, Chicago, Houston, Los Angeles, Boston, Seattle, Minneapolis, Paris, Frankfurt, Amsterdam, Singapore, Madrid and Sydney as at 31st December, 2002.

The HBOS Group was the leader, of deals by volume, in the provision of acquisition finance to the United Kingdom and European management buy-out sectors for the year ended 31st December, 2002.

### **Insurance & Investment**

The Insurance & Investment Division (**IID**) comprises a number of different brands including Halifax Financial Services, Bank of Scotland Investment Services, Clerical Medical Investment Group, Insight Investment, St James's Place Capital, St Andrew's and esure.

Products offered by the companies within IID include savings, investments and pensions, life and repayment insurance and household, travel and motor insurance distributed through a number of different channels, branches, independent financial advisers, company agents and by telephone.

### **Treasury**

The Issuer comprises the Treasury Division and its activities are described under The Issuer.

### **Principal HBOS Group Subsidiaries**

Certain details of the principal subsidiary undertakings of HBOS are set out below:

<b>Company Name</b>	<b>Activity</b>	<b>Country of Incorporation or Registration</b>	<b>Registered Office/ Head Office</b>
The Governor and Company of the Bank of Scotland	Banking, financial and related services	Scotland	The Mound Edinburgh EH1 1YZ
Halifax plc	Banking	England and Wales	Trinity Road Halifax HX1 2RG
Halifax Share Dealing Limited	Execution only stockbroking	England and Wales	Trinity Road Halifax HX1 2RG
HBOS Insurance & Investment Group Limited	Investment holding	England and Wales	Trinity Road Halifax HX1 2RG

Certain details of the principal subsidiary undertakings of HBOS Insurance & Investment Group Limited are set out below:

<b>Company Name</b>	<b>Activity</b>	<b>Country of Incorporation or Registration</b>	<b>Registered Office</b>	<b>Total % held by HBOS Insurance &amp; Investment Group Limited</b>
Clerical Medical Investment Group (Holdings) Limited and its subsidiaries	Life assurance	England and Wales	33 Old Broad Street London EC2N 1HZ	100%
Halifax Financial Services (Holdings) Limited and its subsidiaries	Financial services	England and Wales	Trinity Road Halifax HX1 2RG	100%
St James's Place Capital PLC and its subsidiaries	Financial services	England and Wales	J Rothschild House Dollar Street Cirencester GL7 2AQ	60%*

\*as at 31st December, 2002

Certain details of the principal subsidiary undertakings of Bank of Scotland are set out below:

<b>Company Name</b>	<b>Activity</b>	<b>Country of Incorporation or Registration</b>	<b>Registered Office</b>	<b>Total % held by Bank of Scotland</b>
HBOS Treasury Services plc	Banking	England and Wales	33 Old Broad Street London EC2N 1HZ	100%
Capital Bank plc	Banking and personal finance	England and Wales	Queens Park Road Handbridge Chester CH88 3AN	100%
Bank of Western Australia Limited	Retail and commercial banking	Australia	Bankwest Tower 108 St. Georges Terrace, Perth, Australia WA6000	56.8%*

\*as at 31st December, 2002

## **Employees**

The HBOS Group employed on average 48,180 people on a full-time basis and 15,802 people on a part-time basis during the year ended 31st December, 2002. Certain of the HBOS Group's employees in the United Kingdom are members of the union UNIFI (formerly the Banking, Insurance & Finance Union) and the union Accord, each of which is recognised by the HBOS Group as representing the interests of such employees. The HBOS Group considers its relations with its employees to be satisfactory.

## **Properties**

As at 31st December, 2002, the HBOS Group operated throughout the world, principally in the United Kingdom, from both freehold and leasehold properties.

## **Recent Developments**

On 9th May, 2003, HBOS made a proposal to the board of Bank of Western Australia Ltd (BankWest), in which the Group currently holds the majority interest of 57%, under which HBOS's Australian subsidiary, Scottish Western Australia Holdings Pty Ltd, would acquire all outstanding shares in BankWest held by minority shareholders.

The proposed consideration of Australian \$4.25 per share for all shares not currently held by the Group represents a total consideration of approximately Australian \$1.05 billion (approximately £417 million, based on current exchange rates) and will be funded from HBOS's existing capital resources.

Subject to shareholder, court and regulatory approvals the transaction is expected to be completed in the second half of the year.

### Selected Consolidated Financial Information

HBOS was incorporated on 3rd May, 2001. As a consequence of the approval of schemes of arrangement of Bank of Scotland and Halifax, which became effective on 7th September and 10th September, 2001, respectively, it became the holding company of the Group. In accordance with merger accounting principles under U.K. GAAP, the Group's results have been presented as if the new group had been established throughout 2000 and 2001.

The financial information set forth on the following two pages as at the end of and for each of the three years ended 31st December, 2002, 2001 and 2000 has been extracted without material adjustment from the audited Consolidated Financial Statements and notes thereto of the HBOS Group for those years, as audited by KPMG Audit Plc (together, the **Consolidated Financial Statements**). The financial information contained in this Offering Circular should be read in conjunction with, and is qualified by reference to, the Consolidated Financial Statements. The Consolidated Financial Statements have been placed on display at the specified office of the Principal Paying Agent and at the registered office of the Issuer for the life of the Programme.

KPMG Audit Plc is a firm of chartered accountants and registered auditors.

### Summary Consolidated Profit and Loss Account

	Year ended 31st December,		
	2002	2001	2000
	Restated		
	(in £ millions, except per share amounts)		
Net interest income.....	4,770	4,155	4,031
Non-interest income .....	2,776	2,379	2,213
Total income .....	7,546	6,534	6,244
Operating expenses .....	(3,762)	(3,505)	(3,070)
General insurance claims .....	(79)	(68)	(11)
Provisions for bad and doubtful debts .....	(832)	(608)	(471)
Amounts written off fixed asset investments .....	(24)	(21)	(9)
Total operating profit.....	2,849	2,332	2,683
Share of operating profits/(losses) of joint ventures.....	8	20	(35)
Share of operating profits of associated undertakings.....	27	16	20
Profit on disposal of business .....	25	—	—
Merger costs - exceptional.....	—	(76)	—
Profit before taxation .....	2,909	2,292	2,668
Taxation .....	(835)	(663)	(757)
Attributable to minority interests.....	(158)	(161)	(133)
Profit attributable to Shareholders.....	1,916	1,468	1,778
Dividends			
Preference.....	(37)	(37)	(37)
Ordinary.....	(1,140)	(993)	(789)
Retained Profit .....	739	438	952
Pence per Ordinary Share			
Underlying Earnings per Share (1).....	56.1p	47.7p	55.6p
Basic earnings per Share .....	50.6p	40.5p	49.9p
Diluted earnings per Share .....	50.2p	40.1p	49.7p

(1) Underlying earnings per share has been calculated excluding exceptional items and amortisation of goodwill.

## Summary Consolidated Balance Sheet

	Year ended 31st December,		
	2002	2001	2000
	Restated		
	(in £ millions, except per share amounts)		
Called up Share Capital			
Ordinary Shares .....	946	892	878
Preference Shares .....	400	400	400
Reserves .....	12,423	10,121	9,260
Shareholders' funds .....	13,769	11,413	10,538
Minority interests .....	2,139	2,095	1,474
Capital and reserves .....	15,908	13,508	12,012
Subordinated undated loan capital .....	3,437	2,957	2,131
Subordinated dated loan capital.....	5,690	4,966	3,854
Deposits by banks, customer accounts and debt securities in issue .....	276,629	240,493	206,018
Loans and advances to customers and banks.....	246,153	210,822	188,005
Cumulative provisions for bad and doubtful debts .....	2,024	1,769	1,578
Total assets .....	355,080	312,071	266,143
Net assets per Ordinary Share .....	353p	309p	289p

## Other Financial Data

(unaudited)

	Year ended 31st December,		
	2002	2001	2000
	Restated		
	(in percent, except earnings ratios)		
Post tax return on mean equity (1) .....	16.3%	15.1%	19.5%
Net interest margin (2).....	1.86%	1.87%	1.95%
Cost to total income ratio (operating expenses as a percentage of operating income) (3) .....	45.2%	49.2%	43.3%
Basel convergence ratios (4):			
Tier 1 capital .....	7.9%	7.9%	7.9%
Total capital .....	10.4%	10.6%	10.7%
Closing provisions as a percentage of year end customer advances:			
Specific .....	0.56%	0.56%	0.57%
General.....	0.30%	0.34%	0.36%
Total: .....	0.86%	0.90%	0.93%

- (1) Profit attributable to ordinary shareholders before exceptional items expressed as a percentage of the average of opening and closing equity shareholders' funds.
- (2) Net interest income expressed as a percentage of average balances of interest earning assets (excluding trading assets) for 2002 and 2001. The net interest margin in 2000 includes trading assets.
- (3) Underlying operating expenses excluding exceptional items, goodwill amortisation and operating lease depreciation divided by underlying operating income after deducting operating lease depreciation, amounts written off fixed asset investments and general insurance claims.
- (4) Tier 1 and Total Capital expressed as a percentage of risk weighted assets, including off-balance sheet items calculated in accordance with the Basel Guidelines.

**Management*****Board of Directors of HBOS***

<b>Name</b>	<b>Position in HBOS</b>	<b>Principal outside activities (if any) of significance to HBOS</b>
Lord Stevenson of Coddenham	Chairman - Non-executive Director	Pearson plc
Sir Ronald Garrick	Deputy Chairman - Non-executive Director	—
James Crosby	Chief Executive	—
Mike Ellis	Group Finance Director	—
Philip Hodgkinson	Chief Executive - Insurance & Investment Division	—
Andrew Hornby	Chief Executive - Retail Banking Division	—
Gordon McQueen	Chief Executive - Treasury Services Division	—
Colin Matthew	Chief Executive - Business Banking Division	—
George Mitchell	Chief Executive - Corporate Banking Division	—
Charles Dunstone	Non-executive Director	Carphone Warehouse Group plc
Anthony Hobson	Non-executive Director	—
Brian Ivory	Non-executive Director	—
John Maclean	Non-executive Director	—
Coline McConville	Non-executive Director	Clear Channel International Limited
Sir Bob Reid	Non-executive Director	—
Louis Sherwood	Non-executive Director	—
Philip Yea	Non-executive Director	Investcorp International Limited

*The business address for the Board is The Mound, Edinburgh EH1 1YZ*



***Board of Directors of Bank of Scotland***

<b>Name</b>	<b>Position in Bank of Scotland</b>	<b>Principal outside activities (if any) of significance to Bank of Scotland</b>
George Mitchell	Governor, Treasurer	Chief Executive - Corporate Banking Division, HBOS
Sir Bob Reid	Deputy Governor	Non-executive Director of HBOS
James Crosby	Executive Director	Chief Executive of HBOS
Mike Ellis	Executive Director	Group Finance Director of HBOS
Philip Hodgkinson	Executive Director	Chief Executive - Insurance & Investment Division, HBOS
Andrew Hornby	Executive Director	Chief Executive - Retail Banking Division, HBOS
Gordon McQueen	Executive Director	Chief Executive - Treasury Services Division, HBOS
Colin Matthew	Executive Director	Chief Executive - Business Banking Division, HBOS
Charles Dunstone	Non-executive Director	Non-executive Director of HBOS
Sir Ronald Garrick	Non-executive Director	Deputy Chairman - Non-executive Director of HBOS
Anthony Hobson	Non-executive Director	Non-executive Director of HBOS
Brian Ivory	Non-executive Director	Non-executive Director of HBOS
Coline McConville	Non-executive Director	Non-executive Director of HBOS
John Maclean	Non-executive Director	Non-executive Director of HBOS
Louis Sherwood	Non-executive Director	Non-executive Director of HBOS
Lord Stevenson of Coddendam	Non-executive Director	Chairman and Non-executive Director of HBOS
Philip Yea	Non-executive Director	Non-executive Director of HBOS

*The business address for the Board is The Mound, Edinburgh EH1 1YZ.*

***Board of Directors of the Issuer***

<b>Name</b>	<b>Position in Treasury Services</b>	<b>Principal outside activities (if any) of significance to Treasury Services</b>
Gordon McQueen	Chairman and Chief Executive	Chief Executive - Treasury Services Division, HBOS
Sir Bob Reid	Non-executive Director	Non-executive Director of HBOS
John Anderson	Executive Director and Head of Operations	—
Stephen Krag	Executive Director and Head of Finance	—
Lindsay Mackay	Executive Director and Head of Treasury	—
David Smith	Executive Director and Head of Technology	—
Anthony Hobson	Non-executive Director	Non-executive Director of HBOS
George Mitchell	Non-executive Director	Chief Executive - Corporate Banking Division, HBOS

*The business address for the Board is 33 Old Broad Street, London EC2N 1HZ.*

***Board of Directors of Halifax***

<b>Name</b>	<b>Position in Halifax</b>	<b>Principal outside activities (if any) of significance to Halifax</b>
Lord Stephenson of Coddendam	Chairman	Pearson plc
Sir Ronald Garrick	Deputy Chairman	—
James Crosby	Executive Director	—
Mike Ellis	Executive Director	—
Phil Hodgkinson	Executive Director	—
Andrew Hornby	Executive Director	—
Gordon McQueen	Executive Director	—
Colin Matthew	Executive Director	—
George Mitchell	Executive Director	—
Charles Dunstone	Non-Executive Director	Carphone Warehouse Group plc
Anthony Hobson	Non-Executive Director	—
Brian Ivory	Non-Executive Director	—
Coline McConville	Non-Executive Director	Clear Channel International Limited
John Maclean	Non-Executive Director	—
Sir Bob Reid	Non-Executive Director	—
Louis Sherwood	Non-Executive Director	—
Philip Yea	Non-Executive Director	Investcorp International limited

*The business address for the Board is Trinity Road, Halifax, West Yorkshire, HX1 2RG*

## CAPITALISATION AND INDEBTEDNESS

The following table and notes thereto show the capitalisation and indebtedness of the HBOS Group as at the date set forth below and have been extracted without material adjustment from the HBOS Group's Annual Report and Accounts for the year ended 31st December, 2002.

	As at 31st December, 2002
	(£ millions)
<b>Authorised capital</b>	
9 <sup>1</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Shares (of £1 each) .....	375
9 <sup>3</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Shares (of £1 each) .....	125
6.125% Non-Cumulative Redeemable Preference Shares (of £1 each) .....	200
Sterling Preference Shares (of £1 each) .....	1,000
8.117% Non-Cumulative Perpetual Preference Shares Class A (of £10 each) .....	3
7.754% Non-Cumulative Perpetual Preference Shares Class B (of £10 each) .....	1
Ordinary Shares (of 25p each) .....	1,185
	<hr/> 2,889 <hr/>
	As at 31st December, 2002
	(€ millions)
Euro Preference Shares .....	1,500
	<hr/> 1,500 <hr/>

	<b>As at 31st December, 2002</b>
	<b>(£ millions)</b>
<b>Issued capital</b>	
9 <sup>1</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Shares (of £1 each, fully paid) .....	300
9 <sup>3</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Shares (of £1 each, fully paid) .....	100
Ordinary Shares (of 25p each, fully paid) .....	946
Reserves .....	12,423
Shareholders' Funds (including non-equity interests) .....	13,769
Minority Interests - Equity .....	436
Minority and Other Interests - Non Equity(1) .....	1,703
	2,139
<b>Subordinated loan capital(2)</b>	
Undated(3) .....	3,437
Dated(4) .....	5,690
<b>Total Capital Resources</b> .....	25,035
<b>Other borrowings(5)</b>	
Deposits by banks .....	45,637
Customer accounts .....	150,221
Debt securities in issue .....	80,771
Total Indebtedness .....	276,629
<b>Total Capitalisation and Indebtedness(6)</b> .....	301,664

(1) Minority and Other Interests - Non Equity was comprised as follows:

	<b>As at 31st December, 2002</b>
	<b>(£ millions)</b>
£600 million Preferred Securities* .....	600
£250 million Preferred Securities** .....	250
£150 million Preferred Securities** .....	150
£245 million Preferred Securities* .....	245
€415 million Preferred Securities* .....	270
£198 million non-cumulative preference shares .....	198
Unamortised Issue Costs .....	(10)
	1,703

\* HBOS provides a subordinated guarantee in respect of each of the issues of £245,000,000 7.881% Guaranteed Non-voting, Non-cumulative, Preferred Securities issued by HBOS Sterling Finance (Jersey) L.P., €415,000,000 Fixed to Floating Guaranteed Non-voting, Non-cumulative, Preferred Securities issued by HBOS Euro Finance (Jersey) L.P. and the issue of £600,000,000 6.461% Guaranteed Non-voting Non-cumulative Preferred Securities issued by HBOS Capital Funding L.P.

\*\* Bank of Scotland has provided a subordinated guarantee in respect of each of the issues of £250,000,000 8.117% Non-cumulative Perpetual Preferred Securities Class A and £150,000,000 7.754% Non-cumulative Perpetual Preferred Securities Class B by Bank of Scotland Capital Funding L.P. All other non-equity minority interests are unguaranteed.

(2) All loan capital issued by the HBOS Group, as detailed in the tables below, has been issued on an unsecured basis. Unless otherwise stated, issues of loan capital are unguaranteed.

(3) The Subordinated Undated Loan Capital was comprised as follows:

	<b>As at 31st December, 2002</b>
	<b>(£ millions)</b>
€500 million Fixed to Floating Rate Undated Subordinated Notes .....	325
£150 million 7.286% Series A Perpetual Regulatory tier One Securities .....	150
£150 million 7.281% Series B Perpetual Regulatory tier One Securities.....	150
£300 million 7.5% Undated Subordinated Step-Up Notes .....	300
JPY 42.5 billion 3.50% Undated Subordinated Yen Step-Up Notes .....	222
US\$300 million Reset Notes .....	186
£200 million Perpetual Notes .....	200
£200 million 7.375% Undated Subordinated Guaranteed Bonds* .....	200
€300 million Floating Rate Undated Subordinated Step-Up Notes.....	195
US\$250 million Floating Rate Primary Capital Notes .....	155
£150 million Instruments .....	150
£150 million Instruments .....	150
JPY 17 billion Instruments .....	99
£100 million Instruments .....	100
£100 million 12% Perpetual Subordinated Bonds .....	100
£100 million 8.75% Perpetual Subordinated Bonds .....	100
£75 million 13.625% Perpetual Subordinated Bonds .....	75
JPY 9 billion Instruments .....	47
£50 million 9.375% Perpetual Subordinated Bonds .....	50
£500 million 5.75% Undated Subordinated Step-up Notes .....	500
Unamortised Premiums, Discounts and Issue Costs .....	(17)
	<u>3,437</u>

\* Clerical Medical Investment Group (Holdings) Limited (**CMIG**) (a wholly owned subsidiary of HBOS) has provided a subordinated guarantee to Clerical Medical Finance plc (**CMF**) (a wholly owned subsidiary of CMIG) in relation to the issue by CMF of £200 million 7.375% Undated Subordinated Guaranteed Bonds.

(4) The Subordinated Dated Loan Capital was comprised as follows:

	<b>As at 31st December, 2002</b>
	<b>(£ millions)</b>
US\$300 million 8.80% Notes 2004*	186
£400 million 8.75% Subordinated Notes 2006	400
US\$150 million 8.85% Notes 2006*	93
£75 million 9.125% Subordinated Notes 2006	75
£60 million 9.00% Instruments 2006	60
€650 million 4.75% Subordinated Bonds 2009	423
US\$500 million Floating Rate Subordinated Step-up Callable Notes 2009	310
€500 million 5.50% Instruments 2009	325
£75 million Floating Rate Subordinated Notes 2009	75
US\$500 million Notes 2010*	310
£75 million Floating Rate Instruments 2010	75
US\$150 million Notes 2011*	93
€7 million Floating Rate Notes 2011	5
€750 million Subordinated Fixed Rate Notes 2012	488
US\$450 million Subordinated Floating Rate Notes 2012	279
£200 million Floating Rate Step-up Callable Subordinated Notes 2012	200
€12.8 million 6.25% Instruments 2012	8
A\$75 million Callable Notes 2012	26
€1,000 million Subordinated Callable Fixed/Floating Rate Instruments 2013	651
€325 million 6.125% Notes 2013	212
£250 million 11% Subordinated Bonds 2014	250
£150 million 10.5% Subordinated Bonds 2018	150
£250 million 6.375% Instruments 2019	250
£500 million 9.375% Subordinated Bonds 2021	500
€400 million 6.45% Fixed/Floating Subordinated Guaranteed Bonds 2023**	261
Unamortised premiums, discounts and issue costs	(15)
	<b>5,690</b>

\* These notes, the proceeds of which are on-lent to Bank of Scotland, are liabilities of wholly-owned subsidiaries of Bank of Scotland and are guaranteed unconditionally by Bank of Scotland on a subordinated basis.

\*\* CMIG has provided a subordinated guarantee to CMF in relation to the issue by CMF of 6.45% Fixed/Floating Subordinated Guaranteed Bonds 2023.

(5) As indicated in the table on page 79, as at 31st December, 2002, the HBOS Group had other borrowings of £276,629 million (including deposits by banks of £45,637 million, customer accounts of £150,221 million and debt securities in issue of £80,771 million). Save for £303 million of the HBOS Group's debt securities in issue which are unguaranteed but secured on advances to customers and certain other assets of the HBOS Group and £9,286 million of the HBOS Group's debt securities in issue which are unguaranteed but secured on asset backed securities of the HBOS Group, none of the other borrowings listed are secured or guaranteed. As at 31st December, 2002, the HBOS Group had contingent liabilities (including guarantees) of £2,829 million. No account has been taken of intra-HBOS Group guarantees.

(6) Since 31st December, 2002 there have been no material changes in the HBOS Group's capitalisation, indebtedness, contingent liabilities or guarantees save for the issue by HBOS of €1,000,000,000 4.875% Subordinated Notes due 2015 on 20th March, 2003, U.S.\$1,000,000,000 6.85% Undated Subordinated Notes on 21st March, 2003, £600,000,000 5.75% Undated Subordinated Step-up Notes on 10th April, 2003, ¥60,000,000,000 0.55% Subordinated Callable Notes due 2013 on 30th June, 2003 and the issue by Scotland International Finance No. 2 B.V., guaranteed on a subordinated basis jointly and severally by HBOS and Bank of Scotland of US\$1,000,000,000 4.25% Subordinated Guaranteed Notes due 2013 on 23rd May, 2003 and the provision by HBOS of a subordinated guarantee in respect of the issue of U.S.\$1,000,000,000 6.85% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities by HBOS Capital Funding No. 1 L.P. on 21st March, 2003.

The following table and notes thereto show the capitalisation and indebtedness of the Bank of Scotland Group as at the date set forth below and have been extracted without material adjustment from the Bank of Scotland Group's Annual Report and Accounts for the year ended 31st December, 2002.

	As at 31st December, 2002
	(£ millions)
<b>Authorised capital</b>	
9 <sup>1</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Stock (of £1 each) .....	375
9 <sup>3</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Stock (of £1 each) .....	125
8.117% Non-Cumulative Preference Stock Class A .....	3
7.754% Non-Cumulative Preference Stock Class B .....	1
Ordinary stock (units of 25p each) .....	446
	<u>950</u>
	<u>As at 31st December, 2002</u>
	(£ millions)
<b>Issued capital</b>	
9 <sup>1</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Stock (of £1 each, fully paid) .....	300
9 <sup>3</sup> / <sub>4</sub> % Non-Cumulative Irredeemable Preference Stock (of £1 each, fully paid) .....	100
Ordinary stock (units of 25p each, fully paid) .....	367
Reserves .....	5,186
	<u>5,953</u>
Proprietors' funds (including non-equity interests) .....	5,953
Minority interests (equity) .....	202
Minority and other interests (non-equity) .....	400
	<u>602</u>
<b>Subordinated loan capital</b>	
Undated(1) .....	1,709
Dated(2) .....	3,046
	<u>11,310</u>
<b>Total Capital Resources</b> .....	<u>11,310</u>
<b>Other Borrowings</b>	
Deposits by banks .....	50,105
Customer accounts .....	57,712
Debt securities in issue .....	76,908
	<u>184,725</u>
<b>Total Indebtedness</b> .....	<u>184,725</u>
<b>Total Capitalisation and Indebtedness</b> .....	<u>196,035</u>



**As at 31st  
December,  
2002**

**(£ millions)**

(1) The Subordinated Undated Loan Capital was comprised as follows:

US\$250 million Floating Rate Primary Capital Notes .....	155
£200 million Perpetual Notes .....	200
£100 million Perpetual Instruments .....	100
JPY 17 billion Perpetual Instruments .....	99
JPY 9 billion Perpetual Instruments .....	47
£150 million Perpetual Instruments .....	150
£150 million Perpetual Instruments .....	150
US\$300 million Reset Subordinated Notes.....	186
£300 million Perpetual Regulatory tier One Securities .....	297
€500 million Instruments .....	325
	1,709

The undated loan capital has no final date of maturity. All or some of the Capital Notes may be redeemed at the option of Bank of Scotland at par on any interest payment date. The £200 million Perpetual Notes may, at the option of Bank of Scotland on 4th November, 2013, be redeemed at par or exchanged for New Notes.

The New Notes (and any further New Notes issued) may be similarly redeemed or exchanged for further New Notes at the option of Bank of Scotland on the fifth anniversary of their respective date(s) of issue. **New Notes** as used herein shall mean further notes the terms of which shall be identical to those of the existing Notes save that the rate of interest payable on the New Notes shall be greater than the rate of interest payable on the existing Notes.

The Instruments detailed under the heading “Subordinated Undated Loan Capital” above may, at the option of Bank of Scotland or relevant subsidiary undertaking on giving 30 days notice, be redeemed at par or exchanged for new instruments on 10th August, 2015 (£100 million); 9th February, 2016 (JPY 17 billion); 30th May, 2016 (JPY 9 billion); 30th October, 2006 (£150 million) and 10th February, 2023 (£150 million). The new instruments (and any further new instruments issued) may be similarly redeemed or exchanged for further new instruments at the option of Bank of Scotland on the fifth anniversary of their respective date(s) of issue. The JPY 17 billion Instruments have been converted into an obligation of US\$160 million, bearing interest at US\$ LIBOR plus 1.01% by means of swap arrangements.

The Reset Subordinated Notes may be redeemed at the option of Bank of Scotland at par on 20th November, 2007, at which time the interest rate becomes US\$ LIBOR plus 1.625%, or on any interest payment date thereafter.

On 28th February, 2001, £300 million Perpetual Regulatory tier One Securities were issued by Bank of Scotland (£297 million net of expenses). These qualify as Tier 1 regulatory capital. A £150 million Series A Issue has a fixed coupon of 7.286% to 2016 and a Series B Issue of £150 million has a fixed coupon of 7.281% to 2026. Thereafter, if not redeemed on their respective dates, for each Issue the coupon will be reset and will be further reset at five yearly intervals. There is an option to settle the coupon payment through the issue of ordinary stocks. Coupon payments may be deferred but Bank of Scotland may not declare or pay dividends on any of its ordinary stocks whilst any coupon payments are deferred. UITF 33 was implemented during 2002 which required these securities to be reclassified from minority and other interests (non-equity) to undated loan capital. Comparative amounts have been restated.

On 10th June, 2002, €500 million Instruments were issued by Bank of Scotland, at par, to its parent undertaking HBOS plc. The Instruments bear interest at the three month EURIBOR rate plus 1.28% per annum.

**As at 31st  
December,  
2002**

**(£ millions)**

(2) The Subordinated Dated Loan Capital was comprised as follows

US\$300 million 8.80% Notes 2004*	186
£60 million 9.00% Instruments 2006	60
US\$150 million 8.85% Notes 2006*	93
£75 million Floating Rate Instruments 2010	75
US\$150 million Notes 2011*	92
€500 million 5.50% Instruments 2009	325
£250 million 6.375% Instruments 2019	245
US\$500 million Notes 2010*	309
€325 million 6.125% Notes 2013	209
€12.8 million 6.25% Instruments 2012	8
€7 million Floating Rate Notes 2011	5
€1,000 million Subordinated Callable Fixed/Floating Rate Instruments 2013	649
€750 million 5.5% Notes 2012	487
US\$450 million Subordinated Floating Rate Notes 2012	277
A\$75 million Callable Notes 2012	26
	3,046

\* These are liabilities of Scotland International Finance No. 2 B.V., a wholly owned subsidiary undertaking of Bank of Scotland, and are guaranteed unconditionally by Bank of Scotland on a subordinated basis.

The €1,000 million Instruments bear interest at a fixed rate of 5.125% until 5th December, 2008 at which time the interest rate becomes three-month LIBOR plus 1.00% until maturity. These Instruments may, at the option of Bank of Scotland, be redeemed at par on 5th December, 2008, or on any interest payment date thereafter.

On 29th October, 2002 Bank of Scotland issued €600 million Subordinated Fixed Rate Notes 2012 at an issue price of 99.812% of the principal amount. The Notes bear interest at a fixed rate of 5.5% per annum. On 25th November, 2002 Bank of Scotland issued a further €150 million at an issue price of 101.611% of the principal amount plus €610,274 representing 27 days accrued interest for the period from and including 29th October, 2002.

On 22nd November, 2002 Bank of Scotland issued US\$450 million Subordinated Floating Rate Notes 2012 at an issue price of 99.665% of the principal amount. The Notes bear interest at three-month US\$-LIBOR-BBA plus 0.50% per annum until 22nd November, 2007 at which time the interest rate becomes three-month US\$-LIBOR-BBA plus 1.00% per annum.

On 10th December, 2002 a subsidiary of Bank of Scotland issued A\$75 million Callable Notes 2012. The Notes bear interest at the three-month Australian bank bill rate plus 0.75% per annum. The issuer has the option to redeem the Notes at par after 10th December, 2007.

As indicated in the table on page 82, as at 31st December, 2002, the Bank of Scotland Group had other borrowings of £184,725 million (including deposits by banks of £50,105 million, customer accounts of £57,712 million and debt securities in issue of £76,908 million). Save for £303 million of the Bank of Scotland Group's debt securities in issue which are unguaranteed but secured on advances to customers and certain other assets of the Bank of Scotland Group, none of the other borrowings listed in this paragraph are secured or guaranteed. As at 31st December, 2002, the Bank of Scotland Group had contingent liabilities (including guarantees) of £2,926 million. No account has been taken of intra-HBOS Group guarantees.

All loan capital issued by the Bank of Scotland Group, as detailed in the tables above, has been issued on an unsecured basis. Unless otherwise stated, issues of the loan capital are unguaranteed. Unless otherwise stated, no account has been taken of intra-HBOS Group guarantees.

Since 31st December, 2002 there have been no material changes in the Bank of Scotland Group's capitalisation, indebtedness, contingent liabilities or guarantees, save that on 30th April, 2003, the Bank of Scotland issued 53,846,000 ordinary stock units of 25p each for a consideration of £350,000,000 and save

for the issue by Scotland International Finance No. 2 B.V. on 23rd May, 2003 of US\$1,000,000,000 4.25 per cent. Subordinated Guaranteed Notes due 2013.

The following table and notes thereto show the capitalisation and indebtedness of the Issuer as at the date set forth below and have been extracted without material adjustment from the Issuer's Annual Report and Accounts for the year ended 31st December, 2002. For the purposes of this extract from the Issuer's Annual Report and Accounts, "Treasury Services" means the Issuer.

	As at 31st December, 2002
	(£ millions)
<b>Authorised capital</b>	
Ordinary shares (of 25p each) .....	1,000
	<hr/>
	As at 31st December, 2002
	(£ millions)
<b>Issued capital</b>	
Ordinary shares (of 25p each, fully paid) .....	660
Profit and loss account .....	111
	<hr/>
	771
<b>Subordinated loan capital</b>	
Undated(1) .....	357
Dated(2).....	397
	<hr/>
<b>Total Capital Resources</b> .....	1,525
	<hr/>
<b>Other borrowings</b>	
Deposits by banks .....	60,820
Customer accounts.....	17,339
Debt securities in issue .....	67,243
	<hr/>
<b>Total Indebtedness</b> .....	145,402
	<hr/>
<b>Total Capitalisation and Indebtedness</b> .....	146,927
	<hr/>

The Subordinated Loan Capital was comprised as follows:

	As at 31st December, 2002
	(£ millions)
(1) Undated Subordinated Loan Capital	
Undated Subordinated Loan Capital .....	357
	<hr/>
(2) Dated Subordinated Loan Capital	
Dated Subordinated Loan Capital 2006 .....	25
Dated Subordinated Loan Capital 2009 .....	42
Dated Subordinated Loan Capital 2011 .....	30
Dated Subordinated Loan Capital 2012 .....	300
	<hr/>
	397
	<hr/>

The dated and undated subordinated loan capital, all of which is Sterling denominated, bears interest at a LIBOR related rate. The subordinated loan capital is held by Bank of Scotland. The undated subordinated loan capital has no final date of maturity.

The dated and undated subordinated loan capital is not secured and is not guaranteed. No account has been taken of intra-HBOS Group guarantees.

As indicated in the table above, as at 31st December, 2002, Treasury Services had other borrowings of £145,402 million (including deposits by banks of £60,820 million, customer accounts of £17,339 million and debt securities in issue of £67,243 million). None of the other borrowings listed in this paragraph are secured or guaranteed. As at 31st December, 2002, Treasury Services had no contingent liabilities (including guarantees). No account has been taken of intra-HBOS Group guarantees.

Treasury Services has unconditionally guaranteed due payment of all Bank of Scotland's lawfully incurred present and future indebtedness and other obligations. Payments under the guarantee by Treasury Services in respect of Bank of Scotland's subordinated obligations are subordinated until after the lawful claims of all Treasury Services' ordinary or unsubordinated creditors have been satisfied in full.

Treasury Services' total capital resources are owned by Bank of Scotland and Bank of Scotland has unconditionally and irrevocably guaranteed due payment of all lawfully incurred present and future indebtedness and other obligations of Treasury Services.

Since 31st December, 2002 there have been no material changes in Treasury Services' capitalisation, indebtedness, contingent liabilities or guarantees.

## SUMMARY OF THE PRINCIPAL DOCUMENTS

### Trust Deed

The Trust Deed made between the Issuer, the Guarantors and 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 Guarantors;
- the terms of the Group Guarantee and the Covered Bond Guarantee (as described below);
- the enforcement procedures relating to the Covered Bonds and the Guarantees; 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.

### Group Guarantee

Under the terms of the Group 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, the Group Guarantors have agreed, on a joint and several basis, to pay or procure to be paid upon demand the amount in respect of which such default has been made.

Each of the Group Guarantors agrees that its obligations under the Group Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce 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.

Under the Trust Deed, the Group Guarantee may be withdrawn if the Issuer becomes a rated entity and the long-term unsecured, unguaranteed and unsubordinated debt obligations of the Issuer are rated by the Rating Agencies at least equal to the then highest ratings of the Group Guarantors (such ratings, the **Requisite Ratings**) or a further guarantee is provided by another member of the HBOS Group which is on terms substantially similar to the Group Guarantee and the long term unsecured, unguaranteed and unsubordinated debt obligations of such member providing such further guarantee are rated by the Rating Agencies at least equal to the Requisite Ratings.

In addition, one Group Guarantor may withdraw its Group Guarantee if the remaining Group Guarantor or the Issuer or any member of the HBOS Group who provides a replacement Group Guarantee as described in the previous paragraph has the Requisite Ratings.

Subject as provided above or in the Transaction Documents, the Group Guarantee will remain in force in relation to each Series of Covered Bonds until all moneys payable by the Issuer under or pursuant to the Trust Deed and the Covered Bonds of the relevant Series have been paid.

The Trust Deed also provides that all moneys received by the Bond Trustee from the Issuer or either of the Group Guarantors following the occurrence of an HBOS Event of Default and service of an HBOS Acceleration Notice and Notice to Pay, including any moneys recovered in the liquidation, administration, winding-up or sequestration of the Issuer or either Group Guarantor (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other money from time to time standing to the credit of the GIC Account in accordance with the Guarantee Priority of Payments. Any Excess Proceeds received by the Bond Trustee shall discharge the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons and the obligations of the Group Guarantors under the Group Guarantee. However, the obligations of the LLP under the Covered Bond Guarantee are 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 directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

### ***Covered Bond Guarantee***

Under the terms of the Covered Bond Guarantee, if the Issuer and Group Guarantors default 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 HBOS Event of Default occurs (other than by reason of non-payment), the LLP has agreed (subject as described below) on a several basis (as between the Group Guarantors on the one hand and the LLP on the other) to pay or procure to be paid 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 Scheduled Payment Date, by the Issuer or the Group Guarantors.

Following the occurrence of an HBOS Event of Default and after the Covered Bonds have been declared due and payable by the Bond Trustee as against the Issuer and the Group Guarantors, the Bond Trustee will serve a notice to pay (the **Notice to Pay**) on the LLP. 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 London Business Days following service of a Notice to Pay on the LLP or (b) the day on which the Guaranteed Amounts are otherwise Due for Payment.

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

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, 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, Receipholders 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.

Failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default save where such failure arises as a result of a technical default or error and the Bond Trustee is satisfied that the LLP has moneys available to make payment and payment is made within three London Business Days of the Scheduled Payment Date.

For the purposes hereof:

**Due for Payment** means, in relation to any Guaranteed Amount payable by the LLP, the date on which the Scheduled Payment Date in respect of such Guaranteed Amount is reached, or, if later, the day which is two London Business Days following service of a Notice to Pay on the LLP (or, if, in either case, such day is not a London Business Day, the next following London Business Day). For the avoidance of doubt, **Due for Payment** does not refer to any earlier date upon which payment of any Guaranteed Amount may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise.

**Guaranteed Amounts** means, with respect to any Scheduled Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on each Scheduled Payment Date.

**London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**Scheduled Interest** means any amount in respect of scheduled interest payable under the Covered Bonds on each Interest Payment Date as specified in Condition 4 (*Interest*) falling on or after service of a Notice to Pay on the LLP (excluding any additional amounts relating to premiums, default interest or interest upon interest payable by the Issuer and/or the Group Guarantors following an HBOS Event of Default but including such amounts following an LLP Event of Default) less any additional amounts the Issuer or a Group Guarantor would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 (*Taxation*).

**Scheduled Payment Date** means each Interest Payment Date or Final Maturity Date (as applicable) on which Scheduled Interest or Scheduled Principal is due and payable.

**Scheduled Principal** means any amount in respect of scheduled principal payable under the Covered Bonds on each Final Maturity Date or Interest Payment Date (as the case may be) as specified in Condition 6(a) (*Redemption at Maturity*) and Condition 6(e) (*Instalments*) falling on or after service of a Notice to Pay on the LLP (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest payable by the Issuer and/or the Group Guarantors following an HBOS Event of Default but including such amounts (if any) together with the Early Redemption Amount and any interest accrued on the Guaranteed Amounts in accordance with Clause 2.2 of the Trust Deed following an LLP Event of Default).

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 an amount equal to the Sterling Equivalent of the gross proceeds of the issue of the Covered Bonds to the LLP by way of a term advance (each such term advance, a **Term Advance**) pursuant to a term loan agreement dated the Programme Date between the Issuer, the LLP and the Security Trustee (the **Intercompany Loan Agreement**). Each Term Advance will be used by the LLP (i) as consideration in part for the acquisition of Loans and their Related Security from a Seller or Sellers pursuant to the terms of the Mortgage Sale Agreement, as described under - *Mortgage Sale Agreement - Sale by Sellers of Loans and their Related Security* and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or (iii) 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 and/or (iv) to make a deposit in the GIC Account. Each Term Advance will bear interest at a rate of interest equal to LIBOR for one-month Sterling deposits.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. Following payment in full of all amounts outstanding under a Series of Covered Bonds, the LLP will repay the corresponding Term Advances(s) in accordance with the relevant Priorities of Payments. Interest on each Term Advance will be paid by the LLP over the term of that Term Advance. However, the Issuer will not be relying on payment of such interest in order to meet its interest obligations under the Covered Bonds.

The amounts owed by the LLP to the Issuer under the Intercompany Loan Agreement will be reduced by the Sterling Equivalent of any amounts paid by the LLP under the terms of the Covered Bond Guarantee.

The Intercompany Loan Agreement is governed by English law.

### **Mortgage Sale Agreement**

#### ***Original Seller and New Sellers***

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of a mortgage sale agreement entered into on the Programme Date between Halifax (in its capacity as seller, the **Original Seller**), the LLP and the Security Trustee (the **Mortgage Sale Agreement**). In addition, any other member of the HBOS Group that wishes to sell Loans and their Related Security (each a **New Seller** and, together with the Original Seller, the **Sellers**) to the LLP will accede to, *inter alia*, the Mortgage Sale Agreement. The sale of New 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 Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Original Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;
- each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Original 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 the Programme Agreement and enters into such other documents as may be required by the Security Trustee and/or the LLP (acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;
- any Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the Mortgage Sale Agreement;

- the Security Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and
- the Security Trustee is satisfied that the accession of a New Seller to the Programme is not materially prejudicial to Covered Bondholders.

If the above conditions are met, the consent of Covered Bondholders will not be obtained to the accession of a New Seller to the Programme.

For the purposes hereof:

**Arrears of Interest** means, in respect of a Loan on a given date, interest and expenses which are due and payable and unpaid on that date and which are not Capitalised Arrears or Capitalised Expenses.

**Borrower** means, in relation to a Loan, the individual or individuals specified as such in the relevant mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it.

**Capitalised Arrears** means, in relation to a Loan at any date (the **determination date**), the amount (if any) at such date of any interest and expenses which are due and payable and unpaid on or before that date in respect of which, at the determination date, each of the following conditions have been satisfied:

- a Seller has, by arrangement with the relevant Borrower, agreed to capitalise such amounts; and
- such amounts have been capitalised and added, in the accounts of a Seller (or, if the determination date occurs after the First Transfer Date, the LLP), to the aggregate Principal Amount Outstanding in respect of such Loan.

**Capitalised Expenses** means, in relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added to the aggregate Outstanding Principal Balance in respect of such Loan in accordance with the relevant Mortgage Terms (including, for the avoidance of doubt, any High Loan-to-Value Fee (as defined in the Master Definitions and Construction Agreement)).

**Current Balance** means in relation to a Loan at any given date, the aggregate (without double counting) of the Outstanding Principal Balance, Accrued Interest and Arrears of Interest relating to that Loan as at that date.

**Deferred Consideration** means the consideration payable to the Sellers 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 Priorities of Payments.

**English Loans** means Loans secured by a mortgage over a property located in England and Wales.

**First Transfer Date** means the date on which the Initial Portfolio is transferred to the LLP pursuant to the Mortgage Sale Agreement.

**Loan** means each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including all Additional Loan Advances) due or owing with respect to that loan under the relevant Mortgage Terms 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.

**Mortgages** means a first fixed charge by way of legal mortgage (in relation to English Loans) and first ranking standard securities (in relation to Scottish Loans), sold by the relevant Seller to the LLP pursuant to the Mortgage Sale Agreement, which secure the repayment of the relevant Loan.

**Mortgage Conditions** means the terms and conditions applicable to a Loan as contained in the relevant Seller's mortgage Standard Documentation provided to Borrowers from time to time.

**Related Security** means, 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.

**Scottish Loans** means Loans secured by a standard security over a property located in Scotland.

**Transfer Date** means the First Transfer Date and the date of transfer of any New Portfolio to the LLP in accordance with the Mortgage Sale Agreement.

#### ***Sale by Sellers of Loans and Related Security***

The Portfolio will consist of Loans and their Related Security sold from time to time by Sellers to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming part of the Portfolio will vary over time provided that, at the time the relevant Loans are sold to the LLP, the



Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Transfer Date. Accordingly, the Portfolio may, at any time, include Loans originated or purchased by different Sellers, Loans with characteristics that were not being offered to borrowers on previous Transfer Dates or Loans that have not yet been developed, such as Flexible Loans.

Prior to the occurrence of an HBOS Event of Default, the LLP will acquire Loans and their Related Security from the Sellers in 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 Sellers. In exchange for the sale of the Loans and their Related Security to the LLP, the relevant Seller will receive an amount equal to the Current Balance of those Loans sold by it as at the Transfer Date, which will be satisfied by a combination of:
  - (i) a cash payment to be made by the LLP from the proceeds of the relevant Term Advance and/or from Available Principal Receipts; and/or
  - (ii) the Seller being treated as having made a Capital Contribution in an amount equal to the difference between the Current Balance of the Loans sold by the relevant Seller as at the relevant Transfer Date and the cash payment (if any) made by the LLP; and
  - (iii) Deferred Consideration.
- (b) Secondly, the LLP will use the Available Principal Receipts that are specifically attributable to Loans and their Related Security sold by a specific Seller to acquire New Loans and their Related Security from that Seller or any other Seller nominated by that Seller and/or Substitution Assets (in respect of any Substitution Assets up to the prescribed limit) on each LLP Payment Date.
- (c) Thirdly, the LLP and the Sellers 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 Sellers will use all reasonable efforts to offer to sell sufficient New Loans and their Related Security to the LLP on or before the next Calculation Date in consideration of the relevant Sellers being treated as having made a Capital Contribution (in an amount equal to the Current Balance of the New Loans) sold by the relevant Seller as at the relevant Transfer Date and in consideration of the right to receive the Deferred Consideration.

If Selected Loans and their Related Security are sold by or on behalf of the LLP as described below under *LLP Deed - Requirement to sell Selected Loans following service of a Notice to Pay*, the obligations of the Sellers insofar as they relate to those Selected Loans and their Related Security will cease to apply.

Sellers will also be required to repurchase Loans and their Related Security sold to the LLP in the circumstances described below under - *Repurchase of Loans*.

**Initial Advance** means, in respect of any Loan, the original principal amount advanced by the relevant Seller to the relevant Borrower.

**New Loans** means Loans, other than the Loans comprised in the Initial Portfolio, which a Seller may assign or transfer to the LLP after the First Transfer Date pursuant to the Mortgage Sale Agreement.

**New Portfolio Notice** means a notice in the form set out in the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement.

**Outstanding Principal Balance** in relation to a Loan at any date (the **determination date**), means the aggregate principal balance of the Loan at such date (but avoiding double counting) including:

- (a) the Initial Advance;
- (b) Capitalised Expenses;
- (c) Capitalised Arrears; and
- (d) any increase in the principal amount due under that Loan due to any form of Additional Loan Advance,

in each case relating to such Loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date.

### ***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 Transfer Date or in respect of Additional Loan Advances, on the next Calculation Date, including:

- (a) no HBOS Event of Default or LLP Event of Default under the Transaction Documents shall have occurred which is continuing;
- (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 purchase of the Loans and their Related Security, would adversely affect the then current ratings by Moody's, S&P or Fitch of the Covered Bonds;
- (c) the yield on the Loans in the Portfolio (including the New Loans) is at least 0.15 per cent. greater than LIBOR for one month Sterling deposits after taking into account (i) the average yield on the Loans which are Variable Rate Loans, Tracker Rate Loans and Fixed Rate Loans and other Loans for which hedging is required under the Interest Rate Swaps and (ii) the margins on the Interest Rate Swaps and (iii) the average yield on any Substitution Assets held by the LLP;
- (d) no Loan has a Current Balance of more than £1,000,000; and
- (e) no Loan constitutes a New Loan Type, in respect of which no confirmation has been received, in accordance with the terms of the Mortgage Sale Agreement, that such Loan may be sold to the LLP.

On the relevant Transfer Date, the Representations and Warranties (described below in - *Representations and Warranties*) will be given by the relevant Seller in respect of the Loans and their Related Security sold by that Seller to the LLP.

If a Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or any Additional Loan Advance, then if the Eligibility Criteria referred to in paragraphs (c), (d) and (e) above relating to the Loan subject to that Product Switch or Additional Loan Advance is not satisfied on the next following Calculation Date, the LLP will be entitled to rectify the relevant breach of those Eligibility Criteria by (in the event of a breach of the Eligibility Criteria in paragraphs (c), (d) and (e) above) requiring the relevant Seller to repurchase the Loans subject to any Product Switch or Additional Loan Advance or (in the event of a breach of the Eligibility Criteria in paragraph (c) above) by requiring the relevant Seller to transfer further Loans to the LLP in an amount sufficient to ensure that the Eligibility Criteria in paragraph (c) above is met.

For the purposes hereof:

**Product Switch** means a variation to the financial terms or conditions included in the Mortgage Terms applicable to a Loan other than:

- (a) any variation agreed with a Borrower to control or manage arrears on a Loan;
- (b) any variation in the maturity date of a Loan;
- (c) any variation imposed by statute; or
- (d) any variation in the frequency with which the interest payable in respect of the Loan is charged.

### ***Transfer of Title to the Loans to the LLP***

English Loans will be sold by Sellers to the LLP by way of equitable assignment. Scottish Loans will be sold by the Original Seller on the First Transfer Date by way of a declaration of trust and, in relation to Scottish Loans sold by the Sellers to the LLP after the First Transfer Date, by further declarations of trust (each such declaration of trust, a **Scottish Declaration of Trust** and, together, the **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 sale of Loans are to be read as references to the making of such Scottish Declarations of Trust. Such beneficial interest (as opposed to the legal title) cannot be registered in the Land Register of Scotland or the General Register of Sasines (the two Scottish property registers). As a result, legal title to both English Loans and Scottish Loans and their Related Security will remain with the Sellers until legal assignments or assignations (as appropriate) are delivered by the Sellers to the LLP and notice of the sale is given by the Sellers to the Borrowers. Legal assignment or assignation (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described below.

Legal assignment or assignation (as appropriate) of the Loans and their Related Security (or, where specified, the Selected Loans and their Related Security) to the LLP will be completed on or before the 20th London Business Day after the earliest of the following:

- (a) the occurrence of an HBOS Event of Default and service on the LLP of a Notice to Pay (unless the relevant Seller or Sellers has or have notified the LLP that it will accept the offer set out in the Selected Loans Offer Notice within the prescribed time);
- (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 a Seller;
- (c) a Seller and/or the LLP being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which the Seller is a member or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the Seller to comply, to perfect legal title to the Mortgages;
- (d) it being rendered necessary by law to take such actions;
- (e) the Security under the Deed of Charge or any material part of that Security being in jeopardy and the Security Trustee determining or being required by the Bond Trustee (on behalf of the Covered Bondholders) or the other Secured Creditors to take that action to reduce that jeopardy;
- (f) unless otherwise agreed by the Rating Agencies and the Security Trustee, the termination of a Seller's role as Servicer under the relevant Servicing Agreement unless the replacement servicer, if any, is a member of the HBOS Group;
- (g) a Seller requesting a transfer by way of assignment or assignation (as appropriate) by giving notice to the LLP and the Security Trustee;
- (h) the date on which any Seller ceases to be assigned a long-term unsecured, unsubordinated unguaranteed debt obligation rating by Moody's of at least Baa3 or by S&P of at least BBB- or by Fitch of at least BBB-; and
- (i) the occurrence of an Insolvency Event in relation to a Seller.

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of, or (in Scotland) the heritable creditor under, the Mortgages will be secured by, or (in Scotland) supported by, an irrevocable power of attorney granted by each Seller in favour of the LLP and the Security Trustee.

The Title Deeds and Customer Files relating to the Loans in the Portfolio will be held by or to the order of the relevant Seller or relevant Servicer, as the case may be, or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the relevant Seller in connection with the creation of the Loans and their Related Security. The Sellers or relevant Servicer, as the case may be, will undertake that all the Title Deeds and Customer Files relating to the Loans in the Portfolio which are at any time in their possession or under their control or held to their order will be held to the order of the Security Trustee or as the Security Trustee may direct.

For the purposes hereof:

**Customer Files** means the file or files relating to each Loan containing, *inter alia*:

- (a) all material correspondence relating to that Loan; and
- (b) the completed mortgage documentation applicable to the Loan (other than the Title Deeds) including the Valuation Report (if applicable) and, to the extent available, the solicitor's or licensed conveyancer's, or (in Scotland) qualified conveyancer's, Certificate of Title,

whether original documentation, electronic form or otherwise or information provided by such documentation stored on an electronic data base.

**Insolvency Event** means, in respect of a Seller, a Servicer or a Cash Manager (each a relevant entity):

- (i) an order is made or an effective resolution passed for the bankruptcy or liquidation or winding up or sequestration of the relevant entity; or
- (ii) the relevant entity ceases to carry on its business or substantially all its business; or
- (iii) proceedings shall be initiated against the relevant entity under any applicable liquidation, winding up, sequestration, insolvency, bankruptcy, composition, reorganisation or other similar laws; or a receiver, administrator, trustee or other similar official shall be appointed in relation to the relevant entity or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within thirty days; or if the relevant entity shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, sequestration, 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

- (iv) the relevant entity shall be unable to pay its debts as they fall due (within the meaning of section 123(1)(b) to (e) and section 123(2) of the Insolvency Act 1986 (as those sections may be amended)) or shall admit inability to pay its debts as they fall due or shall stop payment or shall be adjudged or found bankrupt or insolvent.

**Lending Criteria** means the criteria applicable to the granting of an offer of a Loan to a Borrower from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender.

**Property** means a freehold, feudal or leasehold property (or in Scotland a heritable property or a property held under a long lease) which is subject to a Mortgage.

**Reasonable, Prudent Mortgage Lender** means the Sellers and/or the Servicers, as applicable, acting in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England, Wales and/or Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital.

**Standard Documentation** means the standard documentation, annexed to the relevant exhibit of the Mortgage Sale Agreement or any update or replacement therefor as each Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

**Title Deeds** means, in relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents 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.

**Valuation Report** means the valuation report or reports for mortgage purposes, in the form of one of the pro-forma contained in the Standard Documentation, obtained by a Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the relevant Seller.

**Valuer** means an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant time either a member of a firm which was on the list of Valuers approved by or on behalf of the relevant Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the relevant Seller acting for the relevant Seller in respect of the valuation of a Property.

### ***Representations and warranties***

Neither the Group Guarantors, the LLP, the Security Trustee, the Bond Trustee nor the Issuer 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 relevant Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee and if agreed with the Rating Agencies, amend the Representations and Warranties in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Transfer Date in respect of the Loans and Related Security to be sold to the LLP only on that date and on the Calculation Date following the making of any Further Advance or Product Switch in respect of the Loan to which the Further Advance or Product Switch relates only:

- each Loan was originated by a Seller or purchased by a Seller in the ordinary course of business (and kept on that entity's books for a minimum of 3 months);
- each Loan was originated in pounds Sterling and is denominated in pounds Sterling (or was originated and is denominated in euro if the euro has been adopted as the lawful currency of the United Kingdom);
- no Loan has a Current Balance of more than £1,000,000;
- each Loan has a remaining term of less than 50 years as at the relevant Transfer Date;
- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- all of the Borrowers are individuals;

- at least two monthly payments have been made in respect of each Loan;
- the whole of the Current Balance on each Loan is secured by a Mortgage over residential property;
- subject only in certain appropriate cases to the completion of applications for registrations at H.M. Land Registry or the Registers of Scotland 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;
- all of the properties are in England or Wales or Scotland;
- not more than twelve months (or a longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the granting of each Mortgage, the relevant Seller received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender or such other form of valuation of the relevant Property as may be confirmed as acceptable by the Rating Agencies from time to time;
- the benefit of all Valuation Reports and Certificates of Title (if available) which were provided to the relevant Seller not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the LLP without obtaining the consent of the relevant Valuer, solicitor, licensed conveyancer or (in Scotland) qualified conveyancers;
- prior to the taking of each Mortgage (other than a remortgage), the relevant Seller instructed its solicitor, licensed conveyancer or (in Scotland) qualified conveyancers to carry out an investigation of title to the relevant property and to undertake other searches, investigations, enquiries and other actions on behalf of the relevant Seller in accordance with the instructions which the Seller issued to the relevant solicitor, licensed conveyancer or (in Scotland) qualified conveyancers as are set out in the case of English Loans in the CML's Lenders' Handbook for England & Wales (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, the Seller's Mortgage Practice Notes) and, in the case of Scottish Loans, the CML Lenders' Handbook for Scotland (or, for Mortgages taken before the CML Lenders' Handbook for Scotland was adopted in 2000, the Seller's Mortgage Practice Notes) or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- buildings insurance cover for each property is available under either a policy arranged by the Borrower or a policy issued to Borrowers by or on behalf of the relevant Seller on behalf of an insurer who agrees with the relevant Seller to issue buildings insurance policies to Borrowers from time to time or a policy arranged by the relevant landlord or the properties in possession cover;
- the relevant Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold by the relevant Seller to the LLP under the Mortgage Sale Agreement;
- the relevant Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loan;
- there are no governmental authorisations, approvals, licences or consents required as appropriate for the relevant Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding and enforceable; and
- interest under each Loan can at all times be set in the manner disclosed in the Mortgage Sale Agreement.

If New Loan Types are to be sold to the LLP, then the Representations and Warranties in the Mortgage Sale Agreement will be modified as required to accommodate these New Loan Types. The prior consent of the Covered Bondholders to the requisite amendments will not be required to be obtained.

For the purposes hereof:

**Accrued Interest** means in relation to any Loan and as at any date (the **determination date**) on or after the relevant Transfer Date, interest on such Loan (not being interest which is currently payable on the determination date) which has accrued from and including the Monthly Payment Date immediately prior to the determination date and including the determination date.

**Certificate of Title** means a solicitor's, 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.

**Flexible Loan** means a type of Loan product that typically incorporates features that give the Borrower options to, among other things, make further drawings on the Loan account and/or to overpay or underpay interest and principal in a given month.

**Further Advance** means, 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 which is an amount in excess of the principal amount of the Loan approved by the Seller, at the time of origination of the Loan.

**Monthly Payment Date** means 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 business day, the next following business day.

**New Loan Type** means on any date a type of Loan which is of a type that has not previously been comprised in the Portfolio.

**Representations and Warranties** means the representations and warranties set out in the Mortgage Sale Agreement.

#### ***Repurchase of Loans***

If a Seller receives a notice from the Cash Manager (the **Defaulted Loans Notice**) identifying Loans in the Portfolio which are more than 3 months in arrears (the **Defaulted Loans**) or if a Loan in the Portfolio does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of a Further Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the relevant Seller will be required (but only prior to the occurrence of an HBOS Event of Default) to repurchase any such Loans under the relevant Mortgage Account and their Related Security sold by them in an amount equal to the Current Balance thereof and expenses as at the relevant repurchase date. The repurchase proceeds received by the LLP will be applied (other than Accrued Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see *Cashflows* below).

In addition to the foregoing circumstances, the Sellers will also be required to repurchase a Loan or Loans and its or their Related Security sold by them to the LLP where an Additional Loan Advance made in respect of a Loan results in certain Eligibility Criteria being breached or if a court or other competent authority or any ombudsman makes any determination in respect of that Loan and its Related Security that any term which relates to the recovery of interest under the Standard Documentation applicable to that Loan and its Related Security is not binding on the relevant Borrower because it is unfair.

#### ***Right of Pre-emption***

Under the terms of the Mortgage Sale Agreement, each 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 Sellers a notice offering to sell those Selected Loans and their Related Security which each Seller has previously sold to the LLP (or, to such other Seller nominated by the relevant Seller) for an offer price equal to the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount, subject to the offer being accepted by the Sellers within ten London Business Days (a **Selected Offer Notice**). If all of the Sellers reject or fail to accept the LLP's offer, the LLP will offer to sell the Selected Loans and their Related Security to Purchasers (as described under - *LLP Deed - Sale of Selected Loans in the Portfolio following the occurrence of an HBOS Event of Default*, below).

If any of the Sellers 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 further notice on the relevant Seller or Sellers (a **Selected Loan Repurchase Notice**). The relevant Seller or Sellers 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 the purchase of the Selected Loans and their Related Security by a Seller will take place on the LLP Payment Date after receipt of the Selected Loans Repurchase Notice(s) or such date as the LLP may direct in the Selected Loans Repurchase Notice (provided that such date is not later than the earlier to occur of the date which is (a) 10 London Business Days after returning the Selected Loan Repurchase Notice to the LLP and (b) the Final Maturity Date of as applicable, the Hard Bullet Covered Bonds or the Earliest Maturing Covered Bonds).

**Purchaser** means any third party or any Seller to whom the LLP offers to sell Selected Loans.

**Required Redemption Amount** means in respect of any relevant Series of Covered Bonds, the amount calculated as follows:

$$\text{the Principal Amount Outstanding of the relevant Series of Covered Bonds} \times (1 + 0.65\% \times (\text{days to maturity of the relevant Series of Covered Bonds} / 365))$$

**Selected Loans** means Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required Outstanding Principal Balance Amount.

#### ***Further Drawings under Loans***

Each Seller is solely responsible for funding all future drawings in respect of any additional advance (including, but not limited to, Further Advances) other than the Initial Advance (each, an **Additional Loan Advance**) in respect of Loans sold by that Seller to the LLP, if any. The amount of the relevant Seller's Capital Contribution will increase by the amount of the funded Additional Loan Advance as set out in the LLP Deed.

#### ***Governing law***

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 Agreements**

Pursuant to the terms of a servicing agreement entered into on the Programme Date between the LLP, Halifax (in its capacity as servicer, the **Original Servicer**) and the Security Trustee (the **Original Servicing Agreement**), the Original Servicer has agreed to service on behalf of the LLP the Loans and their Related Security sold by the Original Seller to the LLP and the New Loans and their Related Security sold by New Sellers to the LLP, unless any New Seller and the Original Servicer agree that such New Seller shall act as servicer in relation to Loans and their Related Security sold by such New Seller to the LLP (as described below).

If it is agreed that the New Seller will service, on behalf of the LLP, the New Loans and their Related Security sold by such New Seller to the LLP then a servicing agreement will be entered into between such New Seller (in its capacity as servicer, the **New Servicer** and, together with the Original Servicer and any other New Servicer, a **Servicer**), the LLP and the Security Trustee on substantially the same terms as the Original Servicing Agreement so that each New Servicer has substantially the same rights and obligations as the Original Servicer (each a **New Servicing Agreement** and, together with the Original Servicing Agreement, a **Servicing Agreement**).

Each Servicer will be required to administer the Loans in accordance with the relevant Servicing Agreement and:

- (i) in the case of the Original Servicer, as if the Loans and their Related Security sold by the Original Seller to the LLP had not been sold to the LLP but remained with the Original Seller or, in relation to New Loans and their Related Security sold by New Sellers (where the Original Servicer has agreed to service such New Loans and their Related Security), as if such New Loans and their Related Security had been Loans and their Related Security of the Original Seller which had remained with the Original Servicer;
- (ii) in the case of any New Servicer, as if the New Loans and their Related Security sold by the relevant New Seller to the LLP (where the New Servicer has agreed to service such New Loans and their Related Security) had not been sold to the LLP but remained with the relevant New Seller; and
- (iii) in the case of each Servicer, in accordance with the relevant Seller's procedures and administration and enforcement policies as they apply to those Loans.

Each Servicer's actions in servicing the Loans in accordance with its procedures will be binding on the LLP and the Secured Creditors.

Each Servicer will have the power to exercise the rights, powers and discretions and to perform the duties of the LLP in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the relevant Servicing Agreement, and to do anything which it reasonably considers necessary or convenient or incidental to the administration of those Loans and their Related Security.

### ***Undertakings of the Servicer***

Pursuant to the terms of the relevant Servicing Agreement, the relevant Servicer will undertake in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

- keep records and accounts on behalf of the LLP in relation to the Loans;
- 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 and other records relating to the administration of the Loans and their Related Security;
- maintain a register in respect of the Portfolio;
- make available 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;
- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;
- 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 instituting proceedings and enforcing any relevant Loan or Mortgage; and
- to enforce any Loan which is in default in accordance with the relevant 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 usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

The Servicer also undertakes that, on the Servicer ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by S&P of at least BBB- or by Fitch of at least BBB-, it will use reasonable efforts to enter into a master servicing agreement with a third party within 60 days.

### ***Setting of Variable Base Rates and any variable margins***

In addition to the undertakings described above, the Original Servicer has also undertaken in the Original Servicing Agreement to determine and set in relation to all the Original Seller's Loans in the Portfolio the LLP Variable Base Rate and any variable margin applicable in relation to any Tracker Rate Loan in relation to the Loans in the Portfolio except in the limited circumstances described in this sub-section headed - *Setting of Variable Base Rates and any variable margins* when the LLP will be entitled to do so. The Original Servicer will not at any time prior to service of a Notice to Pay on the LLP and/or transfer of legal title of the Portfolio (or any part thereof) to the LLP, without the prior consent of the LLP, set or maintain:

- (i) the LLP Variable Base Rate applicable to the Loans sold by the Original Seller and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Variable Base Rate of the Original Seller which applies to Loans beneficially owned by the Original Seller outside the Portfolio;
- (ii) a margin in respect of any Tracker Rate Loan sold by the Original Seller and in the Portfolio which, where the Offer Conditions for that Loan provide that the margin shall be the same as the margin applicable to all other Loans having the same Offer Conditions in relation to interest rate setting, is higher or lower than the margin then applying to those Loans beneficially owned by the Original Seller outside the Portfolio; and
- (iii) a margin in respect of any other Tracker Rate Loan sold by the Original Seller and in the Portfolio which is higher than the margin which would then be set in accordance with the relevant Seller's policy from time to time in relation to that type of Loan.

In particular, the Original Servicer shall determine on each Calculation Date, having regard to the aggregate of:

- (a) the income which the LLP would expect to receive during the next succeeding Interest Period (the **relevant Interest Period**);
- (b) the LLP Variable Base Rate, any variable margins applicable in relation to any Tracker Rate Loans and the Variable Mortgage Rates in respect of the Loans which the Original Servicer proposes to set under the Original Servicing Agreement for the relevant Interest Period; and



- (c) the other resources available to the LLP including the relevant Interest Rate Swap Agreements, the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of income during the relevant Interest Period which when aggregated with funds otherwise available to it is less than the amount which is the aggregate of (1) the amount of interest which would be payable under the Covered Bond Guarantee and amounts payable to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on each LLP Payment Date of each Series of Covered Bonds falling at the end of each relevant Interest Period and (2) the other senior expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priorities of Payments applicable prior to an LLP Event of Default (the **Interest Shortfall Test**).

If the Original Servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the LLP and the Security Trustee, within one London Business Day, of the amount of the shortfall and the LLP Variable Base Rate and any variable margins applicable in relation to any Tracker Rate Loans which would, in the Original Servicer's opinion, need to be set in order for no shortfall to arise, having regard to the date(s) on which the change to the LLP Variable Base Rate and any variable margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender as regards the competing interests of Borrowers with Variable Base Rate Loans and Borrowers with Tracker Rate Loans. If the LLP or the Security Trustee notify the Original Servicer that, having regard to the obligations of the LLP, the LLP Variable Base Rate and/or any variable margins should be increased, the Original Servicer will take all steps which are necessary to increase the LLP Variable Base Rate and/or any variable margins including publishing any notice which is required in accordance with the mortgage terms. In these circumstances, the Original Servicer will have the right to set the Original Seller's Variable Base Rates.

In addition, the Original Servicer shall determine on each Calculation Date following an HBOS Event of Default, having regard to the aggregate of:

- (a) the LLP Variable Base Rate, any variable margins applicable in relation to any Tracker Rate Loans and the Variable Mortgage Rates in respect of the Loans which the Original Servicer proposes to set under the Original Servicing Agreement for the relevant Interest Period; and
- (b) the other resources available to the LLP under the relevant Interest Rate Swap Agreements,

whether the LLP would receive an aggregate amount of interest on the Loans and amounts under the relevant Interest Rate Swap Agreements during the relevant Interest Period which would give a yield on the Loans of at least LIBOR plus 0.5 per cent. (the **Yield Shortfall Test**).

If the Original Servicer determines that the Yield Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one London Business Day, of the amount of the shortfall and the LLP Variable Base Rate and any variable margins applicable in relation to any Tracker Rate Loans which would, in the Original Servicer's 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) on which the change to the LLP Variable Base Rate and any variable margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender as regards the competing interests of Borrowers with Variable Base Rate Loans and Borrowers with Tracker Rate Loans. If the LLP or the Security Trustee notify the Original Servicer that, having regard to the obligations of the LLP, the LLP Variable Base Rate and/or any variable margins should be increased, the Original Servicer will take all steps which are necessary to increase the LLP Variable Base Rate and/or any variable margins including publishing any notice which is required in accordance with the mortgage terms. In these circumstances, the Original Servicer will have the right to set the Original Seller's Variable Base Rates.

The LLP and the Security Trustee may terminate the authority of the Original Servicer to determine and set the LLP Variable Base Rate and any variable margins on the occurrence of a Servicer Event of Default as defined under - *Removal or resignation of the Servicer*, in which case the LLP will set the LLP Variable Base Rate and any variable margins itself in accordance with this sub-section.

Each New Seller and its relevant servicer will be bound by similar terms to those set out above in relation to Loans sold by that New Seller to the LLP. In these circumstances, the Original Servicing Agreement will be amended (including changes to the Interest Shortfall Test and/or the Yield Shortfall Test).

For the purposes hereof:

**Capped Rate Loans** means those Loans to the extent that and for such period that their Mortgage Terms provide that they are subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage Terms up to an agreed maximum level;

**Fixed Rate Loans** means those Loans to the extent that and for such time that the interest rate payable by the Borrower on all or part of the Outstanding Principal Balance does not vary and is fixed for a certain period of time by a Seller.

**HVR 1** means the Variable Mortgage Rate known as HVR 1 set by the Original Seller which applies to certain Loans beneficially owned by the Original Seller on the Original Seller's residential mortgage book.

**HVR 2** means the Variable Mortgage Rate known as HVR 2 which applies to certain Loans beneficially owned by the Original Seller on the Original Seller's residential mortgage book.

**LLP Variable Base Rate** means the variable base rates that apply to the Variable Rate Loans in the Portfolio as set, other than in limited circumstances, by the Original Servicer, in accordance with the Original Servicing Agreement.

**Mortgage Terms** means all the terms and conditions applicable to a Loan, including without limitation the applicable Mortgage Conditions and Offer Conditions included in the Standard Documentation from time to time.

**Offer Conditions** means the terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower.

**Tracker Rate Loan** means those Loans to the extent that and for such period that their Mortgage Terms provide that they are subject to an interest rate which is linked to a variable interest rate other than the Variable Base Rates. For example, the rate on a Tracker Rate Loan may be set at a margin above Sterling LIBOR or above rates set by the Bank of England.

**Variable Base Rates** means HVR 1, HVR 2 or the LLP Variable Base Rate, as applicable.

**Variable Mortgage Rate** means the rate of interest that determines the amount of interest payable each month on a Variable Rate Loan.

**Variable Rate Loans** means those Loans to the extent that and for such period that their Mortgage Terms provide that they are subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage Terms (and shall, for the avoidance of doubt, exclude Loans during the period that they are Fixed Rate Loans or Tracker Rate Loans).

### ***Compensation***

The LLP will pay to the Original Servicer a servicing fee of 0.05 per cent. per annum (inclusive of VAT) of the aggregate outstanding amount of the Loans serviced by the Original Servicer in accordance with the Original Servicing Agreement comprised in the Portfolio as of the beginning of the relevant Calculation Period. Fees payable to New Servicers and/or the Original Servicer acting as Servicer in respect of Loans sold by New Sellers to the LLP will be determined on the date that they accede to the Programme.

### ***Removal or resignation of the Servicer***

The LLP and the Security Trustee may, upon written notice to the relevant Servicer, terminate the relevant Servicer's rights and obligations immediately if any of the following events (each a **Servicer Termination Event** and, in relation to the first three events set out below, a **Servicer Event of Default**) occurs:

- the relevant Servicer defaults in the payment of any amount due to the LLP under the relevant Servicing Agreement and fails to remedy that default for a period of three London Business Days after becoming aware of the default;
- the relevant Servicer fails to comply with any of its other obligations under the Servicing Agreement which failure in the opinion of the Security Trustee is materially prejudicial to Covered Bondholders and does not remedy that failure within 20 London Business Days after becoming aware of the failure;
- an Insolvency Event occurs in relation to the relevant Servicer;
- the LLP resolves that the appointment of the relevant Servicer should be terminated.

Subject to the fulfilment of a number of conditions, a Servicer may voluntarily resign by giving not less than 12 months' notice to the Security Trustee and the LLP provided that a substitute servicer qualified to act as such under FSMA and with a management team with experience of administering mortgages in the United Kingdom has been appointed and enters into a servicing agreement with the LLP substantially on the same

terms as the Original Servicing Agreement. The resignation of a 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 a Servicer is terminated, the relevant Servicer must deliver the Title Deeds and Customer Files relating to the Loans administered by it to, or at the direction of, the LLP. The relevant Servicing Agreement will terminate at such time as the LLP has no further interest in any of the Loans or their Related Security sold to the LLP and serviced under the relevant Servicing Agreement that have been comprised in the Portfolio.

A Servicer may sub-contract or delegate the performance of its duties under the Servicing Agreement provided that it meets conditions as set out in the relevant Servicing Agreement.

Neither the Bond Trustee nor the Security Trustee are obliged to act as Servicer in any circumstances.

### ***Governing Law***

The Servicing Agreement is governed by English law.

### **Asset Monitor Agreement**

Under the terms of an asset monitor agreement entered into on the Programme Date between KPMG Audit Plc (the **Asset Monitor**), the LLP, the Cash Manager and the Security Trustee (the **Asset Monitor Agreement**), the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to conduct tests in respect of the calculations performed by the Cash Manager on the Calculation Date immediately preceding each anniversary of the Programme Date with a view to confirmation of compliance by the LLP with the Asset Coverage Test or the Amortisation Test, as applicable, on that Calculation Date.

If the long-term ratings of the Cash Manager or the Issuer (or for such time as the Issuer is not, as of the date thereof, independently rated, the higher of the ratings of each Group Guarantor (such higher ratings, the **Deemed Ratings**)) fall below BBB-/Baa3/BBB- (by S&P, Moody's and Fitch, respectively) the Asset Monitor will be required to conduct such tests following each Calculation Date and, following a determination by the Asset Monitor of any errors in the calculations performed by the Cash Manager such that the Asset Coverage 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 misstated by an amount exceeding 1 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, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of conducting such tests is true and correct and not misleading, and is not required to conduct a test or otherwise take steps to verify the accuracy of any such information. The results of the tests conducted by the Asset Monitor will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee, the Security Trustee and the Rating Agencies (the **Asset Monitor Report**).

As at the Programme Date, the LLP will pay to the Asset Monitor a fee of £2,600 per test (exclusive of VAT) 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 providing 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 if the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement.

The Asset Monitor may, at any time, resign by giving at least 60 days' prior written notice to the LLP and the Security Trustee (with a copy to the Rating Agencies), provided that such resignation will not take effect unless and until a replacement has been found by the LLP (such replacement to be approved by the Security Trustee if the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement.

If a replacement asset monitor has not been found by the LLP within 60 days of notice of termination by the LLP or notice of resignation by the Asset Monitor, the Asset Monitor may identify a replacement (such replacement to be approved by the Security Trustee, 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.

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 limited liability partnership incorporated under the name HBOS Covered Bonds LLP (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 Original Seller, the Issuer, the Liquidation Member, the Bond Trustee and the Security Trustee (the **LLP Deed**).

### **Members**

As at the Programme Date, each of the Original Seller, the Issuer 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 Original Seller and the Issuer are the 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 have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires there will at all times be at least two Designated Members of the LLP.

Save as set out below, any Member admitted to the LLP after the Programme Date (a **New Member**) must be a Seller and accede to the terms of the Mortgage Sale Agreement. In the event that an administrator or a liquidator is appointed in respect of either the Original Seller or the Issuer, the Liquidation Member has agreed to become a Designated Member of the LLP and will be registered as such. Furthermore, for so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed to either the Original Seller or the Issuer, the Liquidation Member may, by written notice to the LLP, appoint another Member as a Designated Member or may, at its sole discretion (acting on behalf of itself and the other Members), admit a New Member to the LLP (in each case with the prior written consent of the Security Trustee). A New Member admitted in these circumstances will not be required to be a Seller or to accede to the terms of the Mortgage Sale Agreement.

### **Capital Contributions**

Each sale of Loans and their Related Security by a Seller to the LLP will constitute a Capital Contribution in Kind by the relevant Seller of those Loans in an amount equal to (a) the Current Balance of those Loans as at the relevant Transfer Date minus (b) any cash payment paid by the LLP for the Loans and their Related Security on that Transfer Date.

Any increase in the Outstanding Principal Balance of a Loan due to either Capitalised Interest accruing on that Loan or due to a Seller making an Additional Loan Advance to a Borrower, will be deemed to constitute a Capital Contribution in Kind by the relevant Seller (in its capacity as a Member) in respect of that Loan in an amount equal to the relevant increase.

If so requested by the Management Board, the Members may from time to time make cash contributions to the LLP which will constitute Cash Capital Contributions.

The Liquidation Member will not make any Capital Contributions to the LLP.

### **Calculation of Capital Contributions**

The Capital Contributions made or deemed to be made by each Member from time to time will be credited to that Member's Capital Account Ledger and Capital Distributions will be debited to the relevant Member's Capital Account Ledger. The Capital Contribution Balance of each Member shall represent that Member's interest in the capital of the LLP. Any increase or decrease in the Capital Contribution Balance of a Member shall be recorded to that Member's Capital Account Ledger on each Calculation Date.

On each Calculation Date (the **relevant Calculation Date**) or the date that the LLP is wound up, the Capital Contribution Balance of each Member (the **relevant Member**) in respect of the immediately preceding Calculation Period will be recalculated. The Capital Contribution Balance of a relevant Member will be an amount calculated in Sterling (and to the extent that any amount is denominated in a currency other than Sterling, converted into Sterling at the relevant Covered Bond Swap Rate) as follows:

$$A - B - C + D + E + F$$

where,

A = the Capital Contribution Balance of the relevant Member on the immediately preceding Calculation Date (or, in the case of the first Calculation Date in relation to that Member, the Opening Capital Contribution Balance of that Member);

- B = the amount of any Capital Distribution to be paid to the relevant Member on the next following LLP Payment Date;
- C = the amount of any Losses on the Loans in the immediately preceding Calculation Period that are attributable to Loans sold by the relevant Member to the LLP and which have not been or will not be repurchased by the relevant Member on or before the next following LLP Payment Date;
- D = any increase in the Outstanding Principal Balance of a Loan in the immediately preceding Calculation Period due to Capitalised Interest accruing on that Loan, where that Loan was sold by the relevant Member to the LLP;
- E = any increase in the Outstanding Principal Balance of a Loan in the immediately preceding Calculation Period due to the relevant Member making an Additional Loan Advance to a Borrower, where that Loan was sold by the relevant Member to the LLP; and
- F = any Capital Contribution paid by the relevant Member to the LLP in accordance with the LLP Deed since the immediately preceding Calculation Period.

For the purposes hereof:

**Calculation Date** means the twelfth day of each month (or, if such day is not a London Business Day, then the immediately preceding London Business Day).

**Calculation Period** means the period from, and including, the first day of each month to, and including, the last day of each month preceding the relevant Calculation Date.

**Capital Account Ledger** means the ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time;

**Capital Contribution** means in relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed.

**Capital Contribution Balance** means the balance of each Member's Capital Contributions as recorded from time to time in the relevant Member's Capital Account.

**Capital Contributions in Kind** means a contribution 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 Transfer Date minus (b) any cash payment paid by the LLP for the Loans and their Related Security on that Transfer Date.

**Capital Distribution** means 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).

**Capitalised Interest** means the amount of interest that would have been paid on a Loan if not for the Borrower under that Loan taking a Payment Holiday.

**Cash Capital Contributions** means a Capital Contribution made in cash.

**LLP Payment Date** means the 16th day of each month or if not a Business Day the next following Business Day.

**Opening Capital Contribution Balance** means the Capital Contribution Balance of each Member on the Programme Date and, in the case of New Members, on the date any such New Member is admitted to the LLP in accordance with the LLP Deed.

#### ***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, the Adjusted Aggregate Loan Amount is in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date (the **Asset Coverage Test**).

If on any Calculation Date the Adjusted Aggregate Loan Amount is less than 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) will notify the Members thereof and the Members (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 Sellers of Loans and their Related Security*) or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met. An HBOS Event of Default shall occur if the Asset Coverage Test is breached on the next following Calculation Date.

For the purposes hereof:

**Adjusted Aggregate Loan Amount** means the amount calculated on each Calculation Date as follows:

$$A + B + C + D + E - (X + Y + Z)$$

where,

A = the lower of (i) and (ii), where:

- (i) = the sum of the **Adjusted Current Balance** of each Loan in the Portfolio, which shall be the lower of (1) the actual Current Balance of the relevant Loan in the Portfolio as calculated on the relevant Calculation Date and (2) 60 per cent. of the Indexed Valuation relating to that Loan

*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 is, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of a Seller to repurchase the relevant Loan and its Related Security, and in each case the relevant Seller has not repurchased the Loan or Loans under the relevant Mortgage Account and 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) under the relevant Mortgage Account; and/or
- (2) a Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or a Servicer was, in any preceding Calculation Period, in breach of a material term of a 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 without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the relevant Seller to indemnify the LLP for such financial loss);

AND

- (ii) = the aggregate Current Balance of the Loans in the Portfolio as at the relevant Calculation Date;

*minus*

the aggregate sum of the following deemed reductions to the aggregate 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 is, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of a Seller to repurchase the relevant Loan and its Related Security, and in each case the relevant Seller has not repurchased the Loan or Loans under the relevant Mortgage Account and their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate 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 Current Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) under the relevant Mortgage Account; and/or
- (2) a Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or a Servicer was,

in the immediately preceding Calculation Period, in breach of a material term of a Servicing Agreement. In this event, the aggregate 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 without double counting);

*the result of which is multiplied by the Asset Percentage (as defined below);*

- B = the 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;
- C = the 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 this Deed and/or the other Transaction Documents;
- D = the outstanding principal balance of any Substitution Assets;
- E = the amount of any Sale Proceeds standing to the credit of the GIC Account and credited to the Pre-Maturity Liquidity Ledger as at the relevant Calculation Date;
- X = 5 per cent. of the aggregate Current Balance of the Loans in the Portfolio, as calculated on the relevant Calculation Date;
- Y = 8 per cent. *multiplied by* the **flexible redraw capacity**, being an amount equal to the excess of (1) the maximum amount that Borrowers may draw under Flexible Loans in the Portfolio (whether or not drawn) as determined in respect of the previous Calculation Period over (2) the aggregate Current Balance of all Flexible Loans in the Portfolio on the relevant Calculation Date *multiplied by* 3; and
- Z = the weighted average remaining maturity of all Covered Bonds then outstanding *multiplied by* the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds *multiplied by* 0.65 per cent.

**Asset Percentage** means 92.5 per cent. or such other percentage figure as determined from time to time in accordance with the terms of the LLP Deed as follows. On the Calculation Date falling in October, January, April and July of each year, the LLP (or the Cash Manager on its behalf) will calculate the Weighted Average Foreclosure Frequency (**WAFF**) and the Weighted Average Loss Severity (**WALS**) for the Loans in the Portfolio, such calculations to be made on the same basis throughout unless agreed otherwise by the Rating Agencies.

The WAFF and WALS so calculated will be input by the Cash Manager to a cashflow model approved by the Rating Agencies. That model, which tests the credit enhancement required in various cashflow scenarios, will indicate, on the basis of the latest WAFF and WALS figures, the Asset Percentage needed in order to provide credit enhancement to cover all such cashflow scenarios.

Save where otherwise agreed with the Rating Agencies, the Asset Percentage will be adjusted in accordance with the model's process to ensure that sufficient credit enhancement will be maintained, provided that the Asset Percentage may not, at any time, exceed 92.5 per cent.

**Halifax Index** means the index of increases in house prices issued by Halifax in relation to residential properties in the United Kingdom.

**Halifax Price Indexed Valuation** in relation to any property at any date means the Original Valuation of that property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Original Valuation.

**Indexed Valuation** means at any date in relation to any Loan secured over any Property:

- (a) where the Original Valuation of that Property is equal to or greater than the Halifax Price Indexed Valuation as at that date, the Halifax Price Indexed Valuation; or
- (b) where the Original Valuation of that Property is less than the Halifax Price Indexed Valuation as at that date, the Original Valuation plus 85 per cent. of the difference between the Original Valuation and the Halifax Price Indexed Valuation.

**Mortgage Account** means all Loans secured on the same Property and thereby forming a single mortgage account.

**Original Valuation** in relation to any Property means the value given to that Property by the most recent valuation addressed to the relevant Sellers of the Loan secured over that Property.

#### ***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) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date (the **Amortisation Test**).

Following an HBOS Event of Default, if on any Calculation Date the Amortisation Test Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date, then the Amortisation Test will be deemed to be breached and an LLP Event of Default will occur. The LLP or the Cash Manager, as the case may be, will immediately notify the Members, the Security Trustee and (whilst Covered Bonds are outstanding) the Bond Trustee of any breach of the Amortisation Test.

The **Amortisation Test Aggregate Loan Amount** will be calculated on each Calculation Date as follows:

$$A + B + C - Z$$

where,

A = the aggregate **Amortisation Test Current Balance** of each Loan, which shall be the lower of (1) the actual Current Balance of the relevant Loan as calculated on the relevant Calculation Date multiplied by M and (2) 100 per cent. of the Indexed Valuation multiplied by M.

Where for all the Loans that are less than 3 months in arrears M = 1 or for all the Loans that are 3 months or more in arrears M = 0.7

B = the amount of any cash standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding any Revenue Receipts received in the immediately preceding Calculation Period);

C = the outstanding principal balance of any Substitution Assets;

Z = the weighted average remaining maturity of all Covered Bonds then outstanding **multiplied by** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds **multiplied by** 0.65 per cent.

#### ***Sale of Selected Loans and their Related Security if the Pre-Maturity Test is breached***

The LLP Deed provides for sales of Selected Loans and their Related Security in circumstances where the Pre-Maturity Test has been breached. The Pre-Maturity Test will be breached if the ratings or Deemed Ratings, as applicable, 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* below). The LLP will be obliged to sell the Selected Loans and their Related Security to Purchasers, subject to the rights of pre-emption enjoyed by the Sellers 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. If the Issuer and the Group Guarantors fail 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* below.

#### ***Sale of Selected Loans and their Related Security following service of a Notice to Pay***

After a Notice to Pay has been served on the LLP following the occurrence of an HBOS Event of Default, but prior to service of an LLP Acceleration Notice, the LLP will be obliged to 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 enjoyed by the Sellers to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be credited to the GIC Account and applied as set out in the Priorities of Payments.



### *Method of Sale of Selected Loans*

If the LLP is required to sell Selected Loans and their Related Security to Purchasers following a breach of the Pre-Maturity Test or the occurrence of an HBOS Event of Default, the LLP will be required to ensure that before offering Selected Loans for sale:

- (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:

$$N \times \frac{\text{Current Balance of all the Loans in the Portfolio}}{\text{Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where N is an amount equal to:

- (i) in respect of Selected Loans being sold following a breach of the Pre-Maturity Test, 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
- (ii) in respect of Selected Loans being sold following service of a Notice to Pay, the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the GIC Account and the principal amount of any 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).

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 for an amount not less than the Adjusted Required Redemption Amount. The **Adjusted Required Redemption Amount** means, the Required Redemption Amount, plus or minus any swap termination amounts payable to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable):

- (i) 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) amounts standing to the credit of the GIC Account and the principal balance of any 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).

If the Selected Loans have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to the Final Maturity Date of (in respect of a sale in connection with the Pre-Maturity Test) the relevant Series of Hard Bullet Covered Bonds or (in respect of a sale following service of a Notice to Pay) the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), 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.

In respect of the sale of Selected Loans following service of a Notice to Pay on the LLP, 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 enjoyed by the Sellers pursuant to the Mortgage Sale Agreement) is permitted to offer to sell a portfolio of Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

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 of the Final Maturity Date of the Series of Covered Bonds to be repaid from such proceeds, 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 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 to Purchasers (except where the Sellers are buying the Selected Loans in accordance with their right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender shall be approved by the Security Trustee.

In respect of any sale of Selected Loans and their Related Security following service 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 (in accordance with the recommendations of the portfolio manager) taking 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 of Selected Loans (which shall give effect to the recommendations of the portfolio manager) 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 so that some or all of the Selected Loans shall be sold prior to the next following Final Maturity Date of the Hard Bullet Covered Bonds or, as applicable, 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 in respect of the Loans and the Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Sellers.

#### ***Covenants of the LLP and the Members***

Each of the Members covenants that, subject to the terms of the Transaction Documents, it will not sell, transfer 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 terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP covenants that it will not, save with the prior written consent of the Management Board (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by the Transaction Documents:

- (a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future;
- (b) dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;
- (c) have an interest in a bank account other than as set out in the Transaction Documents;
- (d) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;
- (e) consolidate or merge with or transfer any of its property or assets to another person;
- (f) have any employees, premises or subsidiaries;
- (g) acquire assets other than pursuant to the Mortgage Sale Agreement, the Cash Management Agreement and the LLP Deed; or
- (h) engage in any activities or derive income from any activities within the United States or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;
- (i) enter into any contracts, agreements or other undertakings;
- (j) compromise, compound or release any debt due to it; or
- (k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets.

#### ***Limit on Investing in Substitution Assets and Authorised Investments***

Prior to the service of a Notice to Pay on the LLP, 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 does not exceed 10% 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.

Following service of a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the GIC Account and the LLP will be permitted to invest all available monies in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

For the purposes hereof:

**Authorised Investments** means:

- (a) Sterling gilt-edged securities; and
- (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining maturity date 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 FSMA) are rated at least A-1+ by Standard & Poor's, P-1 by Moody's and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies;

**Substitution Assets** means:

- (a) Sterling gilt-edged securities;
- (b) Sterling demand or time deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1/Aa3 by Moody's, A-1+/AA- by S&P and F1+/AA- by Fitch or their equivalents by three other internationally recognised rating agencies;
- (c) Sterling denominated government and public securities, as defined from time to time by the FSA, provided that such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's, AAA by S&P and AAA by Fitch or their equivalents by three other internationally recognised rating agencies; and
- (d) Sterling denominated residential mortgage backed securities provided that such investments have a remaining period to maturity of one year or less, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's, AAA by S&P and AAA by Fitch or their equivalents by three other internationally recognised rating agencies,

provided that the aggregate value of the Substitution Assets, at any time, shall not exceed in aggregate an amount equal to 10 per cent. of the total assets of the LLP.

#### ***Other provisions***

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under *Cashflows* below.

A management board comprised as at the Programme Date of directors, officers and/or employees of Halifax and the Issuer (the **Management Board**) will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP, which require a unanimous decision of the Members) the Members delegate all matters. Any decision by the 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 amendment to the LLP Deed, 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 terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed *inter alia* not to demand or receive payment of any amounts payable by the LLP (or the 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.

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 any Member (other than the Liquidation Member), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only.

### ***Governing Law***

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 a cash management agreement entered into on the Programme Date between the LLP, Halifax in its capacity as the Cash Manager (the **Cash Manager**) and the Security Trustee (the **Cash Management Agreement**).

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the LLP;
- (b) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under *Cashflows*, below;
- (c) 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;
- (d) determining whether the Amortisation Test is satisfied on each Calculation Date following an HBOS Event of Default in accordance with the LLP Deed, as more fully described under *Credit Structure - Amortisation Test*, below; and
- (e) on each London Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds is satisfied as more fully described under *Credit Structure - Pre-Maturity Liquidity*, below.

For purposes hereof:

**Capital Account Ledgers** means the ledgers maintained by the LLP to record the Capital Contributions of each of the Members.

**Ledgers** includes the Revenue Ledger, the Principal Ledger, the Capital Account Ledger, the Pre-Maturity Liquidity Ledger and the Reserve Ledger.

**Losses** mean all realised losses on the Loans.

**Pre-Maturity Liquidity Ledger** means the ledger on the GIC Account maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test has been breached.

**Principal Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed.

**Reserve Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed.

**Revenue Ledger** means the ledger on the GIC Account maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed.

The Cash Management Agreement is governed by English law.

### **Interest Rate Swap Agreements**

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time that may either be linked to the LLP Variable Base Rate or linked to an interest rate other than the LLP Variable Base Rate, such as a rate set by the Bank of England. Other Loans pay a fixed rate of interest for a period of time. However, the interest rate payable by the LLP with respect to the Term Advances is calculated based on LIBOR for one-month Sterling deposits. To provide a hedge against the possible variance between:

- (1) the LLP Variable Base Rate payable on the variable rate loans, the rates of interest payable on the Tracker Rate Loans, the fixed rates of interest payable on the Fixed Rate Loans and the rates of interest payable on the Capped Rate Loans (together the **Loan Rates of Interest**) in respect of those Loans sold by the Original Seller to the LLP; and
- (2) LIBOR for one-month Sterling deposits,

the LLP, Halifax (in its capacity as interest rate swap provider, the **Original Interest Rate Swap Provider**) and the Security Trustee have entered into an interest rate swap (the **Original Interest Rate Swap**) governed by an ISDA master agreement, including a schedule and confirmation thereto (the **Original Interest Rate Swap Agreement**) on the Programme Date.

Each New Seller (in its capacity as interest rate swap provider, a **New Interest Rate Swap Provider** and, together with the Original Interest Rate Swap Provider and any other New Interest Rate Swap Provider, the **Interest Rate Swap Providers**) will also enter into an interest rate swap (the **New Interest Rate Swap** and, together with the Original Interest Rate Swap, the **Interest Rate Swaps**) with the LLP and the Security Trustee in respect of those Loans sold by the relevant New Seller on substantially the same terms as the Original Interest Rate Swap Agreement (each, a **New Interest Rate Swap Agreement** and, together with the Original Interest Rate Swap Agreement and any other New Interest Rate Swap Agreement, the **Interest Rate Swap Agreements**).

In the event that the relevant ratings of an Interest Rate Swap Provider, or any guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the ratings specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) for such Interest Rate Swap Provider, and, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, such Interest Rate Swap Provider will be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with ratings required by the relevant Rating Agency, procuring another entity with rating(s) required by the relevant Rating Agency to become co-obligor in respect of its obligations, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the LLP to terminate the relevant Interest Rate Swap Agreement.

Each Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an **Interest Rate Swap Early Termination Event**), including:

- at the option of any party to an Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the relevant Interest Rate Swap Agreement; and
- upon the occurrence of an insolvency of an Interest Rate Swap Provider, or any guarantor, or the merger of one of the parties without an assumption of the obligations under the relevant Interest Rate Swap Agreement (except in respect of a transfer by the LLP to the Security Trustee in its fiduciary capacity).

Upon the termination of an Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the LLP or the relevant Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Interest Rate Swap Agreement.

If withholding taxes are imposed on payments made by an Interest Rate Swap Provider under an Interest Rate Swap, the Interest Rate Swap Provider shall always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the LLP to the Interest Rate Swap Provider under an Interest Rate Swap, the LLP shall not be obliged to gross up those payments.

If the LLP is required to sell Selected Loans in the Portfolio in order to provide liquidity in respect of Hard Bullet Covered Bonds following a breach of the Pre-Maturity Test or in respect of the Earliest Maturing Covered Bonds following an HBOS Event of Default and service of a Notice to Pay on the LLP, then to the extent that such Selected Loans include Fixed Rate Loans, either:

- (a) the Interest Rate Swap(s) in connection with such Fixed Rate 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) such Interest Rate Swap(s) will be partially novated to the purchaser of such Fixed Rate Loans, and such purchaser will thereby become party to a separate interest rate swap transaction with the relevant Interest Rate Swap Provider.

The Interest Rate Swap Agreements are (or, as applicable, will be) governed by English law.

### **Covered Bond Swap Agreements**

HBOS Treasury Services plc (in its capacity as swap provider, the **Covered Bond Swap Provider**) will enter into swap transactions (the **Covered Bond Swaps**, and together with the Interest Rate Swaps, the **Swaps**) with the LLP and the Security Trustee in its fiduciary capacity, each such Covered Bond Swap governed by an ISDA master agreement, including a schedule and confirmation (the **Covered Bond Swap Agreements**), to hedge (after service on the LLP of a Notice to Pay) certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP under the Covered Bond Guarantee in respect of Covered Bonds. Where required to hedge such risks, there will be one Covered Bond Swap Agreement and Covered Bond Swap in relation to each Series of Covered Bonds. Under the Covered Bond Swaps, after service on the LLP of a Notice to Pay, the Covered Bond Swap Provider will pay to the LLP amounts equivalent to the amounts that would be payable by the LLP under the Covered Bond Guarantee in respect of interest and principal payable under the Covered Bonds and, in return, the LLP will pay to the Covered Bond Swap Provider on each LLP Payment Date an amount in Sterling calculated by reference to LIBOR for one-month Sterling deposits for the relevant Interest Period plus a spread.

Under the terms of each Covered Bond Swap, in the event that the relevant rating of the Covered Bond Swap Provider (or for such time as the Covered Bond Swap Provider is the Issuer, its Deemed Ratings) or any guarantor, as applicable is downgraded by a Rating Agency below the rating(s) specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Covered Bond Swap Provider, and, where applicable, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap, arranging for its obligations under the Covered Bond Swap to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor in respect of its obligations under the Covered Bond Swap, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the LLP to terminate the Covered Bond Swap.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay 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, or the merger of one of the parties without an assumption of the obligations under the relevant Covered Bond Swap Agreement (except in respect of a transfer by the LLP to the Security Trustee in its fiduciary capacity).

Upon the termination of a Covered Bond Swap, the LLP or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made in Sterling.

If withholding taxes are imposed on payments made by the Covered Bond Swap Provider to the LLP under a Covered Bond Swap, the Covered Bond Swap Provider shall always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap, the LLP shall not be obliged to gross up those payments.

The Covered Bond Swap Agreements are (or, as applicable, will be) governed by English law.

### **Bank Account Agreement**

Pursuant to the terms of a bank account agreement entered into on the Programme Date between the LLP, Bank of Scotland as account bank (in such capacity, the **Account Bank**), the Cash Manager and the Security Trustee (the **Bank Account Agreement**), the LLP will maintain with the Account Bank the accounts described below, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge:

- (a) the GIC Account into which are paid all amounts received from Borrowers in respect of Loans in the Portfolio. On each LLP Payment Date as applicable, amounts required to meet the LLP's various creditors and amounts to be distributed to the members under the LLP Deed will be transferred to the Transaction Account; and

- (b) the Transaction Account into which moneys standing to the credit of the GIC Account will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under *Cashflows*.

If the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank cease to be rated at least A-1+ by S&P, P-1 by Moody's, or F1+ by Fitch (the **Account Bank Ratings**) then either:

- the GIC Account and the Transaction Account will be closed and new accounts opened with a financial institution (i) whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, P-1 by Moody's, and F1+ by Fitch and (ii) which is an authorised person under FSMA; or
- the Account Bank will obtain a guarantee of its obligations under the Bank Account Agreement from a financial institution whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, P-1 by Moody's, and F1+ by Fitch,

in each case, provided that the Rating Agencies then rating the Covered Bonds confirm that the then current ratings of the Covered Bonds would not be adversely affected thereby.

For the purposes hereof:

**GIC Account** means the account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Guaranteed Investment Contract, the Bank Account Agreement and the Deed of Charge or such additional or replacement account as may be for the time being in place with the prior consent of the Security Trustee.

**Transaction Account** means the account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such other account as may for the time being be in place with the prior consent of the Security Trustee and designated as such.

The Bank Account Agreement is governed by English law.

#### **Stand-by Bank Account Agreement**

Pursuant to the terms of a stand-by bank account agreement entered into on the Programme Date between the LLP, Citibank, N.A. (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (the **Stand-by Bank Account Agreement**), the LLP will open with the Stand-by Account Bank a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) if the LLP cannot find a replacement account bank in accordance with the terms of the Bank Account Agreement or the Account Bank cannot obtain a guarantee of its obligations, in each case if the ratings of the Account Bank fall below the Account Bank Ratings, and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for other reasons. The Stand-by GIC Account and the Stand-by Transaction Account will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

References in this Offering Circular to the GIC Account or the Transaction Account include references to the Stand-by GIC Account or the Stand-by Transaction Account when the Stand-by GIC Account and the Stand-by Transaction Account become operative.

References to the **LLP Accounts** mean the GIC Account, the Transaction Account and any additional or replacement accounts opened in the name of the LLP, including the Stand-by GIC Account and the Stand-by Transaction Account.

The Stand-by Bank Account Agreement is governed by English law.

#### **Guaranteed Investment Contract**

The LLP has entered into a guaranteed investment contract with Bank of Scotland (in its capacity as GIC provider, the **GIC Provider**) and the Cash Manager on the Programme Date (the **Guaranteed Investment Contract** or **GIC**), pursuant to which the GIC Provider has agreed to pay interest on the moneys standing to the credit thereof at specified rates determined in accordance with the GIC.

The Guaranteed Investment Contract is governed by English law.

#### **Stand-by Guaranteed Investment Contract**

The LLP has entered into a stand-by guaranteed investment contract with Citibank, N.A. (the **Stand-by GIC Provider**) on the Programme Date (the **Stand-by Guaranteed Investment Contract**), pursuant to which

the Stand-by GIC Provider has agreed to pay interest on the Stand-by GIC Account at specified rates determined in accordance with the Stand-by Guaranteed Investment Contract.

The Stand-by Guaranteed Investment Contract is governed by English law.

### **Corporate Services Agreement**

The Liquidation Member, Holdings, Halifax and the LLP have entered into a corporate services agreement with Structured Finance Management Offshore Limited (the **Corporate Services Provider**) on the Programme Date (the **Corporate Services Agreement**), pursuant to which the Corporate Services Provider has agreed to provide corporate services to the Liquidation Member and Holdings.

The Corporate Services Agreement is governed by Jersey law.

### **Deed of Charge**

Pursuant to the terms of a deed of charge entered into on the Programme Date by the LLP, the Security Trustee and the other Secured Creditors (the **Deed of Charge**), the secured obligations of the LLP and all other 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 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 assignment by way of first fixed charge over the rights of the LLP in and to the mortgage indemnity guarantee policies;
- (c) 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 Sellers pursuant to the Scottish Declarations of Trust);
- (d) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party;
- (e) 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;
- (f) 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
- (g) a first floating charge over (a) 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 (b) all the assets and undertaking of the LLP located in or governed by the law of Scotland.

In respect of the property, rights and assets referred to in (c) above, fixed security will be created over such property, rights and assets sold to the LLP after the Programme Date by means of deeds supplemental to the Deed of Charge.

**Secured Creditors** means 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 Sellers, the Servicers, the Account Bank, the GIC Provider, the Stand-by Account Bank, the Stand-by GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Paying Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge.

### **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), release those Loans from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if:

- (i) 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; and
- (ii) the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.



***Enforcement***

If an LLP Acceleration Notice is served on the LLP the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the Security Trustee from the enforcement of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under *Cashflows*.

The Deed of Charge is governed by English law (other than the assignation in security referred to above and any assignation in security granted after the Programme Date pursuant and supplemental to the Deed of Charge which will be governed by Scots law).

***Governing Law***

The Deed of Charge is governed by English law.

## CREDIT STRUCTURE

Until a Notice to Pay is served on the LLP, the Covered Bonds will be obligations of the Issuer and the Group Guarantors only. 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 Group Guarantee and the Covered Bond Guarantee provide credit support to the Issuer;
- the Pre-Maturity Test is intended to provide liquidity to the LLP in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds 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 the occurrence of an HBOS Event of Default and service of a Notice of Pay on the LLP;
- a Reserve Fund will be established in the GIC Account to trap Available Revenue Receipts if the Issuer's short-term ratings or Deemed Rating, as applicable, fall below A-1+ by S&P, F1+ by Fitch or P-1 by Moody's;
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of 0.25 per cent. per annum below LIBOR for one-month Sterling deposits; and
- under the terms of the Stand-by Guaranteed Investment Contract, the Stand-by GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the Stand-by GIC Account at a rate of 0.25 per cent. per annum below LIBOR for one-month Sterling deposits.

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

### ***Guarantees***

Under the terms of the Group Guarantee, if the Issuer defaults in the payment on the due date of any moneys due and payable under the Trust Deed or the Covered Bonds, the Group Guarantors have agreed, on a joint and several basis, to unconditionally pay or procure to be paid unconditionally upon demand the amount in respect of which such default has been made.

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 accelerated payment pursuant to Condition 9 (*Events of Default and Enforcement*) following the occurrence of an HBOS Event of Default. In this circumstance, the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment on each Scheduled Payment Date.

See further *Summary of the Principal Documents - Trust Deed* as regards the terms of the Guarantees. 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 the occurrence of an HBOS Event of Default.

### ***Pre-Maturity Liquidity***

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 Pricing Supplement will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Test is intended to provide liquidity for the Hard Bullet Covered Bonds when the Issuer's credit ratings or Deemed Ratings, as applicable, fall to a certain level. On each London Business Day (each the **Pre-Maturity Test Date**) prior to the occurrence of an HBOS 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 Test has been breached, and if so, it shall immediately notify the Members and the Security Trustee thereof.

The Issuer will fail and be in breach of the **Pre-Maturity Test** on a Pre-Maturity Test Date if:

- (a) the Issuer's short-term credit rating or Deemed Rating, as applicable, from S&P falls to A-1 (or lower) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 6 months from the relevant Pre-Maturity Test Date; or
- (b) the Issuer's (i) long-term credit rating or Deemed Rating, as applicable, from Moody's falls to A2 (or lower) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 6 months from the relevant Pre-Maturity Test Date or (ii) short-term credit rating or Deemed Rating, as applicable, from Moody's falls to P-2 (or lower) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 12 months from the relevant Pre-Maturity Test Date; or
- (c) the Issuer's short-term credit rating or Deemed Rating, as applicable, from Fitch falls to F1 (or lower) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds will fall within 6 months from the relevant Pre-Maturity Test Date.

Following a breach of the Pre-Maturity 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 enjoyed by the Sellers pursuant to the terms of the Mortgage Sale Agreement,

provided that an HBOS Event of Default shall occur if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached less than six months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds, 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 Sellers are notified of the breach of the Pre-Maturity 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). The method for selling Selected Loans and their Related Security is described in *Summary of Principal Documents - The LLP Deed - Sales of Selected Loans and their Related Security if the Pre-Maturity Test is breached* above. The proceeds of sale of Selected Loans and their Related Security and/or the proceeds of any Cash Contribution as described above, will be recorded to the Pre-Maturity Liquidity Ledger on the GIC Account.

In certain circumstances, 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 Group Guarantors 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 HBOS 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 and/or the Group Guarantors fully repay the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the GIC Account shall be applied by the LLP in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

- (a) the Issuer is failing the Pre-Maturity 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 Test, but the 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 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. 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 aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If the Asset Coverage Test is failed on any Calculation Date, and such failure is not remedied on or before the next following Calculation Date, then an HBOS Event of Default will occur. 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 set-off on a Borrower's current or deposit accounts held with each Seller, set-off associated with drawings made by Borrowers under Flexible Loans and failure by Sellers, 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 Transfer Date. See further *Summary of the Principal Loans - LLP Deed - Asset Coverage Test*, above.

### ***Amortisation Test***

The Amortisation Test is intended to ensure that if, following an HBOS Event of Default and the service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice), 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 an HBOS Event of Default the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to 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. See further *Summary of the Principal Documents - LLP Deed - Amortisation Test*, above.

### ***Reserve Fund***

If at any time prior to an HBOS Event of Default the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations or Deemed Ratings, as applicable, cease to be rated A-1+ by S&P, P-1 by Moody's or F1+ by Fitch, the LLP will be required to establish a reserve fund (the **Reserve Fund**) on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Scheduled Interest due on the next following Interest Payment Date on each Series of Covered Bonds (the **Reserve Fund Required Amount**). The LLP will not be required to maintain the Reserve Fund following the occurrence of an HBOS Event of Default.

The Reserve Fund 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 falling at item (c) of 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 HBOS Event of Default 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.

## CASHFLOWS

As described above under *Credit Structure*, until a Notice to Pay is served on the LLP, the Covered Bonds will be obligations of the Issuer and the Group Guarantors only. Neither the Issuer nor any Group Guarantor is reliant, in any way, on the cashflows of the LLP to satisfy their respective obligations under the Covered Bonds.

This section summarises the cashflows of the LLP only, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority (all such orders of priority, the **Priorities of Payments**) (i) prior to an HBOS Event of Default and an LLP Event of Default, (ii) following an HBOS Event of Default (but prior to an LLP Event of Default) and (iii) following an LLP Event of Default in accordance with the LLP Deed or the Deed of Charge, as applicable.

### Definitions

For the purposes hereof:

**Available Principal Receipts** means 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 GIC Account (**but excluding** any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);
- (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, refinance an existing Term Advance or invest in Substitution Assets), (ii) any Cash Capital Contributions received from a Member and (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement;
- (c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the Group Guarantors 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); and
- (d) all amounts in respect of principal (if any) received by the LLP under the Covered Bond Swap Agreement on the relevant LLP Payment Date (other than any termination payments or Swap Collateral Excluded Amounts).

**Available Revenue Receipts** means on a relevant Calculation Date, an amount equal to the aggregate of:

- (a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on the GIC Account (**but excluding** any Revenue Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);
- (b) prior to the service of a Notice to Pay, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (c) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and Authorised Investments in the preceding Calculation Period and amounts received by the LLP under the Interest Rate Swap Agreements and in respect of interest received by the LLP under the Covered Bond Swap Agreements on the relevant LLP Payment Date (other than any termination payments or Swap Collateral Excluded Amounts);
- (d) any other Revenue Receipts not referred to in paragraphs (a) to (d) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account; and
- (e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund;

*less*

- (f) Third Party Amounts, which shall be paid on receipt in cleared funds to each Seller (to the extent that the Third Party Amounts relate to Loans serviced by that Seller).

**Covered Bond Swap Rate** means in relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate.

**Earliest Maturing Covered Bonds** means at any time the relevant Series of the Covered Bonds that has the earliest Final Maturity Date as specified in the applicable Pricing Supplement (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default).

**Excluded Swap Termination Amount** means in relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (i) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (ii) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider.

**Final Maturity Date** means the Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions.

**Interest Payment Date** means in relation to any Fixed Rate Covered Bond, such date or dates as indicated in the applicable Pricing Supplement and, in relation to any Floating Rate Covered Bond or Index Linked Interest Covered Bond, either:

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

**LLP Payment Period** means the period from and including an LLP Payment Date to but excluding the next following LLP Payment Date.

**Principal Receipts** means:

- (a) principal repayments under the Loans (including payments of arrears, Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan);
- (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property);
- (c) any payment pursuant to any insurance policy in respect of a property the subject of a Mortgage in connection with a Loan in the Portfolio; and
- (d) the proceeds of the repurchase of any Loan by any Seller from the LLP pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date).

**Reserve Fund Required Amount** means zero unless the Issuer is rated less than A-1+ by S&P or less than P-1 by Moody's or less than F1+ by Fitch, in which case it is the aggregate of the Scheduled Interest due on the next following Interest Payment Date on each Series of Covered Bonds.

**Revenue Receipts** means:

- (a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the LLP in respect of the Loans other than the Principal Receipts;
- (b) recoveries of interest and outstanding fees from defaulting Borrowers under Loans being enforced; and
- (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed.

**Sale Proceeds** means the cash proceeds realised from the sale of Selected Loans and their Related Security.

**Swap Collateral** means, at any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed.

**Swap Collateral Excluded Amounts** means, at any time, the amount of Swap Collateral which may not be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP under the terms of the relevant Swap Agreement.

**Swap Provider Default** means the occurrence of an Event of Default or Termination Event (each as defined in each of the Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event.

**Swap Provider Downgrade Event** means the occurrence of an Additional Termination Event or an Event of Default (each 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.

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

**Third Party Amounts** include:

- (a) payments of insurance premiums due to any provider of mortgage indemnity guarantees;
- (b) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer account;
- (c) payments by the Borrower of any fees (including Early Repayment Fees) and other charges which are due to the relevant Seller; and
- (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 (including giving insurance cover) to either that Borrower or the Seller (in relation to Loans sold by that Seller) or the LLP,

which amounts may be paid daily from moneys on deposit in the GIC Account.

**Allocation and Distribution of Revenue Receipts prior to the service of a Notice to Pay**

Prior to service of a Notice to Pay or an LLP Acceleration Notice on the LLP, Revenue Receipts will be allocated and distributed 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 Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling in the five months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (together with 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).

If an LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Revenue Receipts under the Pre-Acceleration Revenue Priority of Payments will be delayed until the Issuer and/or the Group Guarantors have made the scheduled interest and/or principal payments on that Interest Payment Date.

***Pre-Acceleration Revenue Priority of Payments***

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the amount of Available Revenue Receipts.

Prior to service of a Notice to Pay or service of an LLP Acceleration Notice on the LLP, Available Revenue Receipts will be applied by or on behalf of the LLP on each LLP Payment Date (except for amounts due to third parties by the LLP under paragraphs (a) and (b), 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 of any amounts 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 and discharge any liability of the LLP for taxes;

- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicers and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicers under the provisions of the Servicing Agreements in the immediately succeeding LLP Payment Period, together with applicable VAT (or 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 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 similar taxes) thereon as provided therein;
  - (iii) amounts (if any) due and payable to the Account Bank (including costs) pursuant to the terms of the Bank Account Agreement, together with applicable VAT (or similar taxes) thereon as provided therein;
  - (iv) amounts due and payable to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement; and
  - (v) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (j) below), together with applicable VAT (or similar taxes) thereon as provided therein;
- (c) *third*, to pay *pro rata* and *pari passu* any amount due to the Interest Rate Swap Providers (including any termination payment due and payable by the LLP under the relevant Interest Rate Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the relevant Interest Rate Swap Agreements;
- (d) *fourth*, towards a credit to the Reserve Ledger on the GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
- (e) *fifth*, if the LLP is required to make a deposit to the Pre-Maturity Liquidity Ledger in accordance with the LLP Deed, towards a credit to the GIC Account with a corresponding credit to that Ledger of an amount up to but not exceeding the difference between:
  - (i) the 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 Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or at the same date as the relevant Series of Hard Bullet Covered Bonds;
- (f) *sixth*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Event of Default is either remedied or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (g) *seventh*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof any Excluded Swap Termination Amount due and payable by the LLP under the relevant Interest Rate Swap Agreements;
- (h) *eighth*, towards payment of any amounts due and payable (excluding principal amounts due and payable) to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (i) *ninth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed;
- (j) *tenth*, towards payment of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (k) *eleventh*, in respect of Deferred Consideration due to the Sellers for the transfer of the Loans and their Related Security to the LLP, to pay all remaining Available Revenue Receipts (except for an amount equal to the profit to be paid to the Members in accordance with (l) below) to the Sellers *pari passu*, but so that only Available Revenue Receipts that are specifically attributable to Loans sold by a relevant Seller shall be paid to that Seller; and
- (l) *twelfth*, towards payment *pro rata* and *pari passu* to the Members of the sum of £3,000 (or such other sum as may be agreed by the Members from time to time) in aggregate, to be allocated and paid to



each Member in proportion to their respective Capital Contribution Balances as at the relevant Calculation Date subject to a minimum of £1.00 each, as their profit for their respective interests as Members in the LLP.

#### **Allocation and Distribution of Principal Receipts prior to service of a Notice to Pay**

Prior to service of a Notice to Pay or an LLP Acceleration Notice on the LLP, Principal Receipts will be allocated and distributed as described below.

On each Calculation Date, the LLP or the Cash Manager on its behalf will calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments described below and (b) the amount of all Available Principal Receipts.

If an LLP Payment Date is the same as an Interest Payment Date or Final Maturity Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer and/or Group Guarantors have made scheduled interest and/or principal payments on that Interest Payment Date.

#### ***Pre-Acceleration Principal Priority of Payments***

Prior to service of a Notice to Pay or an LLP Acceleration Notice on the LLP, all Available Principal Receipts (other than Cash Capital Contributions made from time to time by the Issuer, which shall (subject to complying with the Asset Coverage Test) be distributed to the Issuer as a Capital Distribution) will be applied by or on behalf of the LLP on each LLP Payment Date in making the following payments and provisions (the **Pre-Acceleration Principal Priority of Payments**):

- (a) *first*, if the Pre-Maturity Test has been failed by the Issuer in respect of any 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 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 Required Redemption Amount of all other 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 Sellers in accordance with the terms of the Mortgage Sale Agreement in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test, but so that only Available Principal Receipts that are specifically attributable to Loans sold by a specific Seller shall be firstly applied to acquire New Loans and their Related Security from that Seller and thereafter to the extent that such Seller fails or declines to sell New Loans to the LLP, to acquire New Loans from any Seller and/or to acquire Substitution Assets;
- (c) *third*, to deposit the remaining Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test;
- (d) *fourth*, provided that all amounts outstanding under a Series of Covered Bonds have been repaid in full, in or towards repayment of the corresponding Term Advance related to such Series of Covered Bonds; and
- (e) *fifth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution *pari passu* to each Member (other than the Liquidation Member) by way of distribution of that Member's equity in the LLP in an amount equal to any remaining Available Principal Receipts but so that only Available Principal Receipts that are specifically attributable to Loans sold by a specific Member (in its capacity as a Seller) shall be paid to that Member.

#### **Allocation and Distribution of moneys following service of a Notice to Pay**

At any time after the occurrence of an HBOS Event of Default and service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice on the LLP, all moneys (other than Third Party Amounts) will be applied as described below.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount standing to the credit of the GIC Account.

The LLP will 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) 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 relevant in respect of the relevant Series of Covered Bonds on the scheduled repayment date thereof.

### ***Guarantee Priority of Payments***

If a Notice to Pay is served on the LLP in connection with the Pre-Maturity Test (as set out in the LLP Deed), the LLP shall on the relevant Final Maturity Date apply all moneys standing to the credit of the Pre-Maturity Liquidity Ledger (and transferred to the Transaction Account on the relevant LLP Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds in accordance with the LLP Deed (as described in *Credit Structure — Pre Maturity Liquidity*). Subject thereto, on each LLP Payment Date after the service of a Notice to Pay on the LLP (but prior to the occurrence of an LLP Event of Default), the LLP or the Cash Manager on its behalf will apply moneys standing to the credit of the Transaction Account to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and applicable VAT (or similar taxes) thereon as provided therein;
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable VAT (or similar taxes) thereon as provided therein;
  - (iii) any remuneration then due and payable to the Agent Bank and the Agents under the provisions of the Agency Agreement together with applicable VAT (or similar taxes) thereon as provided therein; and
  - (iv) 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) 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;
- (b) *second*, in or towards satisfaction *pro rata* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicers and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicers in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreements together with applicable VAT (or 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 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 VAT (or similar taxes) thereon as provided therein;
  - (iii) amounts (if any) due and payable to the Account Bank (including costs) pursuant to the terms of the Bank Account Agreement, together with applicable VAT (or similar taxes) thereon as provided therein;
  - (iv) amounts due and payable to the Corporate Services Provider pursuant to the Corporate Services Agreement; and
  - (v) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (j) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or similar taxes) thereon as provided therein;
- (c) *third*, in or towards satisfaction *pro rata* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Providers (including any termination payment due and

payable by the LLP under the relevant Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreements;

- (d) *fourth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:
- (i) the amounts due and payable to the Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (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 on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (d) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is Due for Payment on each Series of Covered Bonds under (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 Covered Bond Swap Provider in respect of each Series of Covered Bonds under (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;

- (e) *fifth*, 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 and payable to the Covered Bond Swap Provider *pro rata* and *pari passu* in respect of the relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; 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 on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment on the relevant Series of Covered Bonds under (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 Covered Bond Swap Provider in respect of each Series of Covered Bonds under (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;

- (f) *sixth*, to deposit the remaining moneys in the GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (e) (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);
- (g) *seventh*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;
- (h) *eighth*, 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;
- (i) *ninth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed;
- (j) *tenth*, towards payment of certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (k) *eleventh*, thereafter any remaining moneys will be applied in accordance with the LLP Deed.

**Application of moneys received by the Security Trustee following the occurrence of an LLP Event of Default and enforcement of the Security**

Under the terms of the Deed of Charge, all moneys received or recovered by the Security Trustee (or a Receiver appointed on its behalf) will be applied following the enforcement of the Security 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* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to the Bond Trustee under the provisions of the Trust Deed together with interest and applicable VAT (or similar taxes) thereon as provided therein;
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable VAT (or similar taxes) thereon as provided therein; and
  - (iii) any remuneration then due and payable to the Agent Bank and the Agents under or pursuant to the Agency Agreement together with applicable VAT (or similar taxes) thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicers and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicers under the provisions of the Servicing Agreements, together with applicable VAT (or 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 or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with applicable VAT (or similar taxes) thereon as provided therein;
  - (iii) amounts due to the Account Bank or, as applicable, the Standby Account Bank (including costs) pursuant to the terms of the Bank Account Agreement or as applicable, the Stand-by Bank Account Agreement, together with applicable VAT (or similar taxes) thereon as provided therein; and
  - (iv) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement;
- (c) *third*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Providers (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreements;
- (d) *fourth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:
  - (i) the amounts due and payable to the Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) to the Bond Trustee 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 (d) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the interest and principal due and payable on each Series of Covered Bonds under (d)(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 Covered Bond Swap Provider in respect of each Series of Covered Bonds under (d)(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;
- (e) *fifth*, 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 to the relevant Swap Provider under the relevant Swap Agreement;

- (f) *sixth*, after the Covered Bonds have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;
- (g) *seventh*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (h) *eighth*, thereafter any remaining moneys shall be applied in or towards payment to the Members pursuant to the LLP Deed.

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**), consisting of Loans and their Related Security sold by Sellers 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 Loans and their Related Security which have been redeemed in full prior to the First Transfer Date), and all right, title, interest and benefit of the Original Seller in and to:

- (a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Expenses and Capitalised Arrears) 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 any undertakings made or expressed to be made in favour of the Original Seller under the applicable Mortgage Terms;
- (b) subject where applicable to the subsisting rights of redemption of Borrowers, all Deeds of Consent (as defined in the Master Definitions and Construction Agreement), Deeds of Postponement (as defined in the Master Definitions and Construction Agreement), MHA Documentation (as defined in the Master Definitions and Construction Agreement) or any collateral security for the repayment of the relevant Loans;
- (c) the right to exercise all the powers of the Original Seller in relation thereto;
- (d) all the estate and interest in the Properties vested in the Original Seller;
- (e) each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Original 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 Original Seller to make or offer to make any such Loan or part thereof;
- (f) all rights, title and interests of the Original Seller (including, without limitation, the proceeds of all claims) to which the Seller is entitled under the Buildings Policies (as defined in the Master Definitions and Construction Agreement) and the Properties in Possession Cover (as defined in the Master Definitions and Construction Agreement); and
- (g) the MIG Policies (as defined in the Master Definitions and Construction Agreement), so far as they relate to the Loans comprised in that portfolio of Loans and their Related Security, including the right to receive the proceeds of any claim.

**New Portfolio** means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer 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 relevant Seller in and to the rights and assets set out in paragraphs (a) to (h) above (except that the “relevant Seller” should be read in place of “Original Seller”).

See also the following investment considerations under *Investment Considerations - Investment Considerations relating to the LLP - Limited description of the Portfolio - Maintenance of Portfolio - Changes to the Lending Criteria of the Sellers* and *- The Loans of New Sellers may be included in the Portfolio*.

## **DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS**

Since 6th April, 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland (but not Northern Ireland) under the Limited Liability Partnership Act 2000 (the **LLPA 2000**). Limited liability partnerships 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, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 1985 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2001 so as to apply most of the insolvency and winding up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

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

### **Partnership characteristics**

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

### **Taxation**

Limited liability partnerships are tax transparent except in 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.

## TAXATION

### United Kingdom Taxation

*The following is a general description of certain United Kingdom tax considerations relating to the Covered Bonds based on the Issuer's understanding of current law and practice in the United Kingdom. It does not purport to be a complete analysis of all tax considerations relating to the Covered Bonds. It only applies to the position of persons who are the absolute beneficial owners of Covered Bonds and may not apply to certain classes of persons such as dealers. Prospective purchasers of Covered Bonds 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 consult their own professional tax advisers. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.*

#### **Payment of Interest by the Issuer on the Covered Bonds**

The Issuer, provided that it continues to be a bank within the meaning of section 840A of the Income and Corporation Taxes Act 1988 (ICTA), and provided that the interest on the Covered Bonds is paid in the ordinary course of its business within the meaning of section 349 of ICTA, will be entitled to make payment of interest without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Covered Bonds may also be paid without withholding or deduction on account of United Kingdom tax where (i) the Covered Bonds are listed on a "recognised stock exchange", as defined in section 841 of ICTA (the London Stock Exchange and the Luxembourg Stock Exchange are recognised stock exchanges and under Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the UK Listing Authority and admitted to trading by the London Stock Exchange and securities will be treated as listed on the Luxembourg Stock Exchange if they are listed by the competent authority in Luxembourg and admitted to trading by the Luxembourg Stock Exchange); (ii) the maturity of the Covered Bond is less than 365 days; or (iii) the interest on the Covered Bond is paid to a person who belongs in the United Kingdom and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Covered Bond is paid reasonably believes) that either:

- (a) the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; or
- (b) the payment is made to:
  - (i) a local authority;
  - (ii) a charity (within the meaning of section 506(1) of ICTA);
  - (iii) the trustees or other persons having the management of a fund entitled to an exemption under section 620(6) of ICTA (retirement annuity trust schemes);
  - (iv) a person holding investments or deposits for the purposes of a scheme entitled to exemption under section 643(2) of ICTA (approved personal pension schemes);
  - (v) the plan manager of a plan, where an individual investing under the plan is entitled to an exemption under section 333 of ICTA (personal equity plans and individual saving accounts), and the plan manager receives the payment in respect of investments under the plan;
  - (vi) a society or institution with whom tax-exempt special savings accounts (within the meaning of section 326A of ICTA) may be held, where the society or institution receives the payment in respect of investments held for the purposes of such accounts,

or is made to one of the other classes of exempt bodies or persons set out in section 349B of ICTA, provided that the Inland Revenue has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that none of the conditions specified in section 349B of ICTA will be satisfied in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In all other cases, an amount must be withheld from payments of interest on the Covered Bonds on account of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the Inland Revenue under an applicable double taxation treaty.

#### **Payments by the Guarantors**

If a Guarantor makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds) such payment may (unless the Covered Bonds in question have a maturity of less than 365 days) be subject



to United Kingdom withholding tax, whether or not the Covered Bonds are listed on a “recognised stock exchange” within the meaning of section 841 of ICTA. If payments by a Group Guarantor are subject to any withholding or deduction for or on account of tax, additional amounts may become payable by such Group Guarantor subject to Condition 7. The LLP will not be required to pay such additional amounts.

***Proposed EU Savings Directive***

On 3rd June, 2003, the European Council of Economics and Finance Ministers agreed on proposals under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The proposals are anticipated to take effect from 1st January, 2005.

## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated the Programme Date agreed with the Issuer, the Group Guarantors and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under *Form of the Covered Bonds* and *Terms and Conditions of the Covered Bonds*. In the Programme Agreement, the Issuer (failing which, the Group Guarantors) has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### ***United States***

The Covered Bonds and the Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

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 Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the issue date, (as determined and certified by the relevant Dealer(s) or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager), of all Covered Bonds of the Tranche of which such Covered Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. 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 Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds 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 any Series 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.

Each issuance of Index Linked Covered Bonds or Dual Currency Covered Bonds shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer(s) may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) in relation to Covered Bonds which have a maturity of one year or more and which are to be admitted to the Official List, it has not offered or sold and will not offer or sell any Covered Bonds to persons in the United Kingdom prior to admission of such Covered Bonds to listing in accordance with Part VI of FSMA except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or FSMA;
- (ii) in relation to Covered Bonds which have a maturity of one year or more and which are not to be admitted to the Official List, it has not offered or sold and, prior to the expiry of the period of six months from the issue date of such Covered Bonds, will not offer or sell any such Covered Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the

public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

- (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of FSMA does not or, in the case of the Issuer or Bank of Scotland, as Group Guarantor, would not, if either were not an authorised person, apply to the Issuer, the Group Guarantors, or the LLP; and
- (iv) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

#### ***Japan***

The Covered Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the **Securities and Exchange Law**) and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it has not offered and will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

#### ***The Netherlands***

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, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in The Netherlands any Covered Bonds with a denomination of less than €50,000 (or its foreign currency equivalent) other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) unless one of the other exemptions from or exceptions to the prohibition contained in article 3 of the Dutch Securities Transactions Supervision Act 1995 (“*Wet toezicht effectenverkeer 1995*”) is applicable and the conditions attached to such exemption or exception are complied with.

#### ***General***

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all 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 Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Group Guarantors, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Group Guarantors, 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 restrictions as the Issuer and the relevant Dealer(s) shall agree and as shall be set out in the applicable Pricing Supplement.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by a resolution of a committee of the board of directors of the Issuer dated 14th July, 2003, the giving of the Covered Bond Guarantee has been duly authorised by a resolution of a committee of the board of directors of each of the Members of the LLP dated 14th July, 2003 and the giving of each Group Guarantee has been duly authorised by a resolution of a committee of the board of directors of each of Bank of Scotland and HBOS passed on 14th July, 2003, respectively.

### Listing of Covered Bonds

The admission of Covered Bonds to 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 London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Covered Bond or Covered Bonds initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds is expected to be granted on or before 18th July, 2003.

### Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (i) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the Guarantors;
- (ii) the consolidated audited financial statements of each of the Issuer and each of the Group Guarantors in respect of the financial periods ended 31st December, 2001 and 2002. The Issuer and the Group Guarantors each currently prepares audited consolidated and non-consolidated accounts on an annual basis. The LLP will prepare audited non-consolidated accounts on an annual basis;
- (iii) the most recently published audited annual financial statements of the Issuer, the Group Guarantors and the LLP and the most recently published unaudited interim financial statements (if any) of the Issuer and the Group Guarantors. The Issuer and the Group Guarantors each currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis. The LLP currently prepares unaudited non-consolidated accounts on a semi-annual basis;
- (iv) an accountant's report issued by KPMG Audit plc, the auditors of the LLP, in respect of the LLP's financial statements as at the Programme Date;
- (v) the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Receipts, the Coupons and the Talons;
- (vi) a copy of this Offering Circular;
- (vii) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (including a Pricing Supplement relating to an unlisted Covered Bond) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (viii) each of the following transaction documents (the **Transaction Documents**), namely:
  - Mortgage Sale Agreement
  - each Scottish Declaration of Trust
  - each Servicing Agreement
  - Asset Monitor Agreement
  - Intercompany Loan Agreement
  - LLP Deed
  - Deed of Admission
  - Cash Management Agreement
  - each Interest Rate Swap Agreement
  - each Covered Bond Swap Agreement

- Guaranteed Investment Contract
- Stand-by Guaranteed Investment Contract
- Bank Account Agreement
- Stand-by Bank Account Agreement
- Corporate Services Agreement
- Deed of Charge (and any documents entered into pursuant to the Deed of Charge)
- Trust Deed
- Agency Agreement
- Programme Agreement
- each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)
- Master Definitions and Construction Agreement.

### **Clearing Systems**

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Euroclear will be specified in the applicable Pricing Supplement. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

### **Significant or Material Change**

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or the Group Guarantors since 31st December, 2002 or of the LLP since 15th May, 2003, being the date of incorporation of the LLP and there has been no material adverse change in the financial position or prospects of the Issuer and the Group Guarantors since 31st December, 2002 or of the LLP since 15th May, 2003, being the date of incorporation of the LLP.

### **Litigation**

Neither the Issuer, either Group Guarantor nor the LLP is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer, either Group Guarantor or the LLP is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer, either Group Guarantor or the LLP.

### **Auditors**

The auditors of the Issuer are KPMG Audit Plc, chartered accountants and registered auditors, who have audited the Issuer's and each of the Group Guarantor's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 29th February, 2000 and 28th February, 2001, for the 10 month period ended 31st December, 2001 and for the financial year ended 31st December, 2002.

The auditors of the LLP are KPMG Audit Plc, chartered accountants and registered auditors, who have issued an accountants' report in respect of the LLP's financial statements as at the Programme Date in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. KPMG Audit plc have given and not withdrawn their written consent to the inclusion in this Offering Circular of their report in respect of the LLP and references to their name in the form and context in which they are included and have authorised the contents of those parts of the listing particulars comprising their said report for the purposes of section 79(3) of FSMA and Article 6(1)(e) of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

### **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.

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**ISSUER**

**HBOS Treasury Services plc**  
33 Old Broad Street  
London EC2N 1HZ

**GROUP GUARANTORS**

**HBOS plc**  
The Mound  
Edinburgh EH1 1YZ

**The Governor and Company  
of the Bank of Scotland**  
The Mound  
Edinburgh EH1 1YZ

**THE LLP**

**HBOS Covered Bonds LLP**  
Trinity Road  
Halifax  
West Yorkshire  
HX1 2RG

**SECURITY TRUSTEE AND BOND TRUSTEE**

**Citicorp Trustee Company Limited**  
Citigroup Centre  
Canada Square Canary Wharf  
London E14 5LB

**PRINCIPAL PAYING AGENT AND AGENT BANK**

**Citibank N.A., London Branch**  
5 Carmelite Street  
London  
EC4Y 0PA

**LUXEMBOURG PAYING AGENT**

**J.P. Morgan Bank Luxembourg S.A.**  
5 Rue Plaetis  
L-2338 Luxembourg

**LEGAL ADVISERS**

*To the Issuer, the Guarantors and the Sellers as to  
English law*

**Allen & Overy**  
One New Change  
London EC4M 9QQ

*To the Issuer, the Guarantors and the Sellers as to  
Scottish law*

**Shepherd+ Wedderburn**  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2ET

*To the Dealers as to English law*

**Sidley Austin Brown & Wood**  
1 Threadneedle Street  
London EC2R 8AW

*To the Security Trustee and the Bond Trustee as to  
English law*

**Sidley Austin Brown & Wood**  
Princes Court  
7 Princes Street  
London EC2R 8AQ

*To the Dealers as to Scottish law*

**Tods Murray WS**  
66 Queen Street  
Edinburgh  
EH2 4NE

## **AUDITORS**

*To the Group Guarantors*

**KPMG Audit Plc**  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

*To the LLP*

**KPMG Audit Plc**  
1 The Embankment  
Neville Street  
Leeds LS1 4DW

*To the Issuer*

**KPMG Audit Plc**  
8 Salisbury Square  
London EC4Y 8BB

## **DEALERS**

**Goldman Sachs International**  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**Dresdner Bank AG,  
London Branch**  
Riverbank House  
2 Swan Lane  
London EC4R 3UX

## **AUTHORISED ADVISER**

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

## **LUXEMBOURG LISTING AGENT**

**J. P. Morgan Bank Luxembourg S.A.**  
5 Rue Plaetis  
L-2338 Luxembourg