RISK DISCLOSURE STATEMENT

This General Risk Disclosure ("Notice") supplements the Lloyds Bank plc General Terms of Business (the "General Terms"), which you may receive from us from time to time and which can be accessed by clicking here or typing in the following link: http://commercialbanking.lloydsbank.com/important-information/commercial-banking-regulatory-information/. Defined terms used in this Notice have the same meaning as those in the General Terms unless otherwise indicated.

This Notice contains information that has been designed to assist you to understand the nature and risks of the financial instruments and services (our "Products", "Services" and "Transactions" as described in our General Terms) we offer, highlighting specific risks and considerations relevant to specific Products, and enabling you to take an informed decision before entering into any contract.

This Notice cannot disclose all of the possible risks or other significant information relating to our Products. It is designed to assist you in understanding the nature of our Products and the possible extent of your exposure to risk and potential loss.

Please note that, by its very nature, the risks described in this Notice are not exhaustive and other risks or combination of risks not set out could have a material impact on a Product or Service. **Various risks may occur simultaneously and/or may compound each other resulting in an unpredictable effect.**

You should have regard to your own experience, objectives, financial circumstances or any other circumstances when considering whether to enter into any of our Products or Services and, **where necessary, you should seek appropriate independent advice in advance of any decisions to enter into any Products**.

Retail clients in particular, whilst afforded greater protections under the UK regulatory regime, should not deal in our Products unless they understand their nature and the extent of their exposure to risk. They should also be satisfied that the product is suitable for them in the light of their circumstances and financial position.

Most Products you transact with us will require a credit line. This may negatively impact your ability to enter into future Products or take out future borrowings with us. It is also important to note that an adverse market movement can increase the contingent liability of the transaction which could further limit the amount of business you can could transact or borrow at a later date.

Different Products and Services involve different levels of exposure to risk and some of our Products may be unsuitable for some clients. You should be aware of and consider each of the following before entering into or dealing in any of our Products or Services:

1. Money market instruments

Money market instruments are financial instruments which are issued usually with a maturity period typically of up to 1 year or less. These include instruments normally dealt in the money markets including treasury bills, certificates of deposit and commercial paper. These provide investors with a market to earn a return on liquid assets.

Money market instruments may be exposed to the following risks:

i. Liquidity risk:

The insufficiency of liquidity may result from the level of supply and demand as well as from characteristics inherent to the Product in question, or from the market practices. The insufficiency of liquidity due to supply and demand occurs when the supply or the demand for one Product at a certain price is non-existent or extremely low. Under those circumstances it can be impossible to execute transactions immediately, or even to partly execute them, and execution may not be possible on favourable terms. In addition the cost of a transaction may be higher.

The insufficiency of liquidity due to the characteristics inherent to a Product or to market practices may occur, for example, because of long execution delays, a short-term liquidity need that cannot be covered quickly enough by the sale of Product or long lock-in periods that must expire before a transaction may be executed.

Low market liquidity may result in you not being able to enter into transactions, liquidate all or part of your Products, assess a value or your exposure or determine a fair price, as and when you require.

ii. **Foreign exchange risk:**

Currency movements are linked to economic, social and political factors amongst other things, and can fluctuate greatly even during the course of a single day.

Fluctuations in foreign currency rates will have an impact on your profit and loss where a Product involves a foreign currency element (for example, where you are issuing a Product or entering into a Money Market instrument denominated in a currency other than that in which your account is denominated).

iii. **Credit risk:**

Credit risk is the risk of loss caused by counterparties, issuers or other relevant parties failing to fulfil (in other words, “defaulting on”) their obligations (including following insolvency) or the risk of such parties’ credit quality deteriorating.

The insolvency of, or default by, the counterparty with whom you are dealing may lead to positions being liquidated or closed out without your consent or Products not being returned to you.

iv. **Interest rate risk:**

Interest rates can rise as well as fall. Fluctuations in interest rates, whether short-term or long-term, may have adverse consequences on the price or the value of Products. In addition, interest rate changes may affect price or cost of a Product, Service or Transaction so that your expected return would be reduced in case of an interest rate increase.

2. Derivatives

a) **OTC derivatives:**

A derivative is a financial contract, whose characteristics and value depend upon the characteristics and value of an underlying asset such as currencies, interest rates, commodities or market indices. Our financial derivatives are not traded on an exchange, but are unique contracts arranged by negotiation between two parties and known as “over-the-counter” or “OTC” derivatives.

b) The objective of investing in OTC derivatives is to manage the risk associated with an underlying asset, to protect against fluctuations in value. OTC derivatives are limited to the term agreed in the contract (the “Maturity Date”), and may expire worthless. These Products therefore carry a high degree of risk and can be highly complex. You should only enter into OTC derivatives if you are prepared to sustain a total or substantial loss of the money you have invested plus any commission or other charges or costs.

c) You should consider carefully whether these Products are suitable for you in light of your own personal circumstances and financial position and, if in any doubt, you should seek independent financial advice.

d) Our hedging activities related to a Product may impact the price of the underlying asset.

e) Specific risks relating to OTC derivatives include but are not limited to the following:

i. **Liquidity risk:**

Transactions in off-exchange or non-transferrable derivatives may involve greater risk than investing in on-exchange derivatives, because there is no open market in which to close out a position. It may be difficult to liquidate an existing position which may result in partial execution or executing on unfavourable terms, to assess the value of the position or the exposure to risk or loss. Bid and offer prices need not be quoted, and even where these are quoted, they will be established by dealers and it may therefore be difficult to establish what a 'fair' price is.

ii. **Valuation:**

The price or value of an OTC derivative can go up or down depending upon the time to maturity, market supply and demand of the underlying asset, as well as the market's perception as to future prices, the prices of any underlying or allied investments, or general economic factors. The sensitivity of an OTC derivative to these factors also varies throughout its lifetime. Consequently it will not be possible to calculate the value an OTC derivative prior to maturity from publicly available market data alone.

iii. **Risk mismatch:**

OTC derivatives may be used to hedge underlying risks, including but not limited to interest rate movements, currency fluctuations and market movements. Where you consider products that would outlast the underlying exposure, we recommend that you seek independent advice before proceeding.

It may not be possible to provide an OTC derivative that perfectly manages your underlying risks. Consequently you may retain some level of residual risk which will require ongoing management.

iv. **Combination risk:**

Hybrid Products, for example a swap linked to foreign exchange rates, are exposed to both interest rate and foreign exchange risks. Consequently the combined Product may be exposed to risks that might be greater than the risks of its component parts.

v. **Currency risk:**

OTC derivatives involving more than one currency (e.g. cross currency swaps) can be used to increase or decrease the exposure to any one currency, but may not completely eliminate exposure to exchange rate changes.

vi. **Interest Rate Risk:**

OTC derivatives can be used to increase or decrease the exposure to interest rates, but may not completely eliminate exposure to rate changes.

vii. **Price risk:**

The price of Products may go up and down depending on market supply and demand, investor perception, the prices of any underlying or linked Products, macroeconomic processes, or other factors which are outside of anyone's control (such as natural disasters) and may not be predictable.

viii. **Country risk:**

Country risk is the risk of exposure to losses caused by adverse events in a particular country or region, which has a direct or indirect impact on a Product or Service.

For example, it may happen that a foreign debtor, although solvent, cannot pay interest or repay the principal on his debt or may even completely default on its debt due to the unavailability of foreign currency or to currency exchange controls triggered, for instance, by economic, political or social instability in the relevant country.

The unavailability of foreign currency or currency exchange controls may lead to defaults on payments. Also, if you are entitled to payments in a foreign currency, you risk receiving payments in a currency which may not be convertible because of exchange controls.

Even in the absence of a crisis, state intervention may impact the value of, your rights in relation to, or any payments under any Product or Service. Such state intervention may include, for example, the imposition or removal of taxes, the confiscation of assets including nationalisation, the imposition or removal of trade quotas or tariffs or both, the passage of legislation making previously acceptable business practices or ownership structures now illegal or subject to censure.

ix. **Leverage risk:**

Leverage, the strategy of using borrowed money to increase the potential return of an investment, can be significantly increased with the use of OTC Derivatives. This means that potential positive or negative outcomes can be magnified, significantly increasing the impact of the risks described in this Notice.

x. **Regulatory / legal / tax risk:**

There are regulatory, legal and/or tax risks in all Transactions.

New or changes in legislation and regulations (or any interpretation thereof), any unclear legislation or regulations or any court ruling may impact the price or value of any Product, Service or Transaction. It may also impact liquidity, lead to additional costs or even make a Product, Service or Transaction illegal for any party involved. Possible changes in applicable tax assessment and withholding procedures may increase expenses or make you become subject to additional tax payments in respect of your Transaction.

xi. **Contract risk:**

The legal terms and conditions of a Product or Service may contain provisions which could operate against your interests. For example, they may permit early redemption or termination at a time which is unfavourable to you, or they may give wide discretion to the issuer of a Product to revise the terms applicable to the Products (without requiring the consent of the holder of the Product). In other cases, there may be limits on the amounts in relation to which rights attaching to the Products may be exercised and in the event that you hold too many (or too few) Products, your interests may be prejudiced.

Where a derivative is used to manage the risk under a loan, the derivative is a standalone contract from the loan agreement. Any early or unscheduled repayments of your borrowing(s) will not automatically reduce the notional amount of the derivative. If you wish to the notional amount of your derivative or fixed rate loan, you may incur a “Break Cost” upon this early termination, which may be substantial.

The Break Cost sum represents the economic value of what Lloyds Bank would have received had the payments been made and the agreement continued as agreed. The amount of the Break Cost is specific to each agreement, and is influenced by a number of factors, which include but are not limited to:

- The level of market rates at the time of the break event;
- The notional amount impacted by the amendment or termination;
- The length of time remaining to the maturity date; and
- Other macro economic factors such as market volatility.

xii. **Clearing risk:**

Where your derivative is cleared through a clearing house, there may be additional terms and conditions that apply.

f) **Swaps:**

Swaps are OTC derivatives where two parties agree to exchange predefined cash flows. The most common swap is an Interest Rate Swap (“IRS”) where a fixed rate is exchanged for a floating interest rate. An example of the use of an IRS might be where a borrower, obliged to pay the lender interest at a floating rate, enters into an IRS with a third party where the borrower agrees to pay the third party a fixed rate; in return the third party pays to the borrower, the floating rate which the borrower is obliged to pay on their loan. The result to the borrower is a fixed rate on the loan. Another type of swap commonly used is a cross-currency swap, where fixed rate cash flows in one currency are exchanged for floating rate cash flows in another currency.

g) **Options:**

An option is a financial derivative which represents a contract sold by one party (the one writing the option) to another (the one buying the option). The option buyer has the right, but not the obligation, to buy or sell a financial asset at an agreed price during a specified period of time or on a specified date. A premium is paid, usually but not always upfront, by the buyer to the seller of the option.

You should ensure you understand the exercise and expiration process and your rights and obligations upon exercise or expiry.

There are many different types of options with different characteristics and risks such as:

i. **Buying options:** this usually involves less risk than selling options because you can simply allow the option to lapse where the price of the underlying moves against you. The maximum loss is limited to the premium paid to purchase the option, plus any commission or transaction charges.

ii. If you have paid the premium upfront and the transaction is terminated early, you will not receive back the full premium paid upfront at the start of the product. If you have not fully paid the premium upfront, you may still be liable for the full amount of the premium.

iii. **Writing options:** If you write (i.e. sell) an option, the risk involved is considerably greater than with buying an option as you will have potentially unlimited loss dependent on the movement of the price of the underlying asset.

iv. By writing an option you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however much the market price has moved away from the exercise price. Consequently, if the market price of the underlying asset is much higher than the exercise price, you may make correspondingly large losses.

v. If you do not already own the underlying asset, the risk of loss can be unlimited. Only experienced persons should consider writing these types of options, and then only after ensuring that they fully understand all of the applicable conditions and potential risk exposures.

h) **Forward Contracts:**

A forward contract is a non-standardised OTC derivative contract between two parties to buy or to sell an asset, at a specified future time but at a price agreed upon today, making it a type of derivative instrument. The assets often traded in forward contracts including foreign currencies. Settlement occurs at the end of the forward contract.

The parties to a forward contract tend to bear more credit risk because there is no clearinghouse involved that guarantees performance. Thus, there is always a chance that a party to a forward contract will default, and the harmed party's only recourse may be to sue. As a result, forward-contract prices often include premiums for the added credit risk.

The forward price of the contract is mainly based on the current spot price of the underlying asset. Although the contract has no intrinsic value at the inception, over time, a contract may gain or lose value.

i) **Repurchase Agreements:**

A repurchase agreement is a form of short term borrowing where one party sells to the other a specific quantity of certain financial instruments for a certain period of time and on certain terms and conditions, and at the same time commits to repurchase those financial instruments at a certain date in the future, at a specified price and for a pre-agreed amount of money.

The effect of the repurchase agreement is to transfer title to these financial instruments to the purchaser for the duration of the repurchase agreement. At the end of this period the seller receives back securities of the same issuer and type. The purchaser’s obligation to transfer equivalent securities is secured against collateral. Both parties to a repurchase agreement are exposed to credit risk, although this may be mitigated by the posting of collateral. Repurchase agreements may also affect your tax position.

j) **Foreign Exchange Spot transactions:**

A Spot Foreign Exchange Contract or spot is allows the exchange of a certain amount of currency to take place at the current market rate. A spot deal will typically settle two working days after the deal is struck, although certain currencies may have other settlement conventions.

Currency movements are linked to economic, social and political factors amongst other things, and can fluctuate greatly, even during the course of a single day. Fluctuations in foreign currency rates will have an impact on profit and loss where a Transaction involves a foreign currency element.

Our hedging activities related to a Product may impact the price of the underlying asset and may affect the likelihood that any relevant information barrier is crossed.