COMMERCIAL BANKING

LLOYDS BANK

General Risk Disclosure

This General Risk Disclosure (Disclosure) supplements the Lloyds Bank plc, Lloyds Bank Corporate Markets plc, Bank of Scotland plc (collectively **"Lloyds Bank", "we" or "us"**) General Terms of Business (the "General Terms"), which may be amended from time to time and which can be accessed here: http://commercialbanking.lloydsbank.com/important-information/commercial-banking-regulatory-information/. Defined terms used in this Disclosure have the same meaning as those highlighted in the General Terms of Business stated.

This Disclosure contains information provided to assist your understanding of the risks of the financial instruments and services we offer ("Products", "Services" and "Transactions" all fall under our definition of "Our Products") as described in Part III of our General Terms Financial Instruments Transactions. This Disclosure cannot disclose all possible risks or all significant information relating to Our Products.

Please note that, by its very nature, the risks described in this Disclosure are not exhaustive and other risks or combination of risks not set out in this document could have a material impact on Our Products. **Various risks may crystallise simultaneously and/or could compound resulting in an unpredictable financial impact.**

You should have the knowledge and understanding necessary to assess if Our products are consistent with your financial objectives or circumstances when considering whether to enter into any of Our Products and, **where necessary, you should obtain independent advice before taking any decision to invest in any of Our Products.**

Retail clients, whilst afforded greater protections under the UK regulatory regime, should not deal in Our Products unless they fully understand their exposure to risk and potential loss.

The products you transact in with us may require a credit facility. Please note that adverse market movements can increase the contingent liability of an underlying transaction which may potentially impact your ability to transact further products or to enter into additional borrowings with us.

Different products and services involve varying levels of exposure to financial risk and some of Our Products may be unsuitable for some clients. You should be aware of and consider each of the following before transacting in Our Products:

1. Debt Securities (including Bonds and Notes)

(a) Debt securities (for example, bonds and notes) are financial instruments which contain a promise by the issuer, normally a company or a government entity, to pay the holder of the instrument a defined amount on or by a specified date (the "maturity date"). Debt securities may be issued in bearer, registered, certificated or dematerialised form. The maturity date of the debt securities as well as the terms and conditions of repayment are determined in advance. Debt securities are usually repaid either at the maturity date or by annual or more frequent payments.

(b) Debt securities may be secured or unsecured. In the case of secured debt, the issuer grants a security interest over specific assets and/or cash flows, which can typically be enforced when the issuer fails to fulfil its obligations. The credit risk in relation to the issuer is to some extent mitigated through this security interest.

(c) In some cases, payment by the issuer under the debt securities may also be guaranteed by another party. The guarantor will agree to make certain payments under the debt securities in case an issuer fails to make its payments. The credit risk in relation to an issuer is to some extent mitigated by this guarantee.

(d) Debt securities usually provide for interest payments. Interest rates could include (i) a fixed rate; (ii) a floating rate calculated by reference to a fluctuating benchmark, (iii) a variable rate whereby the interest rate will step up or down at certain times or following certain triggers during the life of the debt security, or (iv) a combination of these rates.

(e) Debt securities may involve risks including but not limited to:

i. Insolvency risk:

An issuer may become insolvent, resulting in its inability to pay interest or redeem the debt security. The solvency of an issuer may change due to one or more of a range of factors including the general or financial prospects of the issuer, the economic sector of the issuer and/or political and economic developments in the countries where the issuer and/or its business is located. The impact of this risk is limited if the debt securities are secured and/or guaranteed. However, in such cases, the additional protection granted to an investor should be assessed on the basis of the assets securing the debt security and/or the status and creditworthiness of the guarantor. The deterioration of an issuer's solvency may influence the price of the debt securities that it issues, including the risk that the holder of the debt security(ies) receives less than the original investment or nothing.

ii. Credit risk:

Credit risk is the risk of default on a debt security that may arise from an issuer failing to make the required payments. The value of debt securities will fall in the event of an issuer's default under the debt security. Generally, the higher the relative rate of interest the higher the perceived credit risk of the issuer.

iii. Rating risk:

Debt securities can be rated by one or several independent rating agencies. The rating of a debt security does not necessarily reflect all the risks attached to it nor the impact that those risks could have on its value. A rating is not a recommendation for the purchase, sale or holding of debt securities and can, at any time, be suspended, modified or withdrawn by a rating agency. However, any suspension, modification or withdrawal of a rating given to a debt security may impact the value of, and/or the costs related to it.

iv. Country risk:

Payments to which an investor is entitled may be defaulted on in the event of there being no availability of foreign currency, or if limits are imposed on foreign currency transfers. Also, if the debt securities are issued in a foreign currency, an investor may risk receiving repayments in a currency that may not be convertible because of exchange controls. A country risk may exist where an issuer of a debt security is solvent.

v. Contract risk:

Where a debt security is issued on a foreign market, it will often be governed by the law of the country of issue. You should enquire about the possible impact of the applicability of such foreign laws on your rights as an investor.

Also, in some cases, the exercise of rights by others may impact your investment. For example, a product such as a bond may permit a majority of bondholders to decide on certain matters whilst such decision will be binding on bondholders who did not take part in such decision or who voted against such decision.

vi. Interest rate risk:

Fluctuations in interest rates may have adverse consequences on the price or value of debt securities. Debt security prices have an inverse relationship to debt security yields: when yield rises (for example, because of a general rise in market interest rates), prices will fall. The longer the maturity of the debt security and the lower the interest rate, then the higher a debt securities' sensitivity is to a rise in market rates. Uncertainty concerning interest rate movements can mean that purchasers of fixed rate debt securities carry the risk of a fall in the prices of the securities if interest rates rise.

vii. **Early redemption risk:**

The issuer of a debt security may include a provision allowing early redemption of the debt security if market interest rates fall. Such early redemption may result in a change to the expected yield.

viii. **Unlisted debt securities:**

Unlisted debt securities are not listed (or traded) on an exchange. Investments in unlisted debt securities carry higher risk than listed securities. Unlisted debt securities can often be illiquid, and their price formation may be imperfect and lack transparency. There are also fewer information disclosure requirements placed on issuers of unlisted debt securities leading to less transparency than in relation to listed debt securities.

ix. **Risks specific to certain types of debt securities:**

Additional risks may be associated with other types of debt securities including floating rate debt notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, indexed or inflation-linked bonds, subordinated bonds, collateralised debt obligation, collateralised loan obligation, and asset backed securities. For such debt securities, you should make enquiries about the risks referred to in the prospectus and related documentation and you should not purchase such debt securities before being certain that all risks are fully understood.

Please note, bespoke documentation is provided for Primary Market Issuances.

2. Money Market instruments

Money Market instruments are financial instruments which are typically issued with a maturity period of up to one year or less. These include instruments normally dealt in the financial markets and include treasury bills, certificates of deposit and commercial paper. Money Market instruments are highly liquid, meaning they can be readily converted into cash at short notice.

Money Market instruments may be exposed to the following risks:

i. **Liquidity risk:**

Liquidity risk is a financial risk that, for a certain period of time, Our Products may not be able to be easily traded or redeemed in cash. A lack of available liquid assets may result from the level of supply and demand, as well as from characteristics inherent to the product in question, or from market practices. Under those circumstances it may be impossible to execute transactions immediately, or even to partly execute them, or execution may not be possible on favourable terms, which may result in financial loss.

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

A lack of liquid assets available in the market may mean that you cannot to enter into transactions, sell all or part of Our Products, assess the value of your exposure or determine a fair price, as and when you require.

ii. **Foreign exchange risk:**

Foreign exchange risk is the risk of financial impact due to exchange rate fluctuations. Where a product involves a foreign currency element this could have an impact on your overall return. For example, where you are entering into a Money Market instrument denominated in a currency other than the one 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 (or "defaulting on") their obligations (including where they become insolvent) or the risk of the parties' credit quality deteriorating.

The insolvency of, or default by, a counterparty with whom you are dealing may lead to your 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, may have adverse consequences on the performance, or the value, of the product transacted resulting in a lower-than-expected return.

3. Derivatives

Over the Counter (OTC) derivatives:

a) A derivative is a financial contract, whose characteristics and value depend upon the value of an underlying asset such as currencies, interest rates, commodities or other 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 financial risk associated with an underlying asset, for protection against fluctuations in its value. OTC derivatives are limited to the term agreed in the contract (the "Maturity Date") and may expire without any value. 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 full or partial loss of the money you have invested plus any commission and/or other charges or costs.

c) You should consider carefully whether OTC derivatives 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) Hedging activities related to an OTC derivative may impact the price of the underlying asset.

Types of derivatives:

i. Foreign Exchange:

A foreign exchange derivative is a financial derivative whose payoff depends on the foreign exchange rates of two (or more) currencies over a specified period. These instruments are used for hedging foreign exchange risk, arbitrage or currency speculation.

ii. Foreign Exchange Spot transactions:

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

Currency movements are linked to economic, social and geopolitical factors amongst other things, and can fluctuate greatly during a single day. Fluctuations in foreign currency rates could have an impact on profit and loss where a transaction involves a foreign currency element.

iii. Non-Deliverable Commodities:

Non-deliverable Commodity derivatives enable an investor to invest in a commodity without physically owning it. A commodity derivative obtains its value from 'the underlying

asset', meaning its value is based on the physical commodity (e.g. wheat or gold) that it represents.
They can be traded 'over-the-counter' or on exchange. These contracts will reference prices quoted for standardised commodities on global commodities markets.

iv. Swaps:

Swaps are OTC derivatives where two parties agree to exchange pre-defined cash flows. The most common swap is an Interest Rate Swap ("IRS") where a fixed rate of interest is exchanged for a floating interest rate.
An example of the use of an IRS might be where a borrower, who is required to pay a lender interest at a floating rate (e.g. SONIA), enters into an IRS with a third party and agrees to pay that third party a fixed rate; in return that third party pays the borrower the floating rate which the borrower then uses to pay the lender of their debt facility. The net result to the borrower is a fixed rate on the debt facility.
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 to suit the investors funding requirements.

v. 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 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 of options 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.
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.

ii. **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 depending on the movement of the price of the underlying asset.
By writing an option you are accepting a legal obligation to purchase or sell the underlying asset if the option is exercised against you regardless of how much the market price may have 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.
If you do not already own the underlying asset, the risk of loss can be unlimited. Only experienced investors should consider writing these types of options, and then only after ensuring that they fully understand all the applicable conditions and potential risk exposures.

vi. Forward Contracts:

A forward contract is a non-standard OTC derivative contract between two parties to buy or to sell an asset, at a specified future time, at a price agreed at the point of execution, making it a type of derivative instrument. Settlement occurs at the end of the forward contract period.

The parties to a forward contract tend to bear more credit risk because there is no clearing house involved that guarantees performance. Thus, there is always a risk that a party to a forward contract will default, and the harmed party may need to commence civil proceedings. 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 inception, over time, it may gain or lose value.

vii. Repurchase Agreements:

A repurchase agreement is a form of short-term borrowing where one party sells to the other a specific quantity of a financial instrument for a certain period of time on certain terms and conditions, and at the same time commits to repurchase those financial instruments on an agreed future date, 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 (value that a borrower pledges as security for a loan). 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.

Risks relating to OTC derivatives may include but are not limited to the following:

i. Liquidity risk:

Liquidity risk is the risk of loss resulting from the inability to meet payment obligations in full and on time when they become due. It may be difficult to liquidate an existing derivative (must be agreed by all parties) which could result in partial execution or executing on unfavourable terms, or 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. 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.

iii. 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.

iv. 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 eliminate exposure to exchange rate changes.

v. Interest Rate Risk:

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

vi. Price risk:

The price of an OTC derivative 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.

vii. Valuation Risk:

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.

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 the OTC derivative.

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

The lack of availability 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 due from, a 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 Disclosure.

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 Our Products. It may also impact liquidity, lead to additional costs or even make Our Products 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 for Our Products may contain provisions which could operate against your interest. For example, they may permit early redemption or termination at a time which is not favourable to you, or they may provide discretion for us to revise the terms applicable to Our Products (without requiring your consent). In other cases, there may be limits on the amounts in relation to which rights attached to Our Products may be exercised and if you hold too many (or too few) products, your interest 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 make changes to the notional amount of, or terminate your derivative, you may incur a "Break Cost", which could be substantial.

The Break Cost sum represents the economic value of what we 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 several 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:

The clearing obligation for (OTC) derivatives depends on various factors, including the type of derivative, counterparties involved, and the clearing thresholds. Here are the key points:

1. **Scope of Clearing Obligation:**
    - Under the UK European Market Infrastructure Regulation (UK EMIR), all OTC derivative contracts within scope must be cleared.
    - Contracts subject to the clearing obligation must be cleared by a UK authorised or non-UK recognised central counterparty (CCP).
2. **Counterparties Affected:**
    - The clearing obligation applies to contracts between any combination of financial counterparties (FCs) and non-financial counterparties (NFCs) who exceed the relevant clearing thresholds.
    - UK EMIR REFIT expands the definition of FCs to include UK Alternative Investment Funds (AIFs) established in the UK, regardless of their manager's location.
    - There are exemptions for UCITS and AIFs exclusively serving employee share purchase plans
3. **Clearing Thresholds:**
    - To determine if you're subject to the clearing obligation, calculate your 12-month average aggregate group position of OTC derivatives in each asset class.
    - Compare it to the following clearing thresholds:
        - EUR 1 billion for credit and equity derivatives.
        - EUR 3 billion for interest rate instruments, foreign exchange (FX), and commodities

4. Investment Products:

These products can be complex and may involve a high risk of loss. Before entering into a structured investment product, you should consult with your own legal, regulatory, tax, financial and accounting advisors to the extent you consider it necessary, and make your own investment, hedging and trading decisions (including decisions regarding the suitability of these products) based upon your own judgment and advice from those advisors you consider necessary. Our hedging activities related to a product may impact the price of the underlying asset.