



## HSBC Covered Bonds (France)

(duly licensed French credit institution)

€ 8,000,000,000

### COVERED BOND PROGRAMME

Under the Covered Bond Programme described in this Base Prospectus (the "**Programme**"), HSBC Covered Bonds (France) (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue covered bonds to be governed by French law or German law (the "**Covered Bonds**"). The German law Covered Bonds will benefit from the same security and rights as the French law Covered Bonds.

The aggregate nominal amount of the Covered Bonds outstanding will not at any time exceed € 8,000,000,000 (or its equivalent in other currencies) at the date of issue.

Application has been made to the *Commission de surveillance du secteur financier* (the "**CSSF**") for approval of this Base Prospectus in its capacity as competent authority in Luxembourg under the *loi relative aux prospectus pour valeurs mobilières* dated 10 July 2005 which implements Directive 2003/71/EC dated 4 November 2003 in Luxembourg. Application may be made to the Luxembourg Stock Exchange for the Covered Bonds (except the German law Covered Bonds) issued under the Programme to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange during a period of twelve (12) months after the date of this Base Prospectus. The regulated market of the Luxembourg Stock Exchange is a Regulated Market for the purposes of Directive 2004/39/EC dated 21 April 2004. Covered Bonds (except the German law Covered Bonds) issued under the Programme may also be unlisted or listed and admitted to trading on any other market, including any other Regulated Market in any member state of the European Economic Area ("**EEA**"). The relevant final terms (a form of which is contained herein) in respect of the issue of any French law Covered Bonds (the "**Final Terms**") will specify whether or not such Covered Bonds will be listed and admitted to trading on any market and, if so, the relevant market. The German law Covered Bonds will not be admitted to trading nor listed on any stock exchange.

French law Covered Bonds may be issued either in dematerialised form ("**Dematerialised Covered Bonds**") or in materialised form ("**Materialised Covered Bonds**") as more fully described herein.

Dematerialised Covered Bonds will at all times be in book entry form in compliance with Articles L.211-3 *et seq.* of the French Monetary and Financial Code (*Code monétaire et financier*). No physical documents of title will be issued in respect of the Dematerialised Covered Bonds.

Dematerialised Covered Bonds may, at the option of the Issuer, be (i) in bearer form (*au porteur*) inscribed as from the issue date in the books of Euroclear France (acting as central depository) which shall credit the accounts of the Account Holders (as defined in "Terms and Conditions of the French law Covered Bonds - Form, Denomination, Title and Redenomination") including Euroclear Bank S.A./N.V. ("**Euroclear**") and the depository bank for Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), or (ii) in registered form (*au nominatif*) and, in such a latter case, at the option of the relevant Bondholder (as defined in "Terms and Conditions of the French law Covered Bonds - Form, Denomination, Title and Redenomination"), in either fully registered form (*au nominatif pur*), in which case they will be inscribed in an account maintained by the Issuer or by a registration agent (appointed in the relevant Final Terms) for the Issuer, or in administered registered form (*au nominatif administré*) in which case they will be inscribed in the accounts of the Account Holders designated by the relevant Bondholder.

Materialised Covered Bonds will be in bearer materialised form only and may only be issued outside France. A temporary global certificate in bearer form without interest coupons attached, (a "**Temporary Global Certificate**") will initially be issued in relation to Materialised Covered Bonds. Such Temporary Global Certificate will subsequently be exchanged for definitive Materialised Covered Bonds with, where applicable, coupons for interest or talons attached (the "**Definitive Materialised Covered Bonds**"), on or after a date expected to be on or about the fortieth (40<sup>th</sup>) day after the issue date of the Covered Bonds (subject to postponement as described in "**Temporary Global Certificate in respect of Materialised Covered Bonds**") upon certification as to non-U.S. beneficial ownership as more fully described herein. Temporary Global Certificates will (a) in the case of a Tranche (as defined in "Terms and Conditions of the French law Covered Bonds") intended to be cleared through Euroclear and/or Clearstream, Luxembourg, be deposited on the issue date with a common depository for Euroclear and Clearstream, Luxembourg, and (b) in the case of a Tranche intended to be cleared through a clearing system other than or in addition to Euroclear and/or Clearstream, Luxembourg or delivered outside a clearing system, be deposited as agreed between the Issuer and the Relevant Dealer(s) (as defined below). In the case of a Tranche which is not intended to be cleared through Euroclear and/or Clearstream, Luxembourg, the Covered Bonds of such Tranche cannot be listed on the Official List of the Luxembourg Stock Exchange and traded on the Regulated Market of the Luxembourg Stock Exchange.

Covered Bonds issued under the Programme are expected on issue to be rated Aaa by Moody's Investors Service ("**Moody's**") and AAA by Standard & Poor's Ratings Services ("**S&P**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

See "**Risk Factors**" below for certain information relevant to an investment in the Covered Bonds to be issued under the Programme.

ARRANGER  
HSBC

PERMANENT DEALER  
HSBC

This Base Prospectus (together with all supplements thereto from time to time), constitutes a base prospectus for the purposes of Article 5.4 of the Directive 2003/71/EC of the European Parliament and of the Council dated 4 November 2003 (the "Prospectus Directive") and contains or incorporates by reference all relevant information concerning the Issuer which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, as well as the base terms and conditions of the Covered Bonds (except the German law Covered Bonds) to be issued under the Programme. The terms and conditions applicable to each Tranche (as defined in "General Description of the Programme") not contained or incorporated by reference herein (including, without limitation, the aggregate nominal amount, issue price, redemption price thereof, and interest, if any, payable thereunder) will be determined by the Issuer and the relevant Dealer(s) at the time of the issue and will be set out in the relevant Final Terms.

This Base Prospectus is to be read and construed in conjunction with any document and/or information which is incorporated herein by reference in accordance with Article 15 of the *Loi relative aux prospectus pour valeurs mobilières* dated 10 July 2005 implementing the Prospectus Directive in Luxembourg and Article 28 of the European Commission Regulation N°809/2004 dated 29 April 2004 (see "Documents incorporated by Reference" below) as well as, in relation to any Tranche of Covered Bonds, with the relevant Final Terms.

This Base Prospectus (together with all supplements thereto from time to time) may only be used for the purposes for which it has been published.

The Arranger and the Dealers have not separately verified the information contained or incorporated by reference in this Base Prospectus. Neither the Arranger nor the Dealers make any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any other information supplied in connection with the Programme (including any information incorporated by reference) is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Covered Bonds. Each prospective investor in Covered Bonds should determine for itself the relevance of the information contained or incorporated by reference in this Base Prospectus and its purchase of Covered Bonds should be based upon such investigation as it deems necessary. Neither the Arranger nor the Dealers undertake to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or prospective investor in the Covered Bonds of any information that may come to the attention of the Dealers or the Arranger.

No person is or has been authorised to give any information or to make any representation other than those contained or incorporated by reference in this Base Prospectus in connection with the issue or sale of 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 Arranger or the Dealers (as defined in "General Description of the Programme"). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and the offering or sale of Covered Bonds in certain jurisdictions may be restricted by law. The Issuer, the Arranger and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger or the Dealers which is intended to permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bond may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any 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 Base Prospectus or any Covered Bonds

may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States of America, Japan and the European Economic Area (including France, Italy, the Netherlands and the United Kingdom).

This Base Prospectus has not been submitted to the clearance procedures of the French *Autorité des marchés financiers*.

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons as defined in Regulation S under the Securities Act ("Regulation S"). The Covered Bonds may include Materialised Covered Bonds in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Covered Bonds may not be offered or sold or, in the case of Materialised Covered Bonds in bearer form, delivered within the United States or, in the case of certain Materialised Covered Bonds in bearer form, to, or for the account or benefit of, United States persons as defined in the U.S. Internal Revenue Code of 1986, as amended. The Covered Bonds are being offered and sold outside the United States of America to non-U.S. persons in reliance on Regulation S.

For a description of these and certain further restrictions on offers, sales and transfers of Covered Bonds and on distribution of this Base Prospectus, see "Subscription and Sale".

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arranger or the Dealers to subscribe for, or purchase, any Covered Bonds.

In connection with the issue of any Tranche, the Dealer(s) (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of thirty (30) days after the issue date of the relevant Tranche and sixty (60) days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

None of the Arranger, the Dealers or the Issuer makes any representation to any prospective investor on the Covered Bonds regarding the legality of its investment under any applicable laws. Any prospective investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "€", "Euro", "euro" or "EUR" are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam, references to "£", "pounds sterling" and "Sterling" are to the lawful currency of the United Kingdom, references to "\$", "USD" and "US Dollar" are to the lawful currency of the United States of America, references to "¥", "JPY" and "Yen" are to the lawful currency of Japan and references to "CHF" and "Swiss Francs" are to the lawful currency of Switzerland.

In this Base Prospectus, any references to "euro equivalent" means the euro equivalent amount of the relevant amount denominated in the Specified Currency (as defined in section "Terms and Conditions of the French Law Covered Bonds"), being specified that, if the Issuer and the Borrower have entered into any Hedging Side Agreement (as defined in section "Hedging Strategy") which specifies a foreign exchange rate, the "euro equivalent" shall be calculated using such foreign exchange rate.

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**PERSONS RESPONSIBLE FOR THE INFORMATION GIVEN IN THE BASE PROSPECTUS**

HSBC Covered Bonds (France) accepts responsibility for the information contained in this document. To the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained or incorporated by reference in this Base Prospectus is in accordance with the facts and contains no omission likely to affect its import.

**HSBC Covered Bonds (France)**

15, rue Vernet  
75008 Paris  
France

Represented by: **Matthieu Kiss**  
*Président du Conseil d'Administration*

And by: **Hervé Akoun**  
*Directeur Général*

## GENERAL DESCRIPTION OF THE PROGRAMME

*Words and expressions defined in the section entitled "Terms and Conditions of the French law Covered Bonds" below shall have the same meanings in this general description. The expression "Covered Bonds" includes the German law Covered Bonds to the extent permitted by the terms and conditions applicable thereto.*

### 1. COVERED BONDS

**Issuer:** HSBC Covered Bonds (France), duly licensed French credit institution.

**Arranger:** HSBC France

**Dealers:** HSBC France

The Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional dealers either in respect of one (1) or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealer**" are to the person listed above as Dealer and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to the Permanent Dealer and all persons appointed as a dealer in respect of one (1) or more Tranches.

At the date of this Base Prospectus, only credit institutions and investment firms incorporated in a Member State of the European Union ("EU") and which are authorised by the relevant authority of such member home state to lead-manage bond issues in such Member State may act (a) as Dealers with respect to non-syndicated issues of Covered Bonds denominated in Euro and (b) as lead manager of issues of Covered Bonds denominated in Euro issued on a syndicated basis.

**Description:** Covered Bond Programme.

**Programme Limit:** Up to € 8,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Covered Bonds outstanding at any one (1) time.

**Fiscal Agent, Principal Paying Agent, Paris Paying Agent and Calculation Agent in respect of the French law Covered Bonds:** BNP Paribas Securities Services

**Listing Agent in respect of the French law Covered Bonds:** BNP Paribas Securities Services, Luxembourg Branch

**Method of Issue:** The Covered Bonds are issued outside France and may be distributed on a syndicated or non-syndicated basis. The Covered Bonds will be issued in series (each a "**Series**").

**Tranche:** Each Series of Covered Bonds may be issued in tranches (each a "**Tranche**") on the same or different issue dates.

<b>Maturities:</b>	<p>Subject to compliance with all relevant laws, regulations and directives, the Covered Bonds may have any maturity as specified in the relevant final terms (the "<b>Final Terms</b>"), subject to such minimum maturity as may be required by the applicable legal and/or regulatory requirements.</p> <p>An extended final maturity date (the "<b>Extended Final Maturity Date</b>") may be specified in the Final Terms of certain Series of Covered Bonds (the "<b>Extendable Maturity Covered Bonds</b>"). This means that if the Issuer fails to pay the Final Redemption Amount of the relevant Series on the Final Maturity Date, then payment of the unpaid amount shall be automatically deferred and shall become due and payable one (1) year later on the Extended Final Maturity Date. However, any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date. Interest will continue to accrue on any unpaid amount during such extended period and be payable on each Interest Payment Date and on the Extended Final Maturity Date in accordance with the applicable Conditions.</p> <p>Issue or amortisation of a Series of Extendable Maturity Covered Bonds shall not affect the issue or amortisation of any other Series.</p>
<b>Currencies:</b>	<p>Subject to the Hedging Strategy and to compliance with all relevant laws, regulations and directives, the Covered Bonds may be issued in Euro, U.S. dollars, Canadian dollars, pounds sterling, Japanese yen, Swiss francs and, subject to prior Rating Affirmation, in any other currency agreed between the Issuer and the relevant Dealer(s).</p>
<b>Denomination(s):</b>	<p>The Covered Bonds shall be issued in the Specified Denomination(s) set out in the relevant Final Terms, save that all French law Covered Bonds admitted to trading on a Regulated Market shall have a minimum denomination of €50,000 (or its equivalent in any other currency at the time of issue) or such higher amount as may be allowed or required from time to time in relation to the relevant Specified Currency. Dematerialised Covered Bonds shall be issued in one (1) denomination only.</p>
<b>Status:</b>	<p>The Covered Bonds, and, where applicable, any related Coupons and Receipts will constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and (subject to certain exceptions) at least <i>pari passu</i> with all other present or future unsubordinated obligations of the Issuer.</p>
<b>Negative Pledge:</b>	<p>There will be a negative pledge as set out in Condition 5(a).</p>
<b>Issuer Events of Default:</b>	<p>The terms of the Covered Bonds will contain events of default as set out in Condition 10.</p>
<b>Issuer Security:</b>	<p>The Bondholders will benefit from certain security interests and guarantees granted by the Issuer as security for the repayment of all sums due from time to time under the Covered Bonds, as set out in "<b>The Issuer Security</b>".</p>
<b>Redemption Amount:</b>	<p>Subject to any laws and regulations applicable from time to time, the relevant Final Terms will specify the basis for calculating the redemption amounts payable.</p>
<b>Optional Redemption:</b>	<p>The Final Terms issued in respect of each issue of Covered Bonds will state whether such Covered Bonds may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Bondholders and, if so, the terms applicable to such redemption.</p>

**Redemption by Instalments:**

The Final Terms issued in respect of each Tranche that are redeemable in two (2) or more instalments will set out the dates on which, and the amounts in which, such Covered Bonds may be redeemed.

**Early Redemption:**

Except as provided in "Optional Redemption" above, Covered Bonds will be redeemable at the option of the Issuer prior to their stated maturity only for tax reasons (as provided in Condition 7(f)) or illegality (as provided in Condition 7 (g)).

**Withholding Tax:**

1. All payments of principal and interest by or on behalf of the Issuer in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within France or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

2. Covered Bonds issued on or after 1 March 2010 (except Covered Bonds that are issued on or after 1 March 2010 and which are to be assimilated (*assimilables* for the purpose of French law) and form a single series with Covered Bonds issued before 1 March 2010 having the benefit of Article 131 *quater* of the French General Tax Code) fall under the new French withholding tax regime pursuant to the French "*loi de finances rectificative pour 2009 n° 3*" (no. 2009-1674 dated 30 December 2009) applicable as from 1 March 2010 (the "**Law**"). Payments of interest and other revenues made by the Issuer on such Covered Bonds will not be subject to the withholding tax set out under Article 125 A III of the French General Tax Code unless such payments are made outside France in a non-cooperative State or territory (*Etat ou territoire non coopératif*) within the meaning of Article 238-0 A of the French General Tax Code (a "**Non-Cooperative State**"). If such payments under the Covered Bonds are made in a Non-Cooperative State, a 50% withholding tax will be applicable (subject to certain exceptions described below and the more favourable provisions of any applicable double tax treaty) by virtue of Article 125 A III of the French General Tax Code.

Furthermore, interest and other revenues on such Covered Bonds will no longer be deductible from the Issuer's taxable income, as from the fiscal years starting on or after 1 January 2011, if they are paid or accrued to persons established in a Non-Cooperative State or paid in such a Non-Cooperative State. Under certain conditions, any such non-deductible interest and other revenues may be recharacterised as constructive dividends pursuant to Article 109 of the French General Tax Code, in which case such non-deductible interest and other revenues may be subject to the withholding tax set out under Article 119 *bis* of the French General Tax Code, at a rate of 25% or 50%.

Notwithstanding the foregoing, the Law provides that neither the 50% withholding tax nor the non-deductibility will apply in respect of a particular issue of Covered Bonds if the Issuer can prove that the principal purpose and effect of such issue of Covered Bonds was not that of allowing the payments of interest or other revenues to be made in a Non-Cooperative State (the "**Exception**"). Pursuant to the ruling (*rescrit*) no. 2010/11 (FP and FE) of the *Direction générale des impôts* dated 22 February 2010, an issue of Covered Bonds will benefit from the Exception without the Issuer having to provide any proof of the purpose and effect of such issue of Covered Bonds, if such Covered Bonds are:

- (i) offered by means of a public offer within the meaning of Article L.411-1 of the French Monetary and Financial Code or



pursuant to an equivalent offer in a State or territory other than a Non-Cooperative State. For this purpose, an "equivalent offer" means any offer requiring the registration or submission of an offer document by or with a foreign securities market authority; or

- (ii) admitted to trading on a regulated market or on a French or foreign multilateral securities trading system provided that such market or system is not located in a Non-Cooperative State, and the operation of such market is carried out by a market operator or an investment services provider, or by such other similar foreign entity, provided further that such market operator, investment services provider or entity is not located in a Non-Cooperative State; or
- (iii) admitted, at the time of their issue, to the operations of a central depository or of a securities clearing and delivery and payments systems operator within the meaning of Article L.561-2 of the French Monetary and Financial Code, or of one or more similar foreign depositories or operators provided that such depository or operator is not located in a Non-Cooperative State.

3. Interest and other revenues on Covered Bonds that are issued after 1 March 2010 and which are to be assimilated (*assimilables* for the purpose of French law) and form a single series with Covered Bonds issued (or deemed issued) outside France before 1 March 2010 with the benefit of Article 131 quater of the French General Tax Code will be exempt from the withholding tax set out under Article 125 A III of the French General Tax Code.

In addition, interest and other revenues paid by the Issuer on Covered Bonds issued after 1 March 2010 and which are to be assimilated (*assimilables* for the purpose of French law) and form a single series with Covered Bonds issued (or deemed issued) outside France before 1 March 2010 will not be subject to the withholding tax set out in Article 119 bis of the French General Tax Code solely on account of their being paid in a Non-Cooperative State or accrued or paid to persons established or domiciled in a Non-Cooperative State.

**Interest Periods and Interest Rates:**

The length of the interest periods for the Covered Bonds and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. The Covered Bonds may have a maximum interest rate, a minimum interest rate or both. The use of interest accrual periods permits the Covered Bonds to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

**Fixed Rate Covered Bonds:**

Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Final Terms.

**Floating Rate Covered Bonds:**

Floating Rate Covered Bonds will bear interest determined separately for each Series as follows:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions 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 of the relevant Series (the "**2000 ISDA Definitions**"); or

- (b) 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 2006 ISDA Definitions 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 of the relevant Series; or
- (c) on the basis of a reference rate appearing on an agreed screen page of a commercial quotation service (including, without limitation, EURIBOR, EONIA, LIBOR, CMS or TEC); or
- (d) on such other basis or benchmark as may be specified in the applicable Final Terms,

in each case plus or minus any applicable margin, if any, and calculated and payable as indicated in the applicable Final Terms. Floating Rate Covered Bonds may also have a maximum rate of interest, a minimum rate of interest or both.

**Zero Coupon Covered Bonds:**

Zero Coupon Covered Bonds may be issued at their nominal amount or at a discount to it and will not bear interest.

**Dual Currency Covered Bonds:**

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 may be specified in the relevant Final Terms.

**Index Linked Covered Bonds:**

Payments of principal or of interest in respect of Index Linked Covered Bonds will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms. Index Linked Covered Bonds may be issued by the Issuer subject to prior Rating Affirmation.

**Other Covered Bonds:**

Terms applicable to step-up Covered Bonds, step-down Covered Bonds, reverse dual currency Covered Bonds, optional dual currency Covered Bonds, partly paid Covered Bonds and any other type of Covered Bonds that the Issuer and any Dealer(s) may agree to issue under the Programme will be set out in the relevant Final Terms.

**Redenomination:**

French law Covered Bonds issued in the currency of any Member State of the EU which participates in the third stage (or any further stage) of the European Monetary Union may be redenominated into Euro, all as more fully provided in Condition 2(d).

**Consolidation:**

French law Covered Bonds of one Series may be consolidated with French law Covered Bonds of another Series as more fully provided in Condition 16.

**Form of Covered Bonds:**

French law Covered Bonds may be issued either in dematerialised form ("**Dematerialised Covered Bonds**") or in materialised form ("**Materialised Covered Bonds**").

Dematerialised Covered Bonds may, at the option of the Issuer, be issued in bearer form (*au porteur*) or in registered form (*au nominatif*) and, in such latter case, at the option of the relevant holder, in either fully registered form (*au nominatif pur*) or administered form (*au nominatif administré*). No physical documents of title will be issued in respect of Dematerialised Covered Bonds.

Materialised Covered Bonds will be in bearer form only. A Temporary Global Certificate will initially be issued in respect of each Tranche of Materialised Covered Bonds. Materialised Covered Bonds may only be issued outside France.

German law Covered Bonds will be issued in materialised registered form.

**Representation of  
French law  
Bondholders:**

French law Bondholders will, in respect of all Tranches in any Series, be grouped automatically for the defence of their common interests in a *masse* (in each case, the "**Masse**").

The Masse will be a separate legal entity and will act in part through a representative (the "**Representative**") and in part through a general meeting of the French law Bondholders (the "**General Meeting**").

**Governing Law:**

French law. The Issuer may from time to time issue German law Covered Bonds.

The French law Covered Bonds and German law Covered Bonds will benefit from the same security and rights. The terms and conditions of the German law Covered Bonds are contained in the Agency Agreement.

**Central Depository:**

Euroclear France in respect of Dematerialised Covered Bonds.

**Clearing Systems:**

Euroclear France as central depository in relation to Dematerialised Covered Bonds and, in relation to Materialised Covered Bonds, Clearstream, Luxembourg and Euroclear or any other clearing system that may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer(s).

**Initial Delivery of  
Dematerialised  
Covered Bonds:**

At least one (1) Paris business day before the issue date of each Tranche of Dematerialised Covered Bonds, the *Lettre comptable* relating to such Tranche shall be deposited with Euroclear France as Central Depository.

**Initial Delivery of  
Materialised Covered  
Bonds:**

On or before the issue date for each Tranche of Materialised Covered Bonds, the Temporary Global Certificate issued in respect of such Tranche shall be deposited with a common depository for Euroclear and Clearstream, Luxembourg or with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealer(s).

**Issue Price:**

Covered Bonds may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Covered Bonds may be issued, the issue price of which will be payable in two or more instalments.

**Listing and Admission  
to Trading:**

Application has been made for French law Covered Bonds to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and/or any other Regulated Market in the EEA in accordance with the Prospectus Directive and/or any other market as specified in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Covered Bonds may be unlisted. The German law Covered Bonds will not be admitted to trading.

**Rating:** Covered Bonds issued under the Programme are expected on issue to be rated Aaa by Moody's and AAA by S&P.

The rating of the Covered Bonds will be specified in the relevant Final Terms.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

**Selling Restrictions:** There are restrictions on the offer and sale of Covered Bonds and the distribution of offering material in various jurisdictions. In connection with the offering and sale of a particular Tranche, additional selling restrictions may be imposed in the relevant Final Terms (see section "**Subscription and Sale**").

The Issuer is Category 1 for the purposes of Regulation S under the United States Securities Act of 1933, as amended.

Materialised Covered Bonds will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless (i) the relevant Final Terms states that such Materialised Covered Bonds are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "**C Rules**") or (ii) such Materialised Covered Bonds are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Covered Bonds will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

Dematerialised Covered Bonds which are not in bearer form for U.S. tax purposes do not require compliance with the TEFRA rules.

## 2. THE BORROWER FACILITY AGREEMENT AND THE BORROWER COLLATERAL SECURITY

### **The Borrower Facility Agreement:**

The proceeds from the issuance of the Covered Bonds under the Programme will be used by HSBC Covered Bonds (France), as lender (in such capacity, the "**Lender**") to fund advances (each a "**Borrower Advance**") to be made available to HSBC France, as borrower (in such capacity, the "**Borrower**") under a multicurrency term facility agreement (the "**Borrower Facility**").

The Borrower Facility shall be made available to the Borrower in an aggregate maximum amount equal to € 8,000,000,000 for the purpose of financing the general financial needs of the Borrower. All or part of any Borrower Advance may be on-lent to any subsidiary of the Borrower which is located in France and party to the Programme (HSBC France and such subsidiaries being, together, the "**Affiliates**").

The terms and conditions regarding the calculation and the payment of principal and interest under a Borrower Advance shall mirror the equivalent terms and conditions of the corresponding Final Terms of Covered Bonds, it being provided that, as a principle, the interest to be paid by the Borrower under a Borrower Advance shall be the financing costs of the Lender under the Covered Bonds funding such Borrower Advance. Any amounts repaid or prepaid under any Borrower Advance may be re-borrowed.

Upon the occurrence of a Borrower Event of Default (as defined in section "**The Borrower and the Borrower Facility Agreement**" – "**The Borrower Facility Agreement**"), the Administrator shall, by written

notice (such notice to constitute a *mise en demeure*) to the Borrower (with a copy to the Rating Agencies), declare that (i) no more Borrower Advances shall be made under the Borrower Facility, (ii) the Borrower Facility shall be cancelled, and (iii) the Borrower Advances shall immediately become due and payable and enforce its rights under the Security Documents (a "**Borrower Enforcement Notice**").

(See section "**The Borrower and the Borrower Facility Agreement**" – "**The Borrower Facility Agreement**")

**The Borrower  
Collateral Security  
Agreement:**

The Borrower Collateral Security Agreement sets forth the terms and conditions upon which the Borrower shall grant Eligible Assets (as defined below) as collateral security (*garantie financière*) (the "**Borrower Collateral Security**") for the benefit of the Lender in order to secure, as they become due and payable, the payments of all and any amounts owed by the Borrower under the Borrower Facility, whether present or future and whether in its capacity as "Borrower" or "Guarantor" (the "**Borrower Secured Liabilities**").

For the purposes of the Borrower Collateral Security Agreement, an "**Eligible Asset**" means any Home Loan Receivable that complies with the Home Loan Eligibility Criteria and any Substitution Asset (as further described in "**The Borrower Collateral Security Agreement**").

The Borrower Collateral Security shall be created in accordance with Articles L.211-36 II and L.211-38 to L.211-40 (formerly L.431-7 *et seq.*) of the French Monetary and Financial Code (*Code monétaire et financier*). The Borrower Collateral Security shall not entail any transfer of title with respect to the relevant Eligible Assets until enforcement.

The Borrower shall perform the servicing of the Borrower Collateral Security Assets (as defined in "**The Borrower Collateral Security Agreement**") in accordance with applicable laws and its customary servicing procedures (the "**Servicing Procedures**"), using the degree of skill, care and attention as it would use for the servicing of its assets for its own account, without interfering with the Issuer's material rights under the Borrower Collateral Security Agreement.

(See section "**The Borrower Collateral Security**" – "**The Borrower Collateral Security Agreement**")

**The Cash Collateral  
Agreement:**

The Cash Collateral Agreement sets forth the terms and conditions upon which HSBC France, as Cash Collateral Provider, shall fund certain amounts as cash collateral (*gage espèces*) (each, a "**Cash Collateral**") into a Cash Collateral Account so as to secure, as they become due and payable, the payments of all and any Borrower Secured Liabilities.

If the Borrower fails to have all the Pre-Maturity Ratings Required Levels (as defined in section "**Asset Monitoring**" – "**The Pre-Maturity Test**") at any time during any relevant Pre-Maturity Test Period (defined as each period starting from, and including, the two hundred and seventieth (270th) day preceding the Final Maturity Date of each Series of Covered Bonds (other than Extendable Maturity Covered Bonds) and ending on, and excluding, such Final Maturity Date, the Cash Collateral Provider shall fund the Cash Collateral Account in the amount and within the time period as specified in the Cash Collateral Agreement.

The failure by the Cash Collateral Provider to fund the Cash Collateral Account with the relevant Cash in the amount and within the time period as specified in the Cash Collateral Agreement shall constitute a "**Breach of Pre-Maturity Test**" under the Cash Collateral Agreement. This breach shall in turn result in the occurrence of a "**Borrower Event of**

**Default**" under the Borrower Facility Agreement.

(See section "**The Borrower Collateral Security**" – "**The Cash Collateral Agreement**")

Under the Cash Collateral Agreement and for so long as no Borrower Event of Default has occurred and been enforced subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement, the Borrower shall fund the Cash Collateral Account up to an amount sufficient so as to ensure compliance with a pre-maturity test (the "**Pre-Maturity Test**").

### 3. ASSET MONITORING

#### **Asset Cover Test:**

Under the Borrower Collateral Security Agreement, for so long as no Borrower Event of Default has occurred and been enforced subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement, the Borrower shall monitor the Borrower Collateral Security Assets so as to ensure compliance with an asset cover test as described in section "**Asset Monitoring**" – "**The Asset Cover Test**" (the "**Asset Cover Test**").

For so long as Covered Bonds remain outstanding, non-compliance with the Asset Cover Test would result from the Asset Cover Test Ratio (as specified in section "**Asset Monitoring**" – "**The Asset Cover Test**"), being strictly less than one (1). A failure to satisfy the Asset Cover Test on an Asset Cover Test Date (as defined in section "**Asset Monitoring**" – "**The Asset Cover Test**") will not constitute an Issuer Event of Default or a Borrower Event of Default, however: (i) the Issuer will be prohibited from issuing any further Covered Bonds as long as it remains unremedied and (ii) failure to satisfy the Asset Cover Test on any two consecutive Asset Cover Test Dates shall constitute a Breach of Asset Cover Test within the meaning of the Borrower Collateral Security Agreement.

A Breach of Asset Cover Test will result in a Borrower Event of Default within the meaning of, and subject to, the relevant terms of the Borrower Facility Agreement. A Breach of Asset Cover Test will not constitute an Issuer Event of Default but will prevent the Issuer from issuing any further Covered Bonds.

(See section "**Asset Monitoring**" – "**The Asset Cover Test**".)

#### **Pre-Maturity Test:**

Under the Cash Collateral Agreement and for so long as no Borrower Event of Default has occurred and been enforced subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement, the Borrower shall fund the Cash Collateral Account up to an amount sufficient so as to ensure compliance with a Pre-Maturity Test.

If the Borrower fails to have all the Pre-Maturity Ratings Required Levels (as defined in section "**Asset Monitoring**" – "**The Pre-Maturity Test**") at any time during any relevant Pre-Maturity Test Period (defined as each period starting from, and including, the two hundred and seventieth (270th) day preceding the Final Maturity Date of each Series of Covered Bonds (other than Extendable Maturity Covered Bonds) and ending on, and excluding, such Final Maturity Date, the Cash Collateral Provider shall fund the Cash Collateral Account in the amount and within the time period as specified in the Cash Collateral Agreement.

The failure by the Cash Collateral Provider to pay the relevant amount into the Cash Collateral Account in the amount and within the time period as specified in the Cash Collateral Agreement shall constitute a

Breach of the Pre-Maturity Test within the meaning of the Cash Collateral Agreement.

A Breach of the Pre-Maturity Test will result in a Borrower Event of Default within the meaning of, and subject to, the relevant terms of the Borrower Facility Agreement. A Breach of the Pre-Maturity Test will not constitute an Issuer Event of Default.

(See section "**Asset Monitoring**" – "**The Pre-Maturity Test**")

**Amortisation Test:**

Following the enforcement of a Borrower Event of Default subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement, the Issuer shall ensure compliance with an amortisation test described in section "**Asset Monitoring**" – "**The Amortisation Test**" below (the "**Amortisation Test**").

The Amortisation Test will be breached if the Amortisation Ratio (as specified in section "**Asset Monitoring**" – "**The Amortisation Test**") is less than one (1).

A breach of the Amortisation Test will constitute an Issuer Event of Default.

(See section "**Asset Monitoring**" – "**The Amortisation Test**")

**4. GENERAL INFORMATION**

**General Information:**

Copies of this Base Prospectus and various other documents are available free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the registered office of the Issuer and at the specified office of the Paying Agent(s).

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Covered Bonds issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Covered Bonds issued under the Programme. However, the Issuer does not represent that the statements below regarding the risks of holding any Covered Bonds are exhaustive. Investors must be aware that the list of factors set out below is not intended to be exhaustive and that other risks and uncertainties which, on the date of this Base Prospectus, are not known of by the Issuer, or are considered irrelevant, may have a significant impact on the Issuer, its activities, its financial condition or the Covered Bonds. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus (including any documents deemed to be incorporated by reference herein) and make their own opinion about risk factors prior to making any investment decision. Investors should in particular conduct their own analysis and evaluation of the risks relating to the Issuer, its financial condition and the issued Covered Bonds and consult their own financial or legal advisers about risks associated with the investment in a particular Series of Covered Bonds and the suitability of investing in the Covered Bonds in light of their particular circumstances.*

*The Issuer considers that the Covered Bonds shall only be purchased by investors which are (or are advised by) financial institutions or other professional investors who have sufficient knowledge and experience necessary to appropriately evaluate the risks associated with the Covered Bonds.*

*Words and expressions defined elsewhere in this Base Prospectus shall have the same meanings when used below.*

### **Risks related to the Issuer**

#### *Issuer's sole liability under the Covered Bonds*

The Issuer is the only entity which has obligations to pay principal and interest in respect of the Covered Bonds. The Covered Bonds will not be obligations or responsibilities of any other entity, including (but not limited to) HSBC France (in any capacity but in particular in its capacity as Borrower, Administrator, Issuer Calculation Agent, Issuer Accounts Bank or Cash Collateral Provider), the Dealers, the Representative, the Paying Agents, the Asset Monitor, the Issuer Security Agent, any participant to the Hedging Strategy (as applicable) or any company in the same group of companies as any of them, or the shareholders or directors or agents of any company in the same group of companies as any of them.

Upon enforcement of the rights of the Issuer under the Issuer Receivables Pledge Agreement following an Issuer Event of Default, direct payment to an account to be opened with the Issuer Security Agent, acting on behalf of the Bondholders, of sums due under the outstanding Borrower Debt will be requested from the Borrower (see "**The Issuer Security – The Issuer Receivables Pledge Agreement**").

#### *Reliance of the Issuer on third parties*

The Issuer has entered into agreements with a number of third parties, which have agreed to perform services for the Issuer. In particular, but without limitation:

- the Administrator has been appointed, *inter alia*, to provide the Issuer with all necessary advice and assistance and know-how, involved in connection with the day to day management and corporate administration of the Issuer and to ensure that the Issuer, will exercise each of its rights and perform each of its obligations under the Programme Documents; and



- the Issuer Calculation Agent has been appointed to make calculations as provided under the Programme Documents and, in particular, to make the calculations in relation to the Asset Cover Test, the Pre-Maturity Test and the Amortisation Test.

In the event that the Administrator, the Issuer Calculation Agent or any other relevant party providing services to the Issuer under the Programme Documents fails to perform its obligations under the relevant agreement(s) to which it is a party, the ability of the Issuer to make payments under the Covered Bonds may be affected. For instance, if the Borrower has failed to adequately administer the Borrower Collateral Security Assets and/or the Borrower Collateral Security, this may undermine the value of the Borrower Collateral Security or any part thereof, and in turn, the ability of the Issuer to make payments under the Covered Bonds may be affected. Under the Hedging Strategy, the Issuer is also reliant on HSBC France (but only until the occurrence of a Borrower Event of Default) and/or any relevant Eligible Hedging Provider(s) to provide it with the funds matching its obligations under the Covered Bonds (see "**The Hedging Strategy**").

However, the Programme Documents provide for the ability of the Issuer under certain circumstances to terminate the appointment of any relevant third party which defaults on its obligations under Programme Documents.

*Modification, alteration or amendment without Bondholder prior consent*

Subject to the qualifications described in the relevant Programme Document(s) to which it is a party, the Issuer may, with prior Rating Affirmation from the Rating Agencies and without the prior consent or sanction of any of the Bondholders, concur with any person in making or sanctioning any modifications, alterations or supplements to any Programme Document to which it is a party. Such modifications, alterations or supplements may materially and adversely affect the interests of the Issuer and the Bondholders but shall be made with prior Rating Affirmation from the Rating Agencies.

Subject to the qualifications described in the relevant Programme Document(s) to which it is a party, the Issuer may, without prior Rating Affirmation and without the prior consent or sanction of any of the Bondholders, concur with any person in making or sanctioning any modifications, alterations or supplements to any Programme Document to which is a party if the same is:

- to cure any ambiguity, omission, defect or inconsistency;
- to evidence or effect the transition of any party to any Programme Document to which it is a party to any successor;
- to add to the undertakings and other obligations of any party (except the Issuer) under any Programme Document to which it is a party; or
- to comply with any mandatory requirements of applicable laws and regulations.

*Substitution Risk*

The Programme Documents require certain parties thereto (such as the Eligible Hedging Providers, the Issuer Calculation Agent, the Cash Collateral Provider, the Administrator or the Issuer Accounts Bank) to be replaced in certain circumstances described in the Programme Documents, such as the occurrence of a ratings downgrade in respect of the relevant party. However, no assurance can be given that a suitable replacement entity will be found.

In particular, if a ratings downgrade of the long-term debt of the Administrator or another Administrator Termination Event occurs pursuant to the terms of the Administrative Agreement, then the Issuer will be entitled to terminate the appointment of the Administrator and appoint a new administrator in its place. There can be no assurance that a substitute administrator with sufficient experience will be found and will be willing and able to provide services to the Issuer on the same terms as the Administrative Agreement. In particular, upon the occurrence of any Borrower Event of Default and the subsequent enforcement of the Borrower Collateral Security and the transfer to the Issuer of the Borrower Collateral Security Assets, there can be no assurance that a substitute administrator with sufficient experience of servicing such transferred Borrower Collateral Security Assets will be found who is willing and able to provide services to the Issuer on the same terms as the Administrative Agreement. The ability of a substitute Administrator to perform

fully the required services would depend, amongst other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute Administrator may affect the realisable value of the Issuer Security or any part thereof, and/or the ability of the Issuer to make payments under the Covered Bonds. No Administrator has (nor will have, as applicable) any obligation itself to advance payments that the Borrower fails to make in a timely manner. Neither the Representative nor the Issuer Security Agent is obliged in any circumstances to act as an Administrator or to monitor the performance by any Administrator of its obligations.

*Certain conflicts of interest*

Conflicts of interest may arise during the life of the Programme as a result of various factors involving certain Transaction Parties. For example, such potential conflicts may arise because HSBC France acts in several capacities under the Programme Documents.

Also during the course of their business activities, the Programme Parties and/or any respective affiliates may operate, service, acquire or sell properties, or finance loans secured by properties, which are in the same markets as the Home Loans. In such cases, the interest of any of those parties or their affiliates or the interest of other parties for whom they perform servicing functions may differ from, and compete with, the interest of the Issuer or of the Bondholders.

*Insolvency and examinership laws in France could limit the ability of Bondholders to enforce their rights under the Covered Bonds*

As the Issuer is incorporated in France and, consequently, will be subject to French laws and proceedings affecting creditors, including Article 1244-1 of the French Civil Code (*Code civil*), conciliation proceeding (*procédure de conciliation*), safeguard proceeding (*procédure de sauvegarde*) and judicial reorganisation or liquidation proceeding (*redressement or liquidation judiciaire*). In general, French reorganisation or liquidation legislation favours the continuation of a business and protection of employment over the payment of creditors.

The French Monetary and Financial Code (*Code monétaire et financier*) contains specific provisions which are applicable in the event of the opening of an insolvency proceeding of a credit institution (*établissement de crédit*). In particular, Articles L.613-25 *et seq.* of the French Monetary and Financial Code (*Code monétaire et financier*) specify the conditions of opening of an insolvency proceeding against a credit institution (*établissement de crédit*) (prior information and opinion of the banking authority (*commission bancaire*), specific concept of suspension of payment (*cessation des paiements*), etc) and some specific rules of liquidation of a credit institution (*établissement de crédit*).

All such provisions apply to the Issuer but also to each party under the Programme that is regulated as a financial institution.

However, the Issuer is a special purpose entity, with exclusive and limited purpose and a financial institution license which complies with all the criteria set forth by the Rating Agencies in a French context for bankruptcy remote entities. The Issuer is a ring-fenced entity that benefits from limited recourse and non-petition clauses under the Programme Documents and neither the Issuer nor any of its assets will be subject to any insolvency proceedings commenced in respect of HSBC France or any other Affiliate unless (i) there is commingling of its assets (*confusion de patrimoine*) with the assets of that Affiliate or (ii) it is construed as a "fictitious" entity (*société fictive*) by French courts. In respect of (i) above, the Issuer will have distinct accounts and its own books and records and both, the Issuer and HSBC France will be required to observe certain other separateness covenants set out in the Programme Documents. In respect of (ii) above, the Issuer is duly incorporated under French law and is regulated as a financial institution by the French regulator.

*Limited resources available to the Issuer*

In the absence of any Borrower Event of Default, the Issuer's ability to meet its obligations under the Covered Bonds will depend on the amount of scheduled principal and interest paid by the Borrower and the timing thereof and/or, as applicable, the amounts received under any hedging agreement concluded in accordance with the Hedging Strategy and/or the revenue proceeds generated by Permitted Investments.

Pursuant to the Cash Collateral Agreement, the Issuer will also benefit from the Cash Collateral to be provided by the Cash Collateral Provider under some circumstances.

Upon enforcement of the Borrower Collateral Security following the occurrence of a Borrower Event of Default, and without prejudice to any other unsecured recourse the Issuer may have against the Borrower under the Borrower Debt, the Issuer's ability to meet its obligations under all the Covered Bonds will depend on the revenue proceeds from the Borrower Collateral Security which will have been enforced in favour of the Issuer (meaning the amount of principal and interest paid directly to the Issuer by the relevant debtors under the Home Loans transferred to the Issuer upon enforcement of such Borrower Collateral Security or the price or value of such Home Loans and related Home Loan Security received by the Issuer upon the sale or refinancing thereof) and/or, as applicable the amounts received under any hedging agreement concluded in accordance with the Hedging Strategy and/or the revenue proceeds generated by Permitted Investments, and/or the amount of the Cash Collateral provided by the Cash Collateral Provider under the Cash Collateral Agreement, and/or the available amount in the Share Capital Proceeds Account.

Except as mentioned above and excepting the recourse that the Issuer has against the Borrower under the Borrower Debt, the Issuer will not have any other sources of funds available to meet its obligations under the Covered Bonds.

The occurrence for whatever reason of an Issuer Event of Default will not automatically trigger the cross occurrence of a Borrower Event of Default, and the Issuer (or, upon enforcement of the Issuer Collateral Security, the Bondholders or the Issuer Security Agent acting on their behalf) will not, in such circumstances, be able to accelerate amounts of principal and/or interest which would have accrued under the Issuer Security Assets or enforce the Borrower Collateral Security securing the repayment of such Issuer Security Assets in order to cure such Issuer Event of Default if no Borrower Event of Default has occurred and is continuing at such time. Therefore, notwithstanding the occurrence of an Issuer Event of Default while no Borrower Event of Default shall have occurred, the Issuer's ability to meet its obligations under the Covered Bonds will only and still depend on the amount of scheduled principal and interest paid by the Borrower under the Issuer Security Assets and the timing thereof and/or, as applicable, the amounts received under any hedging agreement concluded in accordance with the Hedging Strategy and/or the revenue proceeds generated by Permitted Investments and/or the Cash Collateral and/or the available amount under the Share Capital Proceeds Account.

If an Issuer Enforcement Notice is served following the occurrence of an Issuer Event of Default and the Issuer Security is enforced, the proceeds from such enforcement may not be sufficient to meet the claims of all the Bondholders. If, following enforcement of the Issuer Collateral Security, the Bondholders have not received the full amount due to them pursuant to the terms of the Programme Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

#### *Restrictions on recourse and enforcement*

Recourse against the Issuer is restricted by the then applicable Priority Payment Order and amounts payable by the Issuer shall be recoverable only from and to the extent of the amount of the Available Funds. No petition for the opening of any insolvency proceedings against the Issuer or any of its assets may be taken by creditors of the Issuer (including the Bondholders) prior to the date which is eighteen (18) months and one (1) day after the earlier of (i) the Final Maturity Date of the last Series issued by the Issuer under the Programme, or (ii) the date of payment of any sums outstanding and owing under the latest outstanding Covered Bond.

#### *Permitted Investments*

Any available funds standing to the credit of the Issuer Accounts (prior to their allocation and distribution) shall be invested by the Administrator in Permitted Investments. The value of the Permitted Investments may fluctuate depending on the financial markets and the Issuer may be exposed to a credit risk in relation to the issuers of such Permitted Investments. None of the Arranger, the Issuer, the Administrator or any other party to the Programme Documents guarantees the market value of the Permitted Investments. None of them shall be liable if the market value of any of the Permitted Investments fluctuates and decreases.

### **Risks related to the Borrower**

#### *Borrower's ability to pay under the Borrower Debt*

Neither the Issuer nor any other party to the Programme Documents (other than, upon certain circumstances, the Borrower as grantor of the Borrower Collateral Security and as Cash Collateral Provider) guarantees or warrants full and timely payment by the Borrower of any sums of principal or interest payable under the Borrower Debt, being part of the Issuer Security Assets.

In addition, should the Borrower be subjected to any Insolvency Proceedings (including the procedures of safeguard, moratorium, suspension of payments, controlled management, liquidation or similar insolvency proceedings), the ability of the Issuer to claim against the Borrower for obtaining timely payment of amounts of principal and interest due and payable under the Borrower Debt will be impaired and the Issuer will not be entitled to accelerate the payment of such amounts.

However, the ability of the Issuer to use the funds made available to it by the Cash Collateral Provider under the relevant Cash Collateral or the ability of the Issuer (or of the Administrator acting on its behalf) to enforce the Borrower Collateral Security granted by the Borrower (and then the ability of the Issuer to be transferred full title to (i) the Home Loans and the related Home Loan Security, and (ii) any Substitution Assets, granted as Borrower Collateral Security by the Borrower) will not be affected by the opening of an Insolvency Proceedings against the Borrower.

### **Risks related to the Affiliates**

Subject to Rating Affirmation and certain other conditions precedent set out in the Programme Documents, new Affiliates may accede to the Programme and hence generally change or increase the risks of the Bondholders under the Programme.

The consent of the Bondholders will not be a condition precedent to the accession of any Affiliate.

### **Risks related to the Borrower Collateral Security**

#### *No interpretation by French courts of rules applicable to Borrower Collateral Security*

The Home Loans, related Home Loan Security and Substitution Assets which will be granted as Borrower Collateral Security in favour of the Issuer for the repayment of the Borrower Debt will be granted in accordance with the recently-enacted rules of French law implementing the Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements, namely Article L.431-7-3 II of the French Monetary and Financial Code (*Code monétaire et financier*).

Although such rules of French law are in full force and effect as of the date of this Base Prospectus, Bondholders should note that French courts have not yet had the opportunity to interpret or apply such rules to a concrete case.

#### *Risk of nullification of the Borrower Collateral Security upon fraud*

There is a risk that the Borrower Collateral Security may be annulled if the provision of financial collateral thereunder as part of the initial provision, top-up or substitution of financial collateral has been intentionally done to detriment other creditors (this covers, *inter alia*, actions based on fraud or similar avoidance rules which may apply such as Article L.632-2 of the French Commercial Code (*Code de commerce*) which allow insolvency officers to request the nullification of a security interest granted during the hardening period when it is evidenced that the beneficiary of such security interest had actual knowledge of the insolvency state (*état de cessation des paiements*) of the grantor at the time such security interest was granted).

#### *No prior notification to debtors under the Home Loans granted as Borrower Collateral Security*

The Borrower Collateral Security Agreement will provide that the relevant Home Loans will be granted as Borrower Collateral Security without notification or information of the underlying debtors of such Home

Loans. Such debtors will only be notified if and when the Borrower Collateral Security is enforced following a Borrower Enforcement Notice and title to the relevant Home Loans has been transferred to the Issuer. Notification of such debtors will only be effected once following enforcement of the Borrower Collateral Security. As long as no such notification has taken place, debtors under Home Loans will be entitled to continue to make payments validly to the Borrower even though title to such Home Loans has been validly transferred to the Issuer.

There is no guarantee that the notification to the debtors under the relevant Home Loans will be made at the times required and there can be no guarantee or assurance as to the ability of the Issuer to obtain effective direct payment from the debtors under the relevant Home Loans in a sufficiently timely manner, which may affect payments under the Covered Bonds. In this situation, a shortfall in distributions of interest to Bondholders may result.

Until notification to the debtors under the Home Loans has been made and provided that, at such time, Insolvency Proceedings have been opened against the Borrower, a statutory stay of execution under mandatory rules of French insolvency law will prevent the Issuer from taking recourse against the Borrower for repayment of collections received by the Borrower under the relevant Home Loans which are commingled with other funds of the Borrower.

However, this commingling risk is mitigated by the obligation of the Borrower to grant cash as Borrower Collateral Security to cover such risk upon downgrading of the Borrower credit rating below A-2 (short term) by S&P or P-1 by Moody's or any other credit rating trigger which may be agreed with the Rating Agencies after the date hereof (see "**The Borrower Collateral Security – The Borrower Collateral Security Agreement – Collection Loss Trigger Event**").

#### *Set-off by debtors*

Set-off under French law can operate by statute (*compensation légale*) or be agreed by contract (*compensation contractuelle*) or be ordered by a court (*compensation judiciaire*). Set-off may also be invoked if claims are deemed mutual or interrelated (*dettes connexes*).

Statutory set-off operates as of right between two reciprocal debts (*dettes réciproques*) provided that such debts are, at the same time, fungible (*fongibles*), certain (*certaines*), liquid (*liquides*) as well as due and payable (*exigibles*). A contract or a court may expand statutory set-off possibilities where, with respect to two reciprocal and fungible debts, such debts are not at the same time certain, liquid and due and payable. Set-off between debts which are deemed mutual by contract or on an economic basis is available as of right.

No provision under the Home Loan Agreements expressly allows a debtor under a Home Loan to expand statutory set-off possibilities nor expressly provides for a mutuality (*connexité*) between claims owed by a debtor to the Borrower under a Home Loan and claims that such debtor may have against the Borrower under other contracts, such as a bank account or a deposit contract. However, no provision under the Home Loan Agreements expressly provides for a waiver of set-off (see "**The Collateral Security – The Collateral Security Agreement – Home Loan Eligibility Criteria**"), and therefore a debtor under a Home Loan is entitled to invoke either (i) a statutory or a judicial set-off, or (ii) a set-off based on a mutuality of claims (*connexité*) should such mutuality be provided for by another contract than the Home Loan Agreement or the global economic relationship which would exist between a debtor under a Home Loan and the Borrower.

A set-off referred to in (i) or (ii) above may become a risk for the Issuer where the Home Loans have been transferred to the Issuer upon the enforcement of the Borrower Collateral Security following the occurrence of a Borrower Event of Default.

Following such transfer of the Home Loans, and as long as the debtors under the Home Loans have not been notified of such transfer, the debtors under the Home Loans will be entitled to invoke statutory and judicial set-off as if no transfer of the Home Loans had taken place. After notification of the transfer of a Home Loan, the debtor under such Home Loan will still be entitled to invoke statutory set-off against the Issuer if, prior to the notification of the transfer of such Home Loan, the above-mentioned conditions for statutory set-off were satisfied.

A set-off between mutual claims (*dettes connexes*) is available as of right. The most likely circumstances where such type of set-off would have to be considered are when counterclaims resulting from a current

account relationship will allow a customer to offset the current account balance against sums due under a Home Loan. In these circumstances, however, French case law stated that there is not necessarily a mutuality of claims between a loan and a current account. The mutuality of claims needs to be determined on a case by case basis, depending on the factual circumstances then existing, the main criteria being the intention of the parties to interrelate (or not) their current account relationship and the lending transaction from an economic standpoint.

*Maintenance of value of the Borrower Collateral Security prior to or following enforcement thereof*

If the collateral value of the Home Loans and related Home Loan Security granted as Borrower Collateral Security in favour of the Issuer pursuant to the Borrower Collateral Security Agreement has not been maintained in accordance with the terms of the Asset Cover Test or the Amortisation Test or the other provisions of the Programme Documents, then that may affect the value of the Borrower Collateral Security or any part thereof (both before and after the occurrence of a Borrower Event of Default) or the price or value of such Home Loans and related Home Loan Security upon the sale or refinancing thereof by the Issuer.

The value of the properties securing the Home Loans may decrease as a result of any number of factors, including the national or international economic climate, regional economic or housing conditions, changes in tax laws, mortgage interest rates, inflation, the availability of financing, yields on alternative investments, increasing utility costs and other day-to-day expenses, political developments and government policies.

*Sale or refinancing of Home Loans and related Home Loan Security by the Issuer following enforcement of the Borrower Collateral Security*

After title to Home Loans, related Home Loan Security and Substitution Assets has been transferred to the Issuer upon enforcement of the Borrower Collateral Security following the occurrence of a Borrower Event of Default (the "**Transferred Assets**"), the Administrator (or the Substitute Administrator) acting on behalf of the Issuer will undertake to sell or refinance such Home Loans, the related Home Loan Security and the Substitution Assets in order for the Issuer to receive sufficient Available Funds to make payments when due under the relevant Series of Covered Bonds (after taking into account all payments to be made in priority thereto according to the relevant Priority Payment Order and the relevant payment dates and Final Maturity Date under each relevant Series of Covered Bonds).

The Administrator (or the Substitute Administrator) acting on behalf of the Issuer will be obliged to sell or refinance certain Selected Assets among the Home Loans, the related Home Loan Security and the Substitution Assets in accordance with the Administrative Agreement (see "**The Issuer – The Administrative Agreement**").

There is no guarantee that a buyer will be found to acquire the Selected Assets at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect the ability of the Issuer to make payments when due under the Covered Bonds.

In addition, in respect of any sale or refinancing of the Selected Assets to third parties, the Issuer will not be permitted to give warranties or indemnities in respect of those assets. There can be no assurance that the representations or warranties previously given by the Borrower in respect of such assets pursuant to the terms of the Borrower Collateral Security Agreement will benefit a third party purchaser of such assets upon sale or refinancing thereof by the Issuer. Accordingly, there is a risk that the price or value of such assets upon the sale or refinancing thereof by the Issuer will be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the Issuer to make payments when due under the Covered Bonds.

**Risk related to the Home Loans and related Home Loan Security**

*Debtors' ability to pay under the Home Loans*

The debtors under the Home Loans are individuals having borrowed under the Home Loans in order to finance the acquisition and, as the case may be, the construction of real estate property.

If following enforcement of the Borrower Collateral Security, the Issuer does not receive the full amount due from the debtors under the Home Loans, this may affect the ability of the Issuer to make payments under the Covered Bonds. The Issuer may therefore be exposed to credit risk in relation to the debtors under the Home Loans.

None of the Issuer, the Arranger, the Administrator, the Borrower or any other party to the Programme Documents guarantees or warrants full and timely payment of any sums payable under the Home Loans.

The ability of a debtor under a Home Loan to make timely payment of amounts due under such Home Loan will mainly depend on his assets and his liabilities as well as his ability to generate sufficient income to make payments under such Home Loan. His ability to generate income may be adversely affected by a large number of factors, some of which (i) relate specifically to the debtor himself (including but not limited to his age and health, employment situation, family situation, creditworthiness or expropriation) or (ii) are more general in nature (such as changes in governmental regulations, fiscal policy, etc.).

Furthermore, the debtors under the Home Loans may benefit from the favourable legal and statutory provisions of the French Consumer Code (*Code de la consommation*) pursuant to which any individual may, under certain circumstances and subject to certain conditions, request and obtain, from a competent court, a grace period, a reduction of the amount of all and any of his indebtedness and any interest relating thereto and/or a full or partial extinction of its indebtedness against a credit institution.

*No independent investigation – representations and warranties*

None of the Issuer, the Arranger, the Administrator or any other party to any Programme Document has undertaken or will undertake any investigations, searches or other due diligence regarding the Home Loans, the related Home Loan Security or the status and/or the creditworthiness of the debtors under the Home Loans. Each of them has relied solely on the representations and warranties given by the Borrower under the Borrower Collateral Security Agreement.

If any breach of eligibility criteria relating to any Home Loan is material and (if capable of remedy) is not remedied, the Borrower shall be required under the Borrower Collateral Security Agreement to provide sufficient eligible Homes Loans or Substitution Assets in order to maintain compliance with the Asset Cover Test.

*Limited description of the Home Loans*

The Bondholders will not receive detailed statistics or information in relation to the Home Loans or the Borrower Collateral Security Assets, because it is expected that the portfolio of Borrower Collateral Security Assets may constantly change due to, for instance, the Borrower providing additional or substituting new Borrower Collateral Security Assets or Affiliates acceding to the Programme. However, each Borrower Collateral Security Asset will be required to meet the applicable eligibility criteria.

*Prepayment*

The rate of prepayment of Homes Loans is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates, changes in tax laws (including but not limited to amendments to mortgage interest tax deductibility), local and regional economic conditions and changes in debtors' behaviour (including but not limited to home-owner mobility). No guarantee can be given as to the level of prepayment that the Home Loans may experience, and variation in the rate of prepayments of principal on the Home Loans may affect the ability of the Issuer to realise sufficient funds to make payments under the Covered Bonds upon the service of a Borrower Enforcement Notice and the transfer of title to the Home Loans and Substitution Assets in favour of the Issuer.

*Changes to the lending criteria of the Borrower*

Each of the Home Loans will have been originated in accordance with the Borrower's lending criteria at the time of origination. It is expected that the Borrower's lending criteria will generally consider type of financed property, term of loan, age of applicant, the loan-to-value ratio, income and status of applicants and credit history. The eligibility criteria applicable to any Home Loan require that all scoring, lending criteria and preconditions as applied by the Borrower pursuant to its customary lending procedures are satisfied at the time of origination of such Home Loan. The Borrower 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 Home Loans, this may lead to increased defaults by debtors thereof and may affect the realisable value of the Borrower Collateral Security Assets or part thereof, and the ability of the Issuer to make payments under the Covered Bonds upon the service of a Borrower Enforcement Notice and then transfer of title to the Home Loans and Substitution Assets in favour of the Issuer.

*Foreclosing on real property granted as security under French law governed Mortgages*

The French legal procedures to be followed in relation to the enforcement of French law governed Mortgages and related expenses may affect the Issuer's ability to liquidate the properties secured under such Mortgages efficiently and in a timely manner. An outline of these procedures is set out below. Specific rules are provided for lender's privileges and mortgages to be registered in the departments of *Haut-Rhin*, *Bas-Rhin* and *Moselle*. However, these specific rules do not substantially change the outline of the procedures set out below.

Foreclosure on property situated in France by secured creditors (*saisie immobilière*) may require the sale of the property at a public auction (*vente aux enchères*) if the sale cannot be made voluntarily by the debtor (*conversion en vente volontaire* or *à l'amiable*). The foreclosure procedure may take up to one (1) year and six (6) months in normal circumstances. The beneficiary of a lender's privilege or a mortgage will rank in respect of the sale proceeds in the order of priority of registration of the privileges and mortgages (*droits de préférence*) encumbering such seized property (Article 2458 of the French Civil Code (*Code civil*)). The first step in the foreclosure procedure consists of delivering a foreclosure notice to the debtor by a bailiff or *huissier* (a process server or *commandement de saisie immobilière*). This notice must be filed at the French Land and Charges Registry having jurisdiction in the district where the relevant real property is located. The next step is to instruct a local lawyer (*avocat*) to prepare the terms of the sale of the property at auction, including the reserve price of the relevant property. Such instruction is not mandatory in the departments of *Haut-Rhin*, *Bas-Rhin* and *Moselle*. Finally, a number of legal notices are required to be given prior to the sale. The debtor may file objections against such foreclosure (including the reserve price), the validity of which will be decided by a competent court. If no bid is made at the public auction, and provided there is only one (1) foreclosing creditor, such foreclosing creditor is declared the highest bidder and is thus obliged to purchase the property at the reserve price specified in the terms of the sale. Rules applicable to the *saisie immobilière* procedure have been recently modified by an act (*ordonnance n° 2006-461 réformant la saisie immobilière*) dated 21 April 2006. This new legislation (Articles 2190 *et seq.* of the French Civil Code (*Code civil*)) came into force on 1 January 2007. The purpose of the legislation is to simplify the foreclosure process by encouraging voluntary sales (*ventes à l'amiable*) and reduce the duration and complexity of the process.

In accordance with Article 2461 of the French Civil Code (*Code civil*), secured creditors will continue to benefit from the lender's privilege or mortgage, even if the property is transferred by the debtor to a third party without the Lenders' consent. This right is known as *droit de suite*. If the secured creditor wishes to exercise this right, an order to pay is required to be served on the debtor by a bailiff and notice is required to be served on the third party to whom the relevant secured property was transferred (*tiers détenteur de l'immeuble hypothéqué*) with a view either to pay the debt secured over the property or to surrender such property at an auction.

The exercise of such *droit de suite* is often circumvented by an "advanced clearing" of the privileges and mortgages granted over the relevant property (*purge des privilèges et hypothèques*). If the debtor and all secured creditors agree, in accordance with Article 2475 of the French Civil Code (*Code civil*), for the sale proceeds to be allocated (*affecté*) to them, the secured creditors may exercise their preferential rights (*droits de préférence*) over the sale proceeds, the payment of which will discharge all privileges and mortgages granted over the property (*purge amiable*). And if no agreement is reached (for instance if the sale price of the property is substantially below the amount of the secured debt), the third party will still be entitled to offer to pay the sale price to the secured creditors in order to clear all privileges and mortgages granted over the relevant property (*purge judiciaire*, Articles 2478 *et seq.* of the French Civil Code (*Code civil*)). Secured creditors may refuse this offer if they consider that the sale price has been underestimated by the debtor and the third party. In this case, an auction will be ordered with a minimum bid which is the price offered by the relevant third party to the secured creditor, plus ten per cent (10%).



### *Enforcement of Home Loan Guarantees*

If following enforcement of the Borrower Collateral Security, transfer of title to the Home Loans and Substitution Assets in favour of the Issuer, notification of the debtors under such Home Loans and then, enforcement of its rights by the Issuer under the relevant Home Loan Guarantees against the guarantor thereunder, such guarantor does not pay in whole or in part any amounts due under the relevant Home Loan Guarantees for whatever reason or does not pay such amounts in a timely manner, this may affect the ability of the Issuer to make payments under the Covered Bonds.

### **Risks relating to swaps and options derivatives**

#### *Interest and currency risks*

Each Borrower Advance granted by the Issuer to the Borrower under the Borrower Facility Agreement will be made available in the same Specified Currency and according to the same interest conditions as those applicable to the Covered Bonds funding such Borrower Advance. As a consequence, as long as a Borrower Event of Default has not occurred, the Issuer will not be exposed to any currency or interest risk regarding the Borrower Debt and the Covered Bonds.

There is no assurance that the Home Loans granted as Borrower Collateral Security will bear interest in the same conditions as those of the Covered Bonds or will be denominated in the same currency as those of the Covered Bonds. Upon enforcement of the Borrower Collateral Security following the occurrence of a Borrower Event of Default, title to the Home Loans and the Substitution Assets and the benefit of the related Home Loan Security will pass to the Issuer. In this case, in order to hedge the potential mismatch of the interest rates applicable to the Covered Bonds and to the Home Loans or Substitution Assets and the potential mismatch of currencies, the Issuer will apply the Hedging Strategy as from the occurrence of the Hedging Rating Trigger Event. However, there can be no assurance that the Hedging Strategy will adequately address such hedging risks.

#### *Hedging Strategy*

Upon the occurrence of a Hedging Rating Trigger Event, no assurance can be given that the hedging documentation agreed under the Hedging Strategy will be concluded, and in particular, that Eligible Hedging Provider(s) will be found and will agree to conclude the hedging documentation agreed under the Hedging Strategy. Upon the occurrence of a Hedging Rating Trigger Event, (i) any failure by the Issuer (or the Administrator on its behalf) to enter into (a) appropriate Hedging Agreements and related Hedging Transactions with the relevant counterparties within thirty (30) calendar days from the date of occurrence of the relevant Hedging Rating Trigger Event, as described under the Hedging Strategy, will constitute an Issuer Event of Default and a Borrower Event of Default under the Borrower Facility Agreement, and (ii) any failure by the Borrower (a) to enter into appropriate Borrower Hedging Agreement(s) and related Borrower Hedging Transaction(s) with the Issuer, within thirty (30) calendar days from the date of occurrence of the relevant Hedging Rating Trigger Event, or (b) to pay any costs and expenses necessary to allow the Issuer to enter into the agreements referred to above will constitute a Borrower Event of Default under the Borrower Facility Agreement.

In certain limited circumstances, the hedging documentation contemplated under the Hedging Strategy may be terminated and, as a result, the Issuer may be un-hedged if replacement interest rate and/or currency derivative transactions are not entered into.

### **Risks related to the Issuer Security**

#### *The Issuer Security in case of insolvency of the Issuer*

The validity of the Issuer Security granted by the Issuer in the Issuer Security Assets could be challenged in the event that insolvency proceedings were commenced in respect of the Issuer during the eighteen (18) month period following the date on which such security interest is granted.

Article L.632-1-6° of the French Commercial Code (*Code de commerce*) provides that any security interest granted after the date on which the underlying secured debt was incurred (*dettes antérieurement*

*contractées*) and which was determined to have been granted during the hardening period, is null and void. The hardening period (*période suspecte*) is a period of time the duration of which is determined by the bankruptcy judge upon the judgment recognising that the cessation of payments of the insolvent company has occurred. The hardening period commences on the date of such judgment and extends for up to eighteen (18) months previous to the date of such judgment. The same consequences will apply to any security granted after the Signing Date in certain circumstances and which secures a debt existing prior to the taking of the security. In particular, in the event of new issuances of Covered Bonds or in case the Issuer Accounts are transferred into the books of a new Issuer Accounts Bank (following the occurrence of the Issuer Accounts Bank Rating Trigger Event), the Issuer Security will be released and retaken in favour of any and all Covered Bonds.

Furthermore, the first paragraph of Article L.632-2 of the French Commercial Code (*Code de commerce*) provides that the bankruptcy court may declare void any agreement involving a consideration (*acte à titre onéreux*) entered into during the hardening period if the bankrupt debtor's contracting party knew that such debtor was insolvent (*cessation des paiements*).

In addition, the Issuer shall not issue further Covered Bonds (and, as a consequence, shall not be in a position to retake the Issuer Security) if an Issuer Enforcement Notice or a Borrower Enforcement Notice has been served, a Non Compliance Notice has been served regarding the Pre-Maturity Test and has not been withdrawn or a Non Compliance with Amortisation Test or the Asset Cover Test has been served (see "**Terms and Conditions of the French law Covered Bonds**" – Conditions (j)).

*Bondholders may be required to pay a "soulte" if the Issuer Security over the Issuer Securities Accounts is enforced by way of "attribution" (allocation) of the securities rather than by way of a sale of the securities in a public auction*

Under French law, a pledge over securities may be enforced at the option of the secured creditor either by a sale of the pledged securities in a public auction (the proceeds of the sale being paid to the secured creditors) or by "*attribution*" (allocation) of the securities to the secured creditor, following which the secured creditor is the legal owner of the securities. In a proceeding for "*attribution*", a court appointed expert will determine the value of the collateral (in this case, securities inscribed in the relevant Issuer Securities Accounts) and, if the value of the collateral exceeds the amount of the secured debt, the secured creditors (in this case, the Bondholders) may be required to pay the balance in cash (*soulte*) to the obligor. Such balance shall be equal to the difference between the value of the securities as asserted by such expert and the amount of the secured debt. This will be the case regardless of the actual amount of proceeds ultimately received by the secured creditors from a subsequent sale of the collateral.

*Enforcement of the Issuer Security upon insolvency of the Issuer*

The Issuer is subject to the provisions of applicable French insolvency legislation. Although the Issuer has been incorporated as single purpose vehicle and ring-fenced entity, it may nonetheless become insolvent or subject to moratorium proceedings under French law. The rights of creditors of insolvent French companies are limited by law. Self-help remedies, such as the appointment of a receiver in respect of the Issuer's assets (including any Home Loans transferred to it upon enforcement of the Borrower Collateral Security following the occurrence of a Borrower Event of Default), are not available under French law in this context.

### **Risks related to French law Covered Bonds generally**

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

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

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained in this Base Prospectus or any applicable supplement to this Base Prospectus and the relevant Final Terms;

- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one (1) or more currencies, or where the currency for principal or interest payments is different from the prospective investor's currency;
- (d) understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets;
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (f) ensure that an investment by it in any particular type of Covered Bonds issued by the Issuer under the Programme, and, in all the Covered Bonds generally is not violating any law or regulation applicable to it or to its assets.

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

#### *Modification of the Conditions*

Except as otherwise provided by the relevant Final Terms, the Bondholders will, in respect of all Tranches in any Series, be grouped automatically for the defence of their common interest in a *Masse* (as defined in Condition 12) and a General Meeting of Bondholders can be held. The Terms and Conditions permit, in certain cases, defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant General Meeting and Bondholders who voted in a manner contrary to the majority. The General Meeting may deliberate on any proposal relating to the modification of the Conditions, including any proposal, whether for arbitration or settlement, relating to rights in dispute or which were the subject of judicial decisions (as more fully described in Condition 12).

#### *Change of law*

The Terms and Conditions of the French law Covered Bonds are based on French law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change in French law or administrative practice after the date of this Base Prospectus.

#### *Taxation*

Prospective purchasers and sellers of the Covered Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Covered Bonds are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for financial instruments such as the Covered Bonds. Prospective investors are advised not to rely upon the tax summary contained in this Base Prospectus and/or in the Final Terms but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Covered Bonds. Only these advisors are in a position to duly consider the specific situation of the prospective investor. This investment consideration has to be read in connection with the taxation sections of this Base Prospectus and the additional tax sections, if any, contained in the relevant Final Terms.

#### *EU Savings Directive*

On 3 June 2003, the European Council of Economics and Finance Ministers adopted a directive 2003/48/EC regarding the taxation of savings income in the form of interest payments (the "**Directive**").

The Directive requires Member States, subject to a number of conditions being met, to provide to the tax authorities of other Member States details of payments of interest and other similar income made by a paying agent located within their jurisdiction to a beneficial owner (within the meaning of the Directive) resident in that other Member State, except that, for a transitional period Luxembourg and Austria will instead withhold an amount on interest payments unless the relevant beneficial owner of such payment elects otherwise and authorises the paying agent to disclose the above information (see "**Taxation – EU Savings Directive**").

For these purposes, the term "paying agent" is defined widely and includes in particular any economic operator who is responsible for making interest payments, within the meaning of the Directive, for the immediate benefit of individuals.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a paying agent, the Issuer will be required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive they may amend or broaden the scope of the requirements described above.

### **Risks related to the structure of a particular issue of French law Covered Bonds**

Covered Bonds issued under the Programme will either be fungible with an existing Series or have different terms to an existing Series (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 equally in the Issuer Security.

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for prospective investors. Set out below is a description of the most common such features:

#### *Covered Bonds subject to optional redemption by the Issuer*

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

The Issuer will redeem the Covered Bonds when it appears that the Borrower is about to redeem the corresponding Borrower Advance(s) and the Borrower may be expected to redeem such corresponding Borrower Advance(s) when the general cost of borrowing of the Borrower is lower than the interest rate on such Borrower Advance(s). At those times, an investor in the Covered Bonds generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Prospective investors in the Covered Bonds should consider reinvestment risk in light of other investments available at that time.

#### *Fixed Rate Covered Bonds*

Investment in Covered Bonds which bear interest at a fixed rate involves the risk that subsequent changes in market interest rates may adversely affect the value of the relevant Tranche of Covered Bonds.

### *Floating Rate Covered Bonds*

Investment in Covered Bonds which bear interest at a floating rate comprises (i) a reference rate and (ii) a margin to be added or subtracted, as the case may be, from such base rate. Typically, the relevant margin will not change throughout the life of the Covered Bonds but there will be a periodic adjustment (as specified in the relevant Final Terms) of the reference rate (e.g., every three months or six months) which itself will change in accordance with general market conditions. Accordingly, the market value of floating rate Covered Bonds may be volatile if changes, particularly short term changes, to market interest rates evidenced by the relevant reference rate can only be reflected in the interest rate of these Covered Bonds upon the next periodic adjustment of the relevant reference rate.

### *Index Linked Covered Bonds and Dual Currency Covered Bonds*

Subject to prior Rating Affirmation, the Issuer may issue Covered Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Covered Bonds with principal or interest payable in one (1) or more currencies which may be different from the currency in which the Bonds are denominated. Prospective investors should be aware that:

- (a) the market price of such Covered Bonds may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) the amount of principal payable at redemption may be less than the nominal amount of such Covered Bonds or even zero (0);
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to the Covered Bonds in conjunction with a multiplier greater than one (1) or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to the Bondholders, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

### *Partly-paid Covered Bonds*

The Issuer may issue Covered Bonds where the issue price is payable in more than one (1) instalment. Failure to pay any subsequent instalment could result in a Bondholder losing some or all of his investment.

### *Variable rate Covered Bonds with a multiplier or other leverage factor*

Covered Bonds with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

### *Inverse Floating Rate Covered Bonds*

Inverse Floating Rate Covered Bonds have an interest rate equal to a fixed rate minus a rate based upon a reference rate. The market values of such Covered Bonds typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Covered Bonds are more volatile because an increase in the reference rate not only decreases the interest rate of the Covered Bonds, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Covered Bonds.

### *Fixed/Floating Rate Covered Bonds*

Fixed/Floating Rate Covered Bonds may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than then prevailing spreads on comparable debt instruments tied to the same reference floating rate. In addition, the new floating rate at any time may be lower than the rates on the other Covered Bonds issued by the Issuer. If the Issuer converts Covered Bonds from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on such Covered Bonds or other comparable investments.

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

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

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

Any resolution to direct the Representative to serve an Issuer Enforcement Notice, and any direction to the Representative to take any action as provided under this Base Prospectus, may be passed at the direction of the Bondholders of a single Series of Covered Bonds then outstanding and will not require the decision of the Bondholders of the other Series of Covered Bonds. Any resolution by Bondholders of a Series of Covered Bonds to direct the Representative to serve an Issuer Enforcement Notice will be effective for all the Bondholders of such Series of Covered Bonds, including the Bondholders of such Series of Covered Bonds who did not attend and vote at the relevant General Meeting and the Bondholders of such Series of Covered Bonds who voted in a contrary manner at such General Meeting. The service of an Issuer Enforcement Notice as mentioned above shall trigger the acceleration of sums due to Bondholders of the Series of Covered Bonds who have passed a resolution to this effect and a Covered Bonds Cross Acceleration Trigger Event shall be deemed to have occurred (i.e. a cross acceleration of sums due to Bondholders of all other Series of Covered Bonds).

### *Ratings of the Covered Bonds and Rating Affirmation*

The ratings assigned to the Covered Bonds by the Rating Agencies are based on the Issuer Security, the Borrower Collateral Security, the Home Loans and the related Home Loan Security, the Cash Collateral and the other relevant structural and credit enhancement features provided for under the Programme Documents, including, among other things, the short-term and/or long-term unsecured, unguaranteed and unsubordinated debt ratings of the parties to the Programme Documents (particularly the Borrower), and reflect only the views of the Rating Agencies. The ratings of S&P address the likelihood of full and timely receipt by any of the relevant Bondholders of interest on the Covered Bonds and the likelihood of receipt by the Bondholders of the principal amount thereof by the relevant Final Maturity Date. The ratings of Moody's address the expected loss posed to Bondholders. Moody's ratings address only the credit risks associated with the Programme. Other non-credit risks have not been addressed by Moody's but may have significant effects on the yield and/or ultimate recovery received by Bondholders.

There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by any of the Rating Agencies as a result of changes in or unavailability of information or if, in the judgement of the Rating Agencies, circumstances so warrant. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon both the value of the Covered Bonds or their marketability in secondary market transactions.

The Rating Agencies will be notified of the exercise of certain discretions exercised by or on behalf of the Issuer under the Programme Documents. However, the Rating Agencies are under no obligation to revert to the Issuer (or any of its agents) regarding the impact of the exercise of such discretion on the ratings of the Covered Bonds and any decision as to whether or not to confirm, downgrade, withdraw or qualify the ratings of all classes or any class of Covered Bonds based on such notification may be made at the sole discretion of the Rating Agencies at any time, including after the relevant action has been taken.

Where, after the date of this Base Prospectus, a particular matter such as that referred to in the preceding paragraph or any other matter involves the Rating Agencies being requested to first provide a Rating Affirmation, the Rating Agencies, at their sole discretion, may or may not give such Rating Affirmation. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that the Rating Agencies cannot provide the relevant Rating Affirmation in the time available or at all and the Rating Agencies will not be held responsible for the consequences thereof. Any Rating Affirmation received from the Rating Agencies, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the Covered Bonds form part since the date of this Base Prospectus. Furthermore, in the event that the Rating Agencies give a Rating Affirmation, this will be (in the case of S&P) on the basis of full and timely receipt by the relevant Bondholders of all interest amount accrued thereon and the likelihood of receipt by each of them of the full principal amount thereof by the relevant Final Maturity Date and (in the case of Moody's) on the basis of expected loss, as described above. There is no assurance that after any Rating Affirmation, the then current ratings of the Covered Bonds will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies for any of the reasons specified above in relation to the original ratings of the Covered Bonds. As such, a Rating Affirmation by the Rating Agencies is not a representation or warranty that, as a result of a particular matter, the interest and principal due under the Covered Bonds will be paid or repaid in full and when due.

Agencies other than the Rating Agencies could seek to rate the Covered Bonds and if such unsolicited ratings are lower than the comparable ratings assigned to the Covered Bonds by the Rating Agencies, those unsolicited ratings could have an adverse effect on the value and the marketability of the Covered Bonds. For the avoidance of doubt and unless the context otherwise requires, any references to "ratings" or "rating" in this Base Prospectus are to ratings assigned by S&P and Moody's only.

#### *Forecasts and estimates*

Any projections, forecasts and estimates in this Base Prospectus are forward-looking statements. Such projections are speculative in nature and it can be expected that some or all of the assumptions underlying the projections will not prove to be wholly correct or will vary from actual results. Consequently, the actual results might differ from the projections and such differences might be significant.

#### *Implementation of Basel II Risk-Weighted Asset Framework*

In June 1999, the Basel Committee on Banking Supervision (the "**Basel Committee**") issued proposals for the reform of the 1988 Basel Capital Accord and proposed a new capital adequacy framework which would place enhanced emphasis on risk sensitivity and market discipline. On 26 June 2004, the Basel Committee published a new Capital Accord under the title "Basel II International Convergence of Capital Measurement and Capital Standards: a Revised Framework" ("**Basel II**"), an updated version of which was published in November 2005. Basel II has been implemented into the EU legislation through the directives no. 2006/48 and no. 2006/49 (the "**Capital Requirements Directives**") both dated 14 June 2006. In France, the provisions of the Capital Requirements Directives providing for a new solvency ratio have been implemented through the *arrêtés* dated 20 February 2007 and the *ordonnance* dated 19 April 2007.

This implementation has brought about many substantial changes to the current system of capital requirements, prudential oversight and risk-management systems, including those of the Issuer. The direction and the magnitude of the impact of Basel II obviously depend on the particular asset structure of each bank and its precise impact on the Issuer cannot be quantified with certainty at this time. The Issuer may operate its business in ways that may be less profitable than its present operation in complying with the new guidelines resulting from the transposition of the Capital Requirements Directives.

In addition, the implementation of Basel II could affect the risk weighting of the Covered Bonds in respect of certain investors if those investors are subject to the new guidelines resulting from the implementation of the Capital Requirements Directives. Accordingly, recipients of this Base Prospectus should consult their own advisers as to the consequences and effects the implementation of the Capital Requirements Directives could have on them.

## **Risks related to the market generally**

### *The secondary market generally*

Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of the Covered Bonds.

In addition, Bondholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Base Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Covered Bonds. Such lack of liquidity may result in investors suffering losses on the Covered Bonds in secondary resales even if there is no decline in the credit strength of the Issuer or the performance of the Borrower Collateral Security Assets. The Issuer cannot predict when these circumstances will change and if and when they do whether there will be a more liquid market for the Covered Bonds and instruments similar to the Covered Bonds at that time.

### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds, and (3) the Investor's Currency equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal at all.

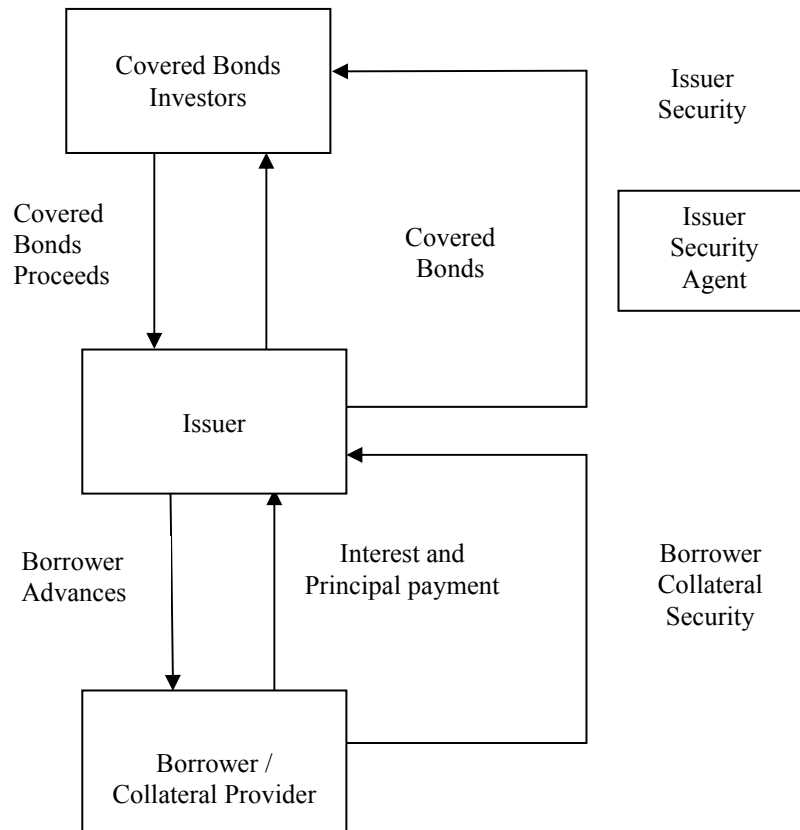
### *Interest rate risks*

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

### *Legal investment considerations may restrict certain investments*

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



**STRUCTURE DIAGRAM – PRINCIPAL PROGRAMME PARTIES****Structure Diagram**

### Principal Programme Parties

The following list does not purport to be complete and is qualified in all respects by the remainder of this Base Prospectus.

<b>Issuer:</b>	HSBC Covered Bonds (France)
<b>Administrator:</b>	HSBC France
<b>Borrower:</b>	HSBC France
<b>Affiliates:</b>	HSBC France and any of its French subsidiaries
<b>Cash Collateral Provider:</b>	HSBC France
<b>Arranger:</b>	HSBC France
<b>Permanent Dealer:</b>	HSBC France
<b>Bondholders Representative in respect of the French law Covered Bonds:</b>	BNP Paribas Securities Services
<b>Issuer Security Agent:</b>	BNP Paribas Securities Services
<b>Fiscal Agent, Principal Paying Agent, Paris Paying Agent and Calculation Agent in respect of the French law Covered Bonds:</b>	BNP Paribas Securities Services
<b>Listing Agent in respect of the French law Covered Bonds:</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Rating Agencies:</b>	S&P and Moody's
<b>Issuer Calculation Agent:</b>	HSBC France
<b>Issuer Accounts Bank:</b>	HSBC France
<b>Asset Monitor:</b>	KPMG Audit Plc

### DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus shall be read and construed in conjunction with the following documents which have been previously published and filed with the CSSF and which are incorporated in, and shall be deemed to form part of, this Base Prospectus:

- the statutory auditor's report of HSBC Covered Bonds (France) for the year ended 31 December 2009 (both in the French and English language - the "*HSBC Covered Bonds (France) S.A. - Rapport des commissaires aux comptes sur les comptes annuels - Exercice clos le 31 décembre 2009*") which contains the audited financial statements of the Issuer for the financial year ended 31 December 2009 and the auditor's report thereon (the "**2009 Statutory Auditor's Report**"),
- the statutory auditor's report of HSBC Covered Bonds (France) for the year ended 31 December 2008 (both in the French and English language - the "*HSBC Covered Bonds (France) - Rapport général du commissaire aux comptes - Exercice clos le 31 décembre 2008*") which contains the audited financial statements of the Issuer for the financial year ended 31 December 2008 and the auditor's report thereon (the "**2008 Statutory Auditor's Report**"),

All documents incorporated by reference in this Base Prospectus may be obtained, without charge on request, at the principal office of Issuer and the Paying Agents set out at the end of this Base Prospectus during normal business hours so long as any of the Covered Bonds are outstanding. Such documents will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

The information incorporated by reference in this Base Prospectus shall be read in connection with the cross reference list below. Any information not listed in the cross reference list but included in the documents incorporated by reference is given for information purposes only.

Cross-reference list<sup>1</sup>

(Annex VII of the European Regulation 809/2004/EC)

<b>FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES</b>		
<b><u>Historical financial information</u></b>	<b>2009 Statutory Auditor's Report (French language)</b>	<b>2009 Statutory Auditor's Report (English language)</b>
- Balance sheet ( <i>Bilan</i> )	Pages 4 to 5 and 10	Pages 4 to 5 and 7
- Profit and loss account ( <i>Compte de résultat</i> )	Pages 6, 10 to 11	Pages 6 to 9
- Notes ( <i>Annexe comptable</i> )	Pages 7 to 9	Pages 10 to 11
- Statutory Auditors' Report ( <i>Rapport Général du Commissaire aux comptes - Exercice clos le 31 décembre 2008</i> )	Pages 2 to 3	Pages 2 to 3
<b><u>Historical financial information</u></b>	<b>2008 Statutory Auditor's Report (French language)</b>	<b>2008 Statutory Auditor's Report (English language)</b>
- Balance sheet ( <i>Bilan</i> )	Pages 4 to 5 and 7	Pages 4 to 5 and 7
- Profit and loss account ( <i>Compte de résultat</i> )	Pages 6 to 8	Pages 6 to 8
- Notes ( <i>Annexe comptable</i> )	Pages 9 to 11	Pages 9 to 10
- Statutory Auditors' Report ( <i>Rapport Général du Commissaire aux comptes - Exercice clos le 31 décembre 2008</i> )	Pages 2 to 3	Pages 2 to 3

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<sup>1</sup> The page references mentioned in the cross reference list refer to the PDF page references of each document.

## SUPPLEMENT TO THE BASE PROSPECTUS

In connection with Covered Bonds admitted to trading on a Regulated Market, if at any time during the duration of the Programme there is a significant change affecting any matter contained in this base prospectus (the "**Base Prospectus**"), including any modification of the terms and conditions or generally any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, which inclusion would reasonably be required by investors, and would reasonably be expected by them to be found in this Base Prospectus for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the rights attaching to the Covered Bonds, the Issuer shall prepare a supplement to the Base Prospectus in accordance with Article 16 of the Prospectus Directive or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Covered Bonds, submit such supplement to the Base Prospectus to the *Commission de Surveillance du Secteur Financier* in Luxembourg for approval and supply each Dealer, the Luxembourg Stock Exchange and the *Commission de Surveillance du Secteur Financier* in Luxembourg with such number of copies of such supplement to the Base Prospectus as may reasonably be requested.

## TERMS AND CONDITIONS OF THE FRENCH LAW COVERED BONDS

*The following is the text of the terms and conditions that, as supplemented in accordance with the provisions of the relevant Final Terms, shall be applicable to the French law Covered Bonds. In this section, "Covered Bonds" will include French law Covered Bonds only. In the case of Dematerialised Covered Bonds, the text of the terms and conditions will not be endorsed on physical documents of title but will be constituted by the following text as supplemented by the relevant Final Terms. In the case of Materialised Covered Bonds, either (i) the full text of these terms and conditions together with the relevant provisions of the Final Terms (and subject to simplification by the deletion of non-applicable provisions) or (ii) these terms and conditions as so supplemented shall be endorsed on Definitive Materialised Covered Bonds. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Final Terms. References in the Conditions to "Covered Bonds" are to the Covered Bonds of one (1) series only, not to all Covered Bonds that may be issued under the Programme.*

The Covered Bonds are issued outside France by HSBC Covered Bonds (France) (the "**Issuer**") in series (each a "**Series**") having one (1) or more issue dates and on terms otherwise identical (or identical save as to the first payment of interest), the Covered Bonds of each Series being intended to be interchangeable with all other Covered Bonds of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (including, without limitation, the aggregate nominal amount, issue price, redemption price thereof, and interest, if any, payable thereunder and supplemented, where necessary, with supplemental terms and conditions which, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be determined by the Issuer and the relevant Dealer(s) at the time of the issue and will be set out in the final terms of such Tranche (the "**Final Terms**").

The Covered Bonds are issued with the benefit of an amended and restated agency agreement dated 7 December 2010 (the "**Agency Agreement**") entered into between the Issuer and BNP Paribas Securities Services as fiscal agent, principal paying agent, paris paying agent and calculation agent. The fiscal agent, the paying agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent) and the "**Calculation Agent(s)**". The holders of the interest coupons (the "**Coupons**") relating to interest bearing Materialised Covered Bonds and, where applicable in the case of such Covered Bonds, talons (the "**Talons**") for further Coupons and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Materialised Covered Bonds of which the principal is redeemable in instalments are respectively referred to below as the "**Couponholders**" and the "**Receipholders**".

References below to "**Conditions**" are, unless the context requires otherwise, to the numbered paragraphs below.

### 1. Definitions

"**Bondholder**" or, as the case may be, "holder of any Covered Bond" means (a) in the case of Dematerialised Covered Bonds, the individual or entity whose name appears in the account of the relevant Account Holder, the Issuer or the Registration Agent (as the case may be) as being entitled to such Covered Bonds and (b) in the case of Definitive Materialised Covered Bonds, the bearer of any Definitive Materialised Covered Bond and the Coupons, Receipts or Talons relating to it.

"**Borrower Debt**" means the Borrower's indebtedness outstanding from time to time under the Borrower Facility Agreement.

"**Closing Date**" means the date of the issuance of the first Series of Covered Bonds by the Issuer.

"**Issuer Event of Default**" means the occurrence of any of the following events:

- (a) at any relevant time following the service of a Borrower Enforcement Notice (as defined in section "**The Borrower and the Borrower Facility Agreement**" – "**The Borrower Facility Agreement**" of this Base Prospectus), a Breach of Amortisation Test (as defined in section "**Asset Monitoring**" of this Base Prospectus) occurs; or

- (b) the Issuer is in default in the payment of principal of, or interest on, any Covered Bond (including the payment of any additional amounts mentioned in Condition 9) when due and payable, unless such default has arisen by reason of technical default or error and payment is made within five (5) Business Days of the due date thereof; or
- (c) the Issuer is in default in the performance or observance of any of its other material obligations under any Covered Bond and such default has not been cured within thirty (30) days after the receipt by the Fiscal Agent (with copy to the Issuer) of the written notice of such default by the Representative requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied; or
- (d) any other present or future indebtedness of the Issuer (including any Covered Bonds of any other Series (including German law Covered Bonds)) becomes or becomes capable of being declared due and payable prior to its stated maturity as a result of a default thereunder, or any such indebtedness shall not be paid when due or, as the case may be, within any originally applicable grace period therefore or any steps shall be taken to enforce any security in respect of any such indebtedness or any guarantee or indemnity given by the Issuer for, or in respect of, any indebtedness of others shall not be honoured when due and called upon (a "**Covered Bonds Cross Acceleration Event**"); or
- (e) an order is made or an effective resolution passed for the liquidation or winding up of the Issuer (except in the case of a liquidation or winding up for the purpose of a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by the Majority Bondholders of all Series for which Covered Bonds (including German law Covered Bonds) or, if applicable, any Receipts or Coupons relating to them, are Outstanding, and such liquidation or winding up being subject to prior Rating Affirmation); or
- (f) the Issuer makes any proposal for a general moratorium in relation to its debt or applies for, or is subject to, the appointment of a *mandataire ad hoc* or has applied to enter into a conciliation procedure (*procédure de conciliation*) or into a safeguard procedure (*procédure de sauvegarde*) or a judgement is issued for the judicial liquidation (*liquidation judiciaire*) or the transfer of the whole of the business (*cession totale de l'entreprise*) of the Issuer or, to the extent permitted by applicable law, if the Issuer is subject to any other insolvency or bankruptcy proceedings or makes any conveyance, assignment or other arrangement for the benefit of its creditors or enters into a composition with its creditors; or
- (g) the Issuer ceases to carry on all or a material part of its business (except in the case of 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, in each case the terms of which have previously been approved by the Majority Bondholders of all Series for which Covered Bonds (including German Law Covered Bonds) or, if applicable, any Receipts or Coupons relating to them, are Outstanding and such liquidation or winding up being subject to prior Rating Affirmation); or
- (h) upon the occurrence of a Hedging Rating Trigger Event (as defined in section "**The Hedging Strategy**" of this Base Prospectus), the Issuer (or the Administrator on its behalf) fails to enter into (i) appropriate Issuer Hedging Agreements and related Issuer Hedging Transactions (as defined in section "**The Hedging Strategy**" of this Base Prospectus) with Eligible Hedging Provider(s) (as defined in section "**The Hedging Strategy**" of this Base Prospectus), or (ii) Borrower Hedging Agreement(s) and related Borrower Hedging Transaction(s) (as defined in section "**The Hedging Strategy**" of this Base Prospectus) with the Borrower, within thirty (30) calendar days from the occurrence date of such Hedging Rating Trigger Event, as described under the Hedging Strategy (as defined in section "**The Hedging Strategy**" of this Base Prospectus).

"**Majority Bondholders**" means, (i) in relation to any Series of Covered Bonds, a decision of the General Meeting (as defined in Condition 12 of the Terms and Conditions) of such Series taken in accordance with Condition 12(e) of the Terms and Conditions and (ii) in relation to German law Covered Bonds, an approval of one (1) or more German law Bondholders holding at least two-thirds (2/3) of the then outstanding principal amount of such German law Covered Bonds.

**"Nominal Amount"**, in respect of any partly paid Covered Bond at any time, shall mean the paid-up nominal amount of the Covered Bond at that time.

**"Outstanding"** means, in relation to Covered Bonds of any Series, all the Covered Bonds (including German law Covered Bonds) issued other than (a) those that have been redeemed in accordance with these Conditions, (b) those in respect of which the date for redemption has occurred and the redemption moneys (including all interest accrued on such Covered Bonds to the date for such redemption and any interest payable after such date) have been duly paid as provided in Condition 8 of the Terms and Conditions, (c) those which have become void or in respect of which claims have become prescribed, (d) those which have been purchased and cancelled as provided in these Conditions, (e) in the case of Definitive Materialised Covered Bonds (i) those mutilated or defaced Definitive Materialised Covered Bonds that have been surrendered in exchange for replacement Definitive Materialised Covered Bonds, (ii) (for the purpose only of determining how many such Definitive Materialised Covered Bonds are outstanding and without prejudice to their status for any other purpose) those Definitive Materialised Covered Bonds alleged to have been lost, stolen or destroyed and in respect of which replacement Definitive Materialised Covered Bonds have been issued and (iii) any Temporary Global Certificate to the extent that it shall have been exchanged for one (1) or more Definitive Materialised Covered Bonds, pursuant to its provisions.

**"Payment Date"** means, with respect to a Series or Tranche of Covered Bonds, the payment date of any principal or interest amount applicable to the Issuer and specified as such in the relevant Final Terms of the Covered Bonds.

**"Programme Documents"** means:

- (a) the Letter of Undertakings (see "**The Issuer**" – "**Issuer Share capital, Subordinated Loan and Issuer Majority Shareholder's undertakings**");
- (b) the Issuer Subordinated Loan Agreement (see "**The Issuer**" – "**Issuer Share capital, Subordinated Loan and Issuer Majority Shareholder's undertakings**");
- (c) the Administrative Agreement (see "**The Issuer**" – "**The Administrative Agreement**");
- (d) the *Convention d'Externalisation et de Mise à Disposition de Moyens* (see "**the Issuer**" – "**Issuer Risk Management**");
- (e) the Issuer Accounts Agreement (see "**The Issuer**" – "**The Issuer Accounts Agreement**");
- (f) the Terms and Conditions;
- (g) the Agency Agreement (including the Terms and Conditions of the German law Covered Bonds);
- (h) the Dealer Agreement (see "**Subscription and Sale**");
- (i) the Issuer Security Agreements (see "**The Issuer Security**");
- (j) the Borrower Facility Agreement (see "**The Borrower and the Borrower Facility Agreement**" – "**The Borrower Facility Agreement**");
- (k) the Borrower Collateral Security Agreement (see "**The Borrower Collateral Security**" – "**The Borrower Collateral Security Agreement**");
- (l) the Cash Collateral Agreement (see "**The Borrower Collateral Security**" – "**The Cash Collateral Agreement**");
- (m) the Calculation Services Agreement (see "**Asset Monitoring**" – "**The Calculation Services Agreement**");
- (n) the Asset Monitor Agreement (see "**Asset Monitoring**" – "**The Asset Monitor Agreement**");



- (o) the Master Definitions and Construction Agreement, which provides for the definitions of defined terms used under some of the other Programme Documents;
- (p) the Hedging Approved Form Letter (see "**The Hedging Strategy**"); and
- (q) the Hedging Agreement(s) (if any) (see "**The Hedging Strategy**").

"**Rating Affirmation**" means, with respect to any specified action, determination or appointment, receipt by the Issuer (and sent to the relevant Representative) of written confirmation from each Rating Agency, for so long as any Covered Bonds are rated by such Rating Agency, that such specified action, determination or appointment will not result in a downgrading or withdrawal of the ratings then assigned to the Covered Bonds by that Rating Agency, provided that in the case of Moody's, Rating Affirmation shall be deemed to have been received if Moody's has been notified in writing of the relevant action, determination or appointment.

"**Rating Agency**" means Moody's Investors Service ("**Moody's**") or Standard and Poor's ("**S&P**") and, together, the "**Rating Agencies**".

"**Regulated Market**" means a regulated market within the meaning of Directive 2004/39/EC dated 21 April 2004 of the European Parliament and of the Council as amended within the EEA.

"**Representative Consent**" means, with respect to any specified action, determination or appointment, receipt by the Issuer of (i) written confirmation of consent of 2/3 of the holders of each Series of Outstanding German Law Covered Bonds, as described in the Agency Agreement, and (ii) written confirmation of consent of the Representative (acting upon instructions of the Majority Bondholders of the relevant Series of Outstanding French Law Covered Bonds), in each case to such proposed action, determination or appointment.

"**Signing Date**" means 29 July 2008.

## 2. Form, Denomination, Title and Redenomination

### (a) Form

Covered Bonds may be issued either in the form of Dematerialised Covered Bonds or in the form of Materialised Covered Bonds, as specified in the relevant Final Terms.

- (i) Title to Dematerialised Covered Bonds will be evidenced in accordance with Articles L.211-3 *et seq.* of the French Monetary and Financial Code (*Code monétaire et financier*) by book entries (*inscriptions en compte*). No physical document of title (including *certificats représentatifs* pursuant to Article R.211-7 of the French Monetary and Financial Code (*Code monétaire et financier*)) will be issued in respect of the Dematerialised Covered Bonds.

Dematerialised Covered Bonds are issued, at the option of the Issuer, in either bearer form (*au porteur*), which will be inscribed in the books of Euroclear France (acting as central depository) which shall credit the accounts of the Account Holders, or in registered form (*au nominatif*) and, in such latter case, at the option of the relevant holder in either administered registered form (*nominatif administré*) inscribed in the books of an Account Holder designated by the relevant holder of Covered Bonds or in fully registered form (*au nominatif pur*) inscribed in an account maintained by the Issuer or a registration agent (designated in the relevant Final Terms) acting on behalf of the Issuer (the "**Registration Agent**").

For the purpose of these Conditions, "**Account Holder**" means any authorised intermediary institution entitled to hold accounts, directly or indirectly, with Euroclear France, and includes Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream, Luxembourg as the depository bank for Clearstream Banking, *société anonyme*.

- (ii) Materialised Covered Bonds are issued in bearer form only. Definitive Materialised Covered Bonds are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Covered Bonds in which case references to interest

(other than in relation to interest due after the Final Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Covered Bonds are issued with one (1) or more Receipts attached.

In accordance with Articles L.211-3 *et seq.* of the French Monetary and Financial Code (*Code monétaire et financier*), securities (such as Covered Bonds constituting obligations under French law) in materialised form and governed by French law must be issued outside the French territory.

The Covered Bonds may be "**Fixed Rate Covered Bonds**", "**Floating Rate Covered Bonds**", "**Zero Coupon Covered Bonds**", "**Dual Currency Covered Bonds**" or a combination of any of the foregoing, depending on the Interest Basis and the redemption method specified in the relevant Final Terms. Subject to prior Rating Affirmation, the Issuer may issue Covered Bonds which are "**Index Linked Covered Bonds**".

**(b) Denomination**

Covered Bonds shall be issued in the specified denomination(s) set out in the relevant Final Terms (the "**Specified Denomination(s)**"), save that the minimum denomination of each Covered Bond admitted to trading on a Regulated Market in circumstances which require the publication of a prospectus under the Prospectus Directive 2003/71/EC of the European Parliament and of the Council will be of € 50,000 (or its equivalent in any other currency) or such higher amount as may be allowed or required from time to time by the relevant monetary authority or any laws or regulations applicable to the relevant Specified Currency.

Dematerialised Covered Bonds shall be issued in one (1) Specified Denomination only.

**(c) Title**

- (i) Title to Dematerialised Covered Bonds in bearer form (*au porteur*) and in administered registered form (*au nominatif administré*) shall pass upon, and transfer of such Covered Bonds may only be effected through, registration of the transfer in the accounts of the Account Holders. Title to Dematerialised Covered Bonds in fully registered form (*au nominatif pur*) shall pass upon, and transfer of such Covered Bonds may only be effected through, registration of the transfer in the accounts maintained by the Issuer or by the Registration Agent.
- (ii) Title to Definitive Materialised Covered Bonds, including, where appropriate, Receipt(s), Coupons and/or a Talon attached, shall pass by delivery.
- (iii) Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Covered Bond, Coupon, Receipt or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

**(d) Redenomination**

The Issuer may (if so specified in the relevant Final Terms), on any date, without the consent of the holder of any Covered Bond, Coupon, Receipt or Talon, by giving at least thirty (30) days' notice in accordance with Condition 17 and on or after the date on which the European Member State in whose national currency the Covered Bonds are denominated has become a participating Member State in the single currency of the European Economic and Monetary Union (as provided in the Treaty establishing the European Community (the "EC", as amended from time to time (the "**Treaty**")) or events have occurred which have substantially the same effects (in either case, "**EMU**"), redenominate all, but not some only, of the Covered Bonds of any Series into Euro and adjust the aggregate principal amount and the Specified Denomination(s) set out in the relevant Final Terms accordingly, as more fully described in the relevant Final Terms.

**(e) Method of Issue**

The Covered Bonds will be issued on a syndicated or non-syndicated basis. The Covered Bonds will be issued in Series having one (1) or more issue dates and on terms otherwise identical (or identical save in respect of the issue date, issue price, nominal amount and first payment of interest), the Covered Bonds of each Series being intended to be interchangeable with all other Covered Bonds of that Series. Each Series may be issued in Tranches on the same or different issue dates. The specific terms of each Tranche (including, without limitation, the aggregate nominal amount, issue price, redemption price thereof, and interest, if any, payable thereunder and supplemented, where necessary, with supplemental terms and conditions which, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be determined by the Issuer and the relevant Dealer(s) at the time of issue and will be set out in the relevant Final Terms.

**3. Conversions and Exchanges of Covered Bonds****(a) Dematerialised Covered Bonds**

- (i) Dematerialised Covered Bonds issued in bearer form (*au porteur*) may not be converted for Dematerialised Covered Bonds in registered form, whether in fully registered form (*au nominatif pur*) or in administered registered form (*au nominatif administré*).
- (ii) Dematerialised Covered Bonds issued in registered form (*au nominatif*) may not be converted for Dematerialised Covered Bonds in bearer form (*au porteur*).
- (iii) Dematerialised Covered Bonds issued in fully registered form (*au nominatif pur*) may, at the option of the holder of such Covered Bonds, be converted into Covered Bonds in administered registered form (*au nominatif administré*), and *vice versa*. The exercise of any such option by such holder shall be made in accordance with Article R.211-4 of the French Monetary and Financial Code (*Code monétaire et financier*). Any such conversion shall be effected at the cost of such holder.

**(b) Materialised Covered Bonds**

Materialised Covered Bonds of one (1) Specified Denomination may not be exchanged for Materialised Covered Bonds of another Specified Denomination.

**4. Status**

The Covered Bonds, and, where applicable, any related Coupons and Receipts are direct, unconditional, unsubordinated and secured (in accordance with the provisions of Condition 5(b)) obligations of the Issuer and rank and will rank *pari passu* without any preference among themselves and (subject to such exceptions as are from time to time mandatory under French law and to the provisions of Condition 5(b)) at least *pari passu* with all other present or future unsubordinated obligations of the Issuer (including the German law Covered Bonds).

**5. Covenants**

So long as any of the Covered Bonds or, if applicable, any Receipts or Coupons relating to them, is Outstanding:

**(a) Negative Pledge**

Except in accordance with Condition 5(b), the Issuer will not create or permit to subsist any mortgage, charge, pledge or other form of security interest (*sûreté réelle*) upon any of its assets or revenues, present or future, to secure any Relevant Undertaking (as defined below) of, or guaranteed by, the Issuer unless, at the same time or prior thereto, the Issuer's obligations under the Covered Bonds, and, if applicable, Receipts or Coupons relating to them, are equally and rateably secured

therewith, where "**Relevant Undertaking**" means any present or future (i) indebtedness for borrowed money or (ii) undertaking in relation to interest or currency swap transactions.

**(b) Security**

The Bondholders shall benefit from the following security (the "**Issuer Security**"):

- (i) the pledge of the Issuer Accounts granted pursuant to an accounts pledge agreement dated on or about the Closing Date and made between the Issuer in its capacity as pledgor and BNP Paribas Securities Services acting as Issuer Security Agent in the name and on behalf of the Bondholders in their capacity as beneficiaries under the pledge (the "**Issuer Accounts Pledge Agreement**"), and
- (ii) the pledge of the Borrower Facility Receivables granted pursuant to a receivables pledge agreement dated on or about the Closing Date and made between the Issuer in its capacity as pledgor and BNP Paribas Securities Services acting as Issuer Security Agent in the name and on behalf of the Bondholders in their capacity as beneficiaries under the pledge (the "**Receivables Pledge Agreement**" and, together with the Issuer Accounts Pledge Agreement, "**Issuer Security Agreements**").

Bondholders are deemed to have notice of the provisions of the Issuer Security Agreements. Certain statements in the Conditions and under sections "**The Issuer Security – The Issuer Accounts Pledge Agreement**" and "**The Issuer Security – The Issuer Receivables Pledge Agreement**" of this Base Prospectus are summaries of the detailed provisions of the Issuer Security Agreements, copies of which are available for inspection at the specified office of the Paying Agents.

As more fully described in the Issuer Security Agreements, upon the issue of further Series of Covered Bonds on each issue date after the Closing Date, the existing Issuer Security securing the repayment of all and any amount owed in respect of the then Outstanding Covered Bonds will be (a) released by the Issuer Security Agent and (b) re-taken by the Issuer Security Agent as security for the repayment of all and any amount owed in respect of the then Outstanding Covered Bonds and the new Series of Covered Bonds issued on such issue date.

As more fully described in the Issuer Security Agreements, the subscription or purchase of Covered Bonds results by force of law in the (i) acceptance that all the Bondholders of any Series, present or future, will benefit *pari passu* from the Issuer Security provided under the Issuer Security Agreements and any Issuer Accounts Pledge Agreement Deed of Retake or any Receivables Pledge Agreement Deed of Retake (as such terms are defined in the Issuer Security Agreements) and (ii) appointment of the Issuer Security Agent as agent in order to manage the Issuer Security in their name and on their behalf.

The Bondholders will share the benefit of the Security with the holders of any German law Covered Bond.

**(c) Limitation on Indebtedness**

The Issuer undertakes not to incur any indebtedness other than as contemplated by the Programme Documents unless:

- (i) such indebtedness is fully subordinated to the outstanding indebtedness incurred in relation to the Covered Bonds, as the case may be; or
- (ii) prior Rating Affirmation has been delivered in relation to such indebtedness.

**(d) Restrictions on mergers or reorganisations**

The Issuer undertakes not to enter into any merger, re-organisation or similar transaction without prior Representative Consent and Rating Affirmation.

**(e) Separateness covenants**

The Issuer undertakes (except as permitted under the Programme Documents or the Issuer's by-laws):

- (i) to maintain books and records separate from any other person or entity;
- (ii) to maintain its accounts separate from those of any other person or entity;
- (iii) not to commingle assets with those of any other entity;
- (iv) to conduct its own business in its own name;
- (v) to maintain separate financial statements;
- (vi) to pay its own liabilities out of its own funds;
- (vii) to observe all corporate, partnership, or other formalities required by its constituting documents;
- (viii) not to guarantee or to become obligated for the debts of any other entity or to hold out its credit as being available to satisfy the obligations of others;
- (ix) not to acquire capital shares or securities of its partners or shareholders;
- (x) to use its own separate stationery, invoices, and cheques;
- (xi) to hold itself out as a separate entity;
- (xii) not to have any employees;
- (xiii) not to voluntarily wind up; and
- (xiv) to correct any known misunderstanding regarding its separate identity.

**(f) Amortisation Test**

Following the enforcement of a Borrower Event of Default subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement, the Issuer undertakes to comply with the Amortisation Test. For the purposes hereof, the terms of section "**Asset Monitoring**" of this Base Prospectus are incorporated by reference in this Condition 5 (f).

**(g) Hedging Strategy**

Upon the occurrence of a Hedging Rating Trigger Event, and, as applicable, upon the occurrence of any Borrower Event of Default, the Issuer undertakes to take all reasonable steps to implement the Hedging Strategy as described under section "**Hedging Strategy**" of this Base Prospectus.

**(h) Programme Documents**

Subject to the qualifications described in the relevant Programme Document(s) to which it is a party, the Issuer undertakes that no amendment, modification, alteration or supplement shall be made to any Programme Document to which it is a party without prior Rating Affirmation if the same materially and adversely affects the interest of the Issuer or the Bondholders.

For the avoidance of doubt, the Issuer may amend, modify, alter or supplement any Programme Document to which it is a party without prior Rating Affirmation:

- (i) to cure any ambiguity, omission, defect or inconsistency;

- (ii) to evidence or effect the transition of any party to any Programme Document to which it is a party to any successor;
- (iii) to add to the undertakings and other obligations of any party (except the Issuer) under any Programme Document to which it is a party; or
- (iv) to comply with any mandatory requirements of applicable laws and regulations.

In addition, the Issuer undertakes that:

- (i) each Programme Document to which the Issuer is or will become a party will include limited recourse language pursuant to which the creditors of the Issuer (including the Bondholders) will agree that their recourse will be limited to the funds that are available to the Issuer at any relevant date in accordance with the relevant Priority Payment Order; and
- (ii) each Programme Document to which the Issuer is or will become a party will also include non-petition language, whereby the creditors of the Issuer (including the Bondholders) will agree not to commence or to join any proceedings for the insolvency of the Issuer prior to the end of an eighteen (18) month period after all Covered Bonds have been paid and discharged in full.

**(i) Notification of Issuer Events of Default**

In respect of any Series, the Issuer undertakes to promptly inform the Rating Agencies, the Representative and the Administrator of the occurrence of any Issuer Event of Default. Upon receipt of a written request to that effect from the Rating Agencies, the Representative or the Administrator, the Issuer shall confirm to each of them that, save as previously notified to each of them, or as notified in such confirmation, no Issuer Event of Default has occurred or is continuing.

**(j) No further Issuance**

The Issuer undertakes not to issue any further Covered Bonds (including German law Covered Bonds) under the Programme:

- (i) as from the date a Borrower Enforcement Notice (as defined in section "**The Borrower and the Borrower Facility Agreement**" – "**The Borrower Facility Agreement**" of this Base Prospectus) has been served;
- (ii) as from the date an Issuer Enforcement Notice has been served;
- (iii) for so long as a Non Compliance with Asset Cover Test (as defined in section "**Asset Monitoring**" of this Base Prospectus) has occurred and is not remedied;
- (iv) for so long as a Non Compliance with Amortisation Test (as defined in section "**Asset Monitoring**" of this Base Prospectus) has occurred and is not remedied; or
- (v) for so long as, regarding the Pre-Maturity Test (as defined in section "**Asset Monitoring**" of this Base Prospectus), a Non Compliance Notice (as defined in section "**Asset Monitoring**" of this Base Prospectus) has been delivered and is not withdrawn.

**(k) Rating of further Issuance**

Subject to Condition (j) above, the Issuer undertakes that any new further issuance of Covered Bonds will be rated by the Rating Agencies.

## 6. Interest and other Calculations

### (a) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

**"Benchmark"** means the reference rate as set out in the relevant Final Terms.

**"Business Day"** means:

- (i) in the case of Euro, a day on which the Trans European Automated Real Time Gross Settlement Express Transfer payment system (TARGET 2) or any successor thereto (the **"TARGET System"**) is operating (a **"TARGET Business Day"**), and/or
- (ii) in the case of a Specified Currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency, and/or
- (iii) in the case of a Specified Currency and/or one or more additional business centre(s) specified in the relevant Final Terms (the **"Business Centre(s)"**), a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres so specified.

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest on any Covered Bond for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the **"Calculation Period"**):

- (i) if **"Actual/365"**, **"Actual/Actual"** or **"Actual/Actual-ISDA"** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by three hundred and sixty-five (365) (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by three hundred and sixty-six (366) and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by three hundred and sixty-five (365)).
- (ii) if **"Actual/Actual-ICMA"** is specified in the relevant Final Terms:
  - (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
  - (B) if the Calculation Period is longer than one (1) Determination Period, the sum of:
    - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
    - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

in each case, where:

**"Determination Period"** means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

**"Determination Date"** means the date specified in the relevant Final Terms or, if none is so specified, the Interest Payment Date.

- (iii) if "**Actual/365 (Fixed)**" is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by three hundred and sixty-five (365).
- (iv) if "**Actual/360**" is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by three hundred and sixty (360).
- (v) when "**2000 ISDA Definitions**" is specified in the relevant Final Terms, and if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the relevant Final Terms, the number of days in the Calculation Period divided by three hundred and sixty (360) (the number of days to be calculated on the basis of a year of three hundred and sixty (360) days with twelve (12) thirty (30) day months (unless (a) the last day of the Calculation Period is the thirty-first (31<sup>st</sup>) day of a month but the first day of the Calculation Period is a day other than the thirtieth (30<sup>th</sup>) or thirty-first (31<sup>st</sup>) day of a month, in which case the month that includes that last day shall not be considered to be shortened to a thirty (30) day month, or (b) the last day of the Calculation 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 thirty (30) day month)).
- (vi) when "**2006 ISDA Definitions**" is specified in the relevant Final Terms, and if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the relevant Final Terms, the number of days in the Calculation Period divided by three hundred and sixty (360), calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first (1<sup>st</sup>) day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first (1<sup>st</sup>) day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be thirty-one (31), in which case D<sub>1</sub> will be thirty (30); and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be thirty-one (31) and D<sub>1</sub> is greater than twenty-nine (29), in which case D<sub>2</sub> will be thirty (30).

- (vii) when "**2000 ISDA Definitions**" is specified in the relevant Final Terms, and if "**30E/360**" or "**Eurobond Basis**" is specified in the relevant Final Terms, the number of days in the Calculation Period divided by three hundred and sixty (360) (the number of days to be calculated on the basis of a year of three hundred and sixty (360) days with twelve (12) thirty (30) day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Final Maturity Date, 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 thirty (30) day month).
- (viii) when "**2006 ISDA Definitions**" is specified in the relevant Final Terms, and if "**30E/360**" or "**Eurobond Basis**" is specified in the relevant Final Terms, the number of days in the Calculation Period divided by three hundred and sixty (360), calculated on a formula basis as follows:



$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first (1<sup>st</sup>) day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first (1<sup>st</sup>) day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be thirty-one (31), in which case D<sub>1</sub> will be thirty (30); and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be thirty-one (31), in which case D<sub>2</sub> will be thirty (30).

**"Effective Date"** means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Final Terms or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

**"Euro Zone"** means the region comprised of member states of the European Union that have adopted or adopt the single currency in accordance with the Treaty establishing the European Community as amended from time to time.

**"Interest Accrual Period"** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

**"Interest Amount"** means the amount of interest payable, and in the case of Fixed Rate Covered Bonds, means the Fixed Coupon Amount or Broken Amount, as specified in the relevant Final Terms, as the case may be.

**"Interest Commencement Date"** means the Issue Date or such other date as may be specified in the relevant Final Terms.

**"Interest Determination Date"** means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the day falling two (2) TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro or (ii) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (iii) the day falling two (2) Business Days in the city specified in the Final Terms for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro.

**"Interest Payment Date"** means the date(s) specified in the relevant Final Terms or determined in accordance with Condition 6(c), as applicable.

**"Interest Period"** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

**"Interest Period Date"** means each Interest Payment Date unless otherwise specified in the relevant Final Terms.

**"ISDA Definitions"** means the 2006 ISDA Definitions or the 2000 ISDA Definitions as may be specified in the relevant Final Terms, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms.

**"Rate of Interest"** means the rate of interest payable from time to time in respect of the Covered Bonds that is either specified or calculated in accordance with the provisions in the relevant Final Terms.

**"Reference Banks"** means the institutions specified as such in the relevant Final Terms or, if none, four (4) major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR or EONIA is the relevant Benchmark, shall be the Euro-zone, and if LIBOR is the relevant Benchmark, shall be London).

**"Relevant Financial Centre"** means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Final Terms or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR or EONIA, shall be the Euro-zone and in the case of LIBOR, shall be London) or, if none is so connected, Paris.

**"Relevant Date"** means, in respect of any Covered Bond, Receipt or Coupon, the date on which payment in respect of it first became due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (in the case of Materialised Covered Bonds if earlier) the date which falls seven (7) days after the date on which the holders of such Materialised Covered Bonds are notified that, upon further presentation of the Materialised Covered Bond, Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

**"Relevant Rate"** means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

**"Relevant Time"** means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre (which shall be, with respect to Europe and the Euro-zone as a Relevant Financial Centre, 11:00 a.m. (Brussels time)).

**"Representative Amount"** means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Final Terms or, if none is specified, an amount determined by the Calculation Agent which is representative for a single transaction in the relevant market at the time.

**"Specified Currency"** means the currency specified as such in the relevant Final Terms or, if none is specified, the currency in which the Covered Bonds are denominated.

**"Specified Duration"** means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Final Terms or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 6(c)(ii).

**(b) Interest on Fixed Rate Covered Bonds**

Each Fixed Rate Covered Bond bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest,

such interest being payable in arrear on each Interest Payment Date except as otherwise provided in the relevant Final Terms.

If a fixed amount of interest ("**Fixed Coupon Amount**") or a broken amount of interest ("**Broken Amount**") is specified in the relevant Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of a Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Final Terms.

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

- (i) *Interest Payment Dates:* Each Floating Rate Covered Bond and Index Linked Interest Covered Bond bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the relevant Final Terms, the Interest Payment Date(s) shall be each date which falls the number of months or other period shown in the relevant Final Terms as the Specified Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day. Notwithstanding the foregoing, where the applicable Final Terms specify that the relevant Business Day Convention is to be applied on an "unadjusted" basis, the Interest Amount payable on any date shall not be affected by the application of that Business Day Convention.
- (iii) *Rate of Interest for Floating Rate Covered Bonds:* The Rate of Interest in respect of Floating Rate Covered Bonds for each Interest Accrual Period shall be determined in the manner specified in (i) the relevant Final Terms and/or (ii) the provisions below relating to either ISDA Determination or Screen Rate Determination, depending upon which is specified in the relevant Final Terms.

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

Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Final Terms;
- (b) the Designated Maturity is a period specified in the relevant Final Terms; and

- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the 2000 ISDA Definitions.

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

Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (1) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:
  - (I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one (1) entity); or
  - (II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page, in each case appearing on such Page at the Relevant Time on the Interest Determination Date as disclosed in the relevant Final Terms, plus or minus (as indicated in the relevant Final Terms) the Margin (if any); and
- (2) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (1)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (1)(II) applies and fewer than two (2) Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent, plus or minus (as indicated in the relevant Final Terms) the Margin (if any); and
- (3) if paragraph (2) above applies and the Calculation Agent determines that fewer than two (2) Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two (2) out of five (5) leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is Euro, in the Euro-zone as selected by the Calculation Agent (the "**Principal Financial Centre**") are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two (2) of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two (2) of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier (if so set out in the relevant Final Terms) or Maximum or Minimum Rate of Interest (as set out in (h) below) applicable to

the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

- (iv) *Rate of Interest for Index Linked Covered Bonds:* The Rate of Interest in respect of Index Linked Covered Bonds for each Interest Accrual Period shall be determined in the manner specified in the relevant Final Terms and interest will accrue by reference to an Index or Formula as specified in the relevant Final Terms.

**(d) Zero Coupon Covered Bonds**

Where a Covered Bond the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Final Maturity Date pursuant to an Issuer's Option or, if so specified in the relevant Final Terms, pursuant to Condition 7(e) or otherwise and is not paid when due, the amount due and payable prior to the Final Maturity Date shall, unless otherwise provided in the relevant Final Terms, be the Early Redemption Amount specified in Condition 7(e). As from the Final Maturity Date, the Rate of Interest for any overdue principal of such a Covered Bond shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 7(e)(i)).

**(e) Dual Currency Covered Bonds**

In the case of Dual Currency Covered Bonds, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating a Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

**(f) Partly Paid Covered Bonds**

In the case of Partly Paid Covered Bonds (other than Partly Paid Covered Bonds which are Zero Coupon Covered Bonds), interest will accrue as aforesaid on the paid-up nominal amount of such Covered Bonds or as otherwise specified in the relevant Final Terms.

**(g) Accrual of Interest**

Interest shall cease to accrue on each Covered Bond on the due date for redemption unless (i) in the case of Dematerialised Covered Bonds, on such due date or (ii) in the case of Materialised Covered Bonds, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (before as well as after judgement) at the Rate of Interest in the manner provided in this Condition 6 to the Relevant Date.

**(h) Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

- (i) If any Margin is specified in the relevant Final Terms (either (x) generally, or (y) in relation to one (1) or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (c) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the relevant Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest fifth decimal (with halves being rounded up), (y) all figures shall be rounded to seven (7) figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country of such currency.

**(i) Calculations**

The amount of interest payable in respect of any Covered Bond for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Covered Bond by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Covered Bond for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two (2) or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

**(j) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts**

The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Covered Bonds for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Bondholders, any other Calculation Agent appointed in respect of the Covered Bonds that is to make a further calculation upon receipt of such information and, if the Covered Bonds are admitted to trading on a Regulated Market and the rules of such Regulated Market so require, such Regulated Market as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such Regulated Market of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth (4<sup>th</sup>) Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 6(c)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

**(k) Calculation Agent and Reference Banks**

The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the relevant Final Terms and for so long as any Covered Bond is Outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Covered Bonds, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal Paris or Luxembourg office, as appropriate, or any other office actively involved in such market ) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

## **7. Redemption, Purchase and Options**

### **(a) Final Redemption**

Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Bondholders' option in accordance with Condition 7(c) or 7(d), each Covered Bond shall be finally redeemed on the Final Maturity Date specified in the relevant Final Terms at its Final Redemption Amount (which, unless otherwise specified in the Final Terms, is its nominal amount) or, in the case of a Covered Bond falling within Condition 7(b) below, its final Instalment Amount.

If an Extended Final Maturity Date is specified in the Final Terms of any Series of Covered Bonds, and (i) a Borrower Event of Default has occurred and is continuing and (ii) the Issuer does not have sufficient Available Funds (excluding amounts standing to the credit of the Cash Collateral Account) to finally redeem such Series at the relevant Final Redemption Amount on the relevant Final Maturity Date, then such Final Redemption Amount shall be automatically deferred and shall not be due and payable until the Extended Final Maturity Date specified in the Final Terms. Notwithstanding the foregoing, the Issuer shall be permitted to pay the Final Redemption Amount in respect of such Series on any Interest Payment Date between the Final Maturity Date and the Extended Final Maturity Date therefore, provided that it has sufficient Available Funds to pay the same and the payment of the same would not cause an Issuer Event of Default.

### **(b) Redemption by Instalments**

Unless previously redeemed, purchased and cancelled as provided in this Condition 7, or the relevant Instalment Date (being one (1) of the dates so specified in the relevant Final Terms) is extended pursuant to any Issuer's or Bondholders' option in accordance with Conditions 7(c) or 7(d), each Covered Bond that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the relevant Final Terms. The outstanding nominal amount of each such Covered Bond shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Covered Bond, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused (i) in the case of Dematerialised Covered Bonds, on the due date for such payment or (ii) in the case of Materialised Covered Bonds, on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

### **(c) Redemption at the Option of the Issuer, Exercise of Issuer's Options and Partial Redemption**

If a Call Option or any other Issuer's option (as may be described in the relevant Final Terms) is specified in the relevant Final Terms, the Issuer may, subject to compliance by the Issuer of all the relevant laws, regulations and directives and on giving not less than fifteen (15) nor more than thirty (30) days' irrevocable notice in accordance with Condition 17 to the Bondholders (or such other notice period as may be specified in the relevant Final Terms) redeem, or exercise any other option in relation to all or, if so provided, some, of the Covered Bonds on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Covered Bonds shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption, if any. Any such redemption must relate to Covered Bonds having an aggregate nominal amount at least equal to the Minimum Redemption Amount (if any) specified in the relevant Final Terms and no greater than the Maximum Redemption Amount (if any) specified in the relevant Final Terms.

All Covered Bonds in respect of which any such notice is given shall be redeemed, or the Issuer's Option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's Option in respect of Materialised Covered Bonds, the notice to holders of such Materialised Covered Bonds shall also contain the numbers of the Definitive Materialised Covered Bonds to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and Regulated Market requirements.

In the case of a partial redemption or a partial exercise of an Issuer's Option in respect of Dematerialised Covered Bonds, the redemption may be effected, at the option of the Issuer, either (i) by reducing the nominal amount of all such Dematerialised Covered Bonds in a Series in proportion to the aggregate nominal amount redeemed or (ii) by redeeming in full some only of such Dematerialised Covered Bonds and, in such latter case, the choice between those Dematerialised Covered Bonds that will be fully redeemed and those Dematerialised Covered Bonds of any Series that will not be redeemed shall be made in accordance with Article R.213-16 of the French Monetary and Financial Code (*Code monétaire et financier*) and the provisions of the relevant Final Terms, subject to compliance with any other applicable laws and Regulated Market requirements.

So long as the Covered Bonds are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and the rules thereof so require, the Issuer shall, once in each year in which there has been a partial redemption of the Covered Bonds, cause to be published either on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) or in a leading newspaper of general circulation in Luxembourg a notice specifying the aggregate nominal amount of Covered Bonds outstanding and, in the case of Materialised Covered Bonds a list of any Materialised Covered Bonds, drawn for redemption but not surrendered.

**(d) Redemption at the Option of Bondholders and Exercise of Bondholders' Options**

If a Put Option is specified in the relevant Final Terms, the Issuer shall, at the option of the Bondholder, upon the Bondholder giving not less than fifteen (15) nor more than thirty (30) days' notice to the Issuer (or such other notice period as may be specified in the relevant Final Terms) redeem such Covered Bond on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Bondholders' Option as may be set out in the relevant Final Terms (which must be exercised on an Option Exercise Date) the Bondholder must deposit with a Paying Agent at its specified office a duly completed option exercise notice (the "**Exercise Notice**") in the form obtained during normal business hours from any Paying Agent or the Registration Agent, as the case may be, within the notice period. In the case of Materialised Covered Bonds, the Exercise Notice shall have attached to it the relevant Covered Bonds (together with all unmatured Receipts and Coupons and unexchanged Talons). In the case of Dematerialised Covered Bonds, the Bondholder shall transfer, or cause to be transferred, the Dematerialised Covered Bonds to be redeemed to the account of the Paying Agent with a specified office in Paris, as specified in the Exercise Notice. No option so exercised and, where applicable, no Covered Bond so deposited or transferred, may be withdrawn without the prior consent of the Issuer.

**(e) Early Redemption**

*(i) Zero Coupon Covered Bonds*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Covered Bond, the amount of which is not linked to an index and/or a formula, upon redemption of such Covered Bond pursuant to Condition 7(f) or (g) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Nominal Amount (calculated as provided below) of such Covered Bond unless otherwise specified in the relevant Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the amortised nominal amount of any such Covered Bond (the "**Amortised Nominal Amount**") shall be the scheduled Final Redemption Amount of such Covered Bond on the Final Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the amortisation yield (which, if none is shown in the relevant Final Terms, shall be such rate as would produce an Amortised Nominal Amount equal to the issue price of the Covered Bonds if they were discounted back to their issue price on the Issue Date) (the "**Amortisation Yield**") compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Covered Bond upon its redemption pursuant to Condition 7(f) or (g) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Covered Bond shall be the Amortised Nominal Amount of such Covered Bond as defined in sub-paragraph (B) above, except that such sub-paragraph shall



have effect as though the date on which the Covered Bond becomes due and payable was the Relevant Date. The calculation of the Amortised Nominal Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgement) until the Relevant Date, unless the Relevant Date falls on or after the Final Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Covered Bond on the Final Maturity Date together with any interest that may accrue in accordance with Condition 6(d).

Where such calculation is to be made for a period of less than one (1) year, it shall be made on the basis of the Day Count Fraction as provided in the relevant Final Terms.

(ii) *Other Covered Bonds*

The Early Redemption Amount payable in respect of any Covered Bond (other than Covered Bonds described in (i) above), upon redemption of such Covered Bond pursuant to Condition 7 (f) or (g) or upon it becoming due and payable as provided in Condition 10 shall be the Final Redemption Amount together with interest accrued to the date fixed for redemption unless otherwise specified in the relevant Final Terms.

**(f) Redemption for Taxation Reasons**

- (i) If, by reason of any change in French law, or any change in the official application or interpretation of such law, becoming effective after the Issue Date, the Issuer would on the occasion of the next payment of principal or interest due in respect of the Covered Bonds, not be able to make such payment without having to pay additional amounts as specified under Condition 9(b) below, the Issuer may, at its option, on any Interest Payment Date or, if so specified in the relevant Final Terms, at any time, subject to having given not more than forty-five (45) nor less than thirty (30) days' notice to the Bondholders (which notice shall be irrevocable), in accordance with Condition 17, redeem all, but not some only, of the Covered Bonds at their Early Redemption Amount together with, unless otherwise specified in the Final Terms, any interest accrued to the date set for redemption provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the latest practicable date on which the Issuer could make payment of principal and interest without withholding for French taxes.
- (ii) If the Issuer would, on the next payment of principal or interest in respect of the Covered Bonds, be prevented by French law from making payment to the Bondholders or, if applicable, Couponholders of the full amounts then due and payable, notwithstanding the undertaking to pay additional amounts contained in Condition 9(b) below, then the Issuer shall forthwith give notice of such fact to the Fiscal Agent and the Issuer shall upon giving not less than seven (7) days' prior notice to the Bondholders in accordance with Condition 17, redeem all, but not some only, of the Covered Bonds then Outstanding at their Early Redemption Amount together with, unless otherwise specified in the Final Terms, any interest accrued to the date set for redemption on (A) the latest practicable Interest Payment Date on which the Issuer could make payment of the full amount then due and payable in respect of the Covered Bonds, provided that if such notice would expire after such Interest Payment Date the date for redemption pursuant to such notice of Bondholders shall be the later of (i) the latest practicable date on which the Issuer could make payment of the full amount then due and payable in respect of the Covered Bonds and (ii) fourteen (14) days after giving notice to the Fiscal Agent as aforesaid or (B) if so specified in the relevant Final Terms, at any time, provided that the due date for redemption of which notice hereunder shall be given shall be the latest practicable date at which the Issuer could make payment of the full amount payable in respect of the Covered Bonds, or, if applicable, Receipts or Coupons or, if that date is passed, as soon as practicable thereafter.

**(g) Redemption due to illegality**

The Covered Bonds of all Series shall be redeemed at the option of the Issuer, subject to compliance by the Issuer of all the relevant laws, regulations and directives, in whole, but not in part, at any time, on giving not less than thirty (30) nor more than sixty (60) days' irrevocable notice in accordance with Condition 17 to the Bondholders (or such other notice period as may be specified in the relevant

Final Terms), if the Issuer satisfies the Fiscal Agent immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bonds of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Borrower Advance made by it to the Borrower or to comply with any other of its obligations under the Covered Bonds of that Series, 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 Fiscal Agent a certificate signed by two (2) representatives 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 Fiscal Agent 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 Bondholders, Receiptholders and Couponholders.

Covered Bonds redeemed pursuant to this Condition 7(g) will be redeemed at their Early Redemption Amount referred to in Condition 7(e).

**(h) Partly Paid Covered Bonds**

Partly Paid Covered Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 7 and the provisions specified in the relevant Final Terms.

**(i) Purchases**

The Issuer shall have the right at all times to purchase Covered Bonds (provided that, in the case of Materialised Covered Bonds, all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise (including by tender offer) at any price.

**(j) Cancellation**

All Covered Bonds purchased by or on behalf of the Issuer may at its sole option, be held or cancelled in accordance with applicable laws and regulations.

Covered Bonds will be cancelled, in the case of Dematerialised Covered Bonds, by transfer to an account in accordance with the rules and procedures of Euroclear France and, in the case of Materialised Covered Bonds, by surrendering the relevant Temporary Global Certificate or the Definitive Materialised Covered Bonds in question, together with all unmatured Receipts and Coupons and all unexchanged Talons, if applicable, to the Fiscal Agent and, in each case, if so transferred or surrendered, shall, together with all Covered Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Dematerialised Covered Bonds, all rights relating to payment of interest and other amounts relating to such Dematerialised Covered Bonds and, in the case of Definitive Materialised Covered Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Covered Bonds so cancelled or, where applicable, transferred or surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Covered Bonds shall be discharged.

**8. Payments and Talons**

**(a) Dematerialised Covered Bonds**

Payments of principal and interest in respect of Dematerialised Covered Bonds shall (i) in the case of Dematerialised Covered Bonds in bearer dematerialised form or administered registered form, be made by transfer to the account denominated in the relevant currency of the relevant Account Holders for the benefit of the Bondholders and, (ii) in the case of Dematerialised Covered Bonds in fully registered form, to an account denominated in the relevant currency with a Bank designated by

the relevant holder of Covered Bonds. All payments validly made to such Account Holders or Bank will be an effective discharge of the Issuer's obligations in respect of such payments.

**(b) Definitive Materialised Covered Bonds**

(i) *Method of payment*

Subject as provided below, payments in a Specified Currency will be made by credit or transfer to an account denominated in the relevant Specified Currency, or to which the Specified Currency may be credited or transferred (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, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Euro, shall be any country in the Euro-zone, and, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively).

(ii) *Presentation and surrender of Definitive Materialised Covered Bonds, Receipts and Coupons*

Payments of principal in respect of Definitive Materialised Covered Bonds will (subject as provided below) be made in the manner provided in paragraph (i) above only against presentation and surrender (or, in the case of partial payment of any sum due, annotation) of such Covered Bonds, and payments of interest in respect of Definitive Materialised 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, annotation) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of Definitive Materialised Covered Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (i) above only against presentation and surrender (or, in the case of part payment of any sum due, annotation) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (i) above only against presentation and surrender (or, in the case of part payment of any sum due, annotation) 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 Materialised Covered Bond to which it appertains. Receipts presented without the Definitive Materialised Covered Bond to which they appertain do not constitute valid obligations of the Issuer.

Upon the date upon which any Definitive Materialised Covered Bond becomes due and payable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment will be made in respect thereof.

Fixed Rate Covered Bonds in definitive form (other than Dual Currency Covered Bonds or Index Linked Covered Bonds) 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 ten (10) years after the Relevant Date in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11) or, if later, five (5) 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 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.

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

**(c) Payments in the United States**

Notwithstanding the foregoing, if any Materialised Covered Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Covered Bonds in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

**(d) Payments subject to Fiscal Laws**

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives but without prejudice to Condition 9. No commission or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

**(e) Appointment of Agents**

The Fiscal Agent, the Paying Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed at the end of this Base Prospectus relating to the Programme of the Covered Bonds of the Issuer. The Fiscal Agent, the Paying Agents and the Registration Agent act solely as agents of the Issuer and the Calculation Agent(s) act(s) as independent experts(s) and, in each case such, do not assume any obligation or relationship of agency for any Bondholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, Registration Agent or Calculation Agent and to appoint other Fiscal Agent, Paying Agent(s), Registration Agent(s) or Calculation Agent(s) or additional Paying Agent(s), Registration Agent(s) or Calculation Agent(s), provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) one (1) or more Calculation Agent(s) where the Conditions so require, (iii) Paying Agents having specified offices in at least one (1) major European city (and ensuring the financial services of the Covered Bonds in Luxembourg so long as the Covered Bonds are listed on the Official List of the Luxembourg Stock Exchange and traded on the Regulated Market of the Luxembourg Stock Exchange and such other city where the Covered Bonds are admitted to trading so long as the Covered Bonds are admitted to trading on any other Regulated Market of the EEA) (iv) in the case of Materialised Covered Bonds, a Paying Agent having its specified office in a Member State of the EU that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other EU Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to, such Directive (which may be any of the Paying Agents referred to in (iii) above), (v) in the case of Dematerialised Covered Bonds in fully registered form, a Registration Agent and (vi) such other agents as may be required by the rules of any other Regulated Market on which the Covered Bonds may be admitted to trading.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Materialised Covered Bonds denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Bondholders in accordance with Condition 17.

**(f) Talons**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Materialised Covered Bond, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11).

**(g) Business Days for Payment**

If any date for payment in respect of any Covered Bond, Receipt or Coupon is not a Business Day, the holder shall not be entitled to payment until the next following Business Day unless otherwise specified in the relevant Final Terms, nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**Business Day**" means a day (other than a Saturday or a Sunday) (A) (i) in the case of Dematerialised Covered Bonds, on which Euroclear France is open for business or (ii) in the case of Materialised Covered Bonds, on which banks and foreign exchange markets are open for business in the relevant place of presentation, (B) in such jurisdictions as shall be specified as "**Financial Centre(s)**" in the relevant Final Terms and (C) (i) in the case of a payment in a currency other than Euro, where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) in the case of a payment in Euro, which is a TARGET Business Day.

**(h) Bank**

For the purpose of this Condition 8, "**Bank**" means a bank in the principal financial centre of the relevant currency or, in the case of Euro, in a city in which banks have access to the TARGET System.

**9. Taxation**

**(a) Withholding Tax**

All payments of principal, interest and other revenues by or on behalf of the Issuer in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within France or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

**(b) Additional Amounts**

If French law should require that payments of principal or interest in respect of any Covered Bond, Receipt or Coupon be subject to deduction or withholding in respect of any present or future taxes or duties whatsoever, the Issuer will, to the fullest extent then permitted by law, pay such additional amounts as shall result in receipt by the Bondholders or, if applicable, the Receiptholders and the Couponholders, as the case may be, of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Covered Bond, Receipt or Coupon, as the case may be:

- (i) *Other connection:* to, or to a third party on behalf of, a Bondholder, Receiptholder or Couponholder who is liable to pay such taxes or duties by reason of his having some connection with France other than the mere holding of the Covered Bond, Receipt or Coupon; or
- (ii) *More than thirty (30) days after the Relevant Date:* in the case of Definitive Materialised Covered Bonds, more than thirty (30) days after the Relevant Date except to the extent that

the Bondholder, Receiptholder or Couponholder would have been entitled to such additional amounts on presenting it for payment on the thirtieth (30<sup>th</sup>) day; or

- (iii) *Payment to individuals*: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) *Payment by another Paying Agent*: in the case of Definitive Materialised Covered Bonds presented for payment by or on behalf of a holder who would have been 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.

References in these Conditions to (A) "**principal**" shall be deemed to include any premium payable in respect of the Covered Bonds, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Nominal Amounts and all other amounts in the nature of principal payable pursuant to Condition 7 or any amendment or supplement to it, (B) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 6 or any amendment or supplement to it and (C) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

## 10. Events of Default

If an Issuer Event of Default occurs and is continuing in respect of any Series of Covered Bonds, the Representative (i) may, at its discretion, or (ii) if so directed by the Majority Bondholders or if such Issuer Event of Default is a Covered Bonds Cross Acceleration Event, shall, upon written notice (an "**Issuer Enforcement Notice**") to the Fiscal Agent and the Issuer (with copies to the Issuer Security Agent, the Administrator and the Rating Agencies), cause the principal amount of all Covered Bonds of such Series to become due and payable (but subject to the relevant Priority Payment Order), together with any accrued interest thereon, as of the date on which such notice for payment is received by the Fiscal Agent and, as provided under the Issuer Security Documents, enforce the rights of the Bondholders under the Issuer Security Documents.

## 11. Prescription

Claims against the Issuer for payment in respect of any amount due under the Covered Bonds, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within ten (10) years (in the case of principal) or five (5) years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 12. Representation of Bondholders

Bondholders will, in respect of all Tranches in any Series, be grouped automatically for the defence of their common interests in a Masse.

The Masse will be governed by the provisions of the French Commercial Code (*Code de commerce*) with the exception of Articles L.228-48, L.228-59, L.228-71, L.228-80, R.228-63, R.228-67, R.228-69 and R.228-83, subject to the following provisions:

### (a) Legal Personality

The Masse will be a separate legal entity and will act in part through a Representative and in part through a General Meeting of the Bondholders.

The Masse alone, to the exclusion of all individual Bondholders, shall exercise the common rights, actions and benefits which now or in the future may accrue respectively with respect to the Covered Bonds.

### (b) Representative

The office of Representative may be conferred on a person of any nationality. However, the following persons may not be chosen as Representatives:

- (i) the Issuer, the members of its board of directors (*conseil d'administration*), its managing directors (*directeurs généraux*), its statutory auditors, its employees and their ascendants, descendants and spouses; or
- (ii) companies guaranteeing all or part of the obligations of the Issuer, their respective managers (*gérants*), managing directors (*directeurs généraux*), members of their board of directors, executive board or supervisory board, their statutory auditors, employees and their ascendants, descendants and spouses; or
- (iii) companies holding directly ten per cent. (10%) or more of the share capital of the Issuer or companies having ten per cent. (10%) or more of their share capital held by the Issuer; or
- (iv) persons to whom the practice of banker is forbidden or who have been deprived of the right of directing, administering or managing a company in whatever capacity.

The Representative appointed in respect of each Series of Covered Bonds will be BNP Paribas Securities Services:

BNP Paribas Securities Services  
Corporate Trust Services  
Les Grands Moulins de Pantin  
9, rue du Débarcadère  
93500 Pantin, France

represented by Pascal Pommier, the Head of Global Corporate Trust department of BNP Paribas Securities Services who, at the date hereof, is Pascal Pommier.

The alternative representative is, at the date hereof, Pascal Leclerc, 118 rue Jeanne d'Arc, 75013 Paris, France.

In the event of death, retirement or revocation of appointment of the Representative, such Representative will be replaced by the alternative representative. In the event of the death, retirement or revocation of appointment of the alternative representative, an alternative will be elected by the General Meeting.

The Issuer shall pay to the Representative an amount of Euro 1,000 per year so long as any of the Covered Bonds is Outstanding. The alternative representative will only become entitled to the annual remuneration of Euro 1,000 if it exercises the duties of Representative on a permanent basis; such remuneration will accrue from the day on which it assumes such duties.

All interested parties will at all times have the right to obtain the names and addresses of the Representative and the alternative representative at the head office of the Issuer and the specified offices of any of the Paying Agents.

**(c) Powers of Representative**

The Representative shall (in the absence of any decision to the contrary of the General Meeting) have the power to take all acts of management necessary in order to defend the common interests of the Bondholders.

For the avoidance of doubt, the Issuer Security Agent shall have the power, upon the issue of each Series of Covered Bonds, to release and retake any existing security so that Bondholders of all Series benefit *pari passu* from such security and to enforce the Issuer Security upon the service of an Issuer Enforcement Notice.

All legal proceedings against the Bondholders or initiated by them must be brought by or against the Representative.

The Representative may not be involved in the management of the affairs of the Issuer.

**(d) General Meeting**

The Issuer or the Representative may convene a General Meeting at any time. One (1) or more Bondholders, holding together at least one-thirtieth (1/30) of the principal amount of the Covered Bonds outstanding, may address to the Issuer and the Representative a demand for convocation of the General Meeting. If such General Meeting has not been convened within two (2) months after such demand, the Bondholders may commission one (1) of their members to petition a competent court in Paris to appoint an agent (*mandataire*) who will call the General Meeting.

Notice of the date, hour, place and agenda of any General Meeting will be published as provided under Condition 17.

Each Bondholder has the right to participate in a General Meeting in person or by proxy. Each Covered Bond carries the right to one (1) vote or, in the case of Covered Bonds issued with more than one (1) Specified Denomination, one (1) vote in respect of each multiple of the lowest Specified Denomination comprised in the principal amount of the Specified Denomination of such Covered Bond.

General Meetings may deliberate validly on first convocation only if Bondholders present or represented hold at least a fifth (1/5) of the principal amount of the Covered Bonds then Outstanding. On second convocation, no quorum shall be required. Decisions at meetings shall be taken by a two-thirds (2/3) majority of votes cast by Bondholders attending such General Meetings or represented thereat.

**(e) Powers of the General Meetings**

The General Meeting is empowered to deliberate on the dismissal and replacement of the Representative and the alternative representative and also may act with respect to any other matter that relates to the common rights, actions and benefits which now or in the future may accrue with respect to the Covered Bonds, including authorising the Representative to act at law as plaintiff or defendant.

The General Meeting may further deliberate on any proposal relating to the modification of the Conditions including any proposal, whether for arbitration or settlement, relating to rights in controversy or which were the subject of judicial decisions, it being specified, however, that the General Meeting may not increase amounts payable to Bondholders, nor establish any unequal treatment between the Bondholders.

Decisions of General Meetings must be published in accordance with the provisions set forth in Condition 17.

**(f) Information to Bondholders**

Each Bondholder or Representative thereof will have the right, during the fifteen (15) day period preceding the holding of each General Meeting, to consult or make a copy of the text of the resolutions which will be proposed and of the reports which will be presented at the General Meeting, all of which will be available for inspection by the relevant Bondholders at the registered office of the Issuer, at the specified offices of any of the Paying Agents and at any other place specified in the notice of the General Meeting.

**(g) Expenses**

The Issuer will pay all expenses relating to the operation of the Masse, including expenses relating to the calling and holding of General Meetings and, more generally, all administrative expenses resolved upon by the General Meeting, it being expressly stipulated that no expenses may be imputed against interest payable under the Covered Bonds.



**(h) Single Masse**

The holders of Covered Bonds of the same Series, and the holders of Covered Bonds of any other Series which have been assimilated (*assimilables* for the purpose of French law) with the Covered Bonds of such first mentioned Series in accordance with Condition 16, shall, for the defence of their respective common interests, be grouped in a single Masse. The Representative appointed in respect of the first Tranche or Series of Covered Bonds will be the Representative of the single Masse of all such Series.

*In respect of any Tranche of Covered Bonds issued or deemed to be issued outside France, this Condition 12 may, if so specified in the relevant Final Terms, be waived, amended or supplemented, and in respect of any Tranche issued inside France, this Condition 12 shall be waived in its entirety and replaced by the full provisions of the French Commercial Code (Code de commerce).*

**13. Replacement of Definitive Materialised Covered Bonds, Receipts, Coupons and Talons**

If, in the case of any Materialised Covered Bonds, a Definitive Materialised Covered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and Regulated Market regulations, at the specified office of the Fiscal Agent or such other Paying Agent as may from time to time be designated by the Issuer for this purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Definitive Materialised Covered Bond, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, in exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Definitive Materialised Covered Bonds, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Materialised Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

**14. Limited recourse, Non petition***Limited Recourse*

By subscribing to any Covered Bond, each Bondholder will be automatically deemed to have agreed:

- (a) not to seek recourse under any obligation, covenant or agreement of the Issuer under the Covered Bonds and these Conditions against any shareholder, member of the board of directors (*conseil d'administration*), managing director (*directeur général*), vice managing director (*directeur général délégué*) (if any) or agent of the Issuer, by the enforcement of any assessment or by any proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that any obligation of the Issuer under the Covered Bonds and these Conditions is a corporate obligation of the Issuer, and that no personal liability shall attach to or be incurred by the shareholders, members of the board of directors (*conseil d'administration*), managing directors (*directeurs généraux*), vice managing directors (*directeurs généraux délégués*) (if any) or agents of the Issuer, as such, or any of them under or by reason of any of the obligations, covenants or agreements of the Issuer contained in these Conditions or implied therefrom and, as a condition of and in consideration for the issuing by the Issuer of any Covered Bond, to waive any and all personal liability of every such shareholder, member of the board of directors (*conseil d'administration*), managing director (*directeur général*), vice managing director (*directeur général délégué*) (if any) or agent of the Issuer for breaches by the Issuer of any of its obligations, covenants or agreements under the Covered Bonds and these Conditions;
- (b) to limit its recourse against the Issuer under the Covered Bonds and these Conditions to amounts payable or expressed to be payable to it by the Issuer on, under or in respect of its obligations and liabilities under the Covered Bonds and these Conditions (and, for the avoidance of doubt, to irrevocably waive any right or entitlement to seek or receive any damages for breach of contract or other penalties not expressed as being payable by the

Issuer under the Covered Bonds and these Conditions) and in accordance with the then applicable Priority Payment Order; and

- (c) that amounts payable or expressed to be payable by the Issuer on, under or in respect of its obligations and liabilities under the Covered Bonds and/or these Conditions shall be recoverable only from and to the extent of the amount of the Available Funds, as calculated on the relevant Interest Payment Date or (as applicable) on the relevant Final Maturity Date of each relevant Series of Covered Bonds or on any other relevant date (provided that, to the extent that no Available Funds exist at the relevant date, the Issuer shall not be liable to make payment of the aforementioned amounts and, provided further that, in the event that the Available Funds at the relevant date are insufficient to pay in full all amounts whatsoever due to it and all other claims ranking *pari passu* to its claims, then its claims against the Issuer shall be limited to its respective shares of such Available Funds (as determined in accordance with the then applicable Priority Payment Order) and, after payment to it of its respective share of such Available Funds, the obligations of the Issuer to it shall be discharged in full).

#### *Non-Petition*

By subscribing to any Covered Bond, each Bondholder will also be automatically deemed to have agreed that prior to the date which is eighteen (18) months and one (1) day after the earlier of (i) the Final Maturity Date of the last Series issued by the Issuer under the Programme, or (ii) the date of payment of any sums outstanding and owing under the latest Outstanding Covered Bond:

- (a) it will not take any corporate action or other steps or legal proceedings for the winding-up, dissolution or reorganisation of the Issuer or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, examiner, sequestrator or similar officer for the Issuer or of any or all of the Issuer's revenues and assets; and
- (b) it will not have any right to take steps for the purpose of obtaining payment of any amounts payable to it under the Covered Bonds by the Issuer and shall not until such time take any step to recover any debts whatsoever owing to it by the Issuer otherwise than in accordance with, and subject to, the Conditions.

The above undertakings by each relevant Bondholder shall survive the payment of all sums owing under any Covered Bond and/or these Conditions.

## **15. Priority Payment Orders**

As more fully described under section "**Cash Flow**" of this Base Prospectus, any and all sums due by the Issuer under the Programme (including principal and interest under the Covered Bonds) will be paid within the limit of the Available Funds of the Issuer at the time of such payment and according to the relevant Priority Payment Order. As a consequence, the payment of certain sums will be subordinated to the full payment of other sums. Bondholders are deemed to have notice of the provisions of the section "**Cash Flow**" of this Base Prospectus.

## **16. Further Issues and Consolidation**

### **(a) Further Issues**

Unless otherwise provided in the relevant Final Terms, the Issuer may from time to time without the consent of the Bondholders, Receiptholders or Couponholders create and issue further Series of Covered Bonds or further Tranches of the same Series, which shall be assimilated (*assimilables* for the purpose of French law) with such Series in accordance with Condition 2 (e) above.

### **(b) Consolidation**

Unless otherwise provided in the relevant Final Terms, the Issuer, with the prior approval of the Fiscal Agent (which shall not be unreasonably withheld), may from time to time on any Interest Payment Date occurring on or after one or more Series of Covered Bonds has been redenominated in

accordance with Condition 2(d) on giving not less than thirty (30) days prior notice to the Bondholders in accordance with Condition 17, without the consent of the Bondholders, Receipt holders or Coupon holders, consolidate the Covered Bonds of one (1) Series denominated in Euro with the Covered Bonds of such redenominated Series, provided such two Series of Covered Bonds have, in respect of all periods subsequent to such consolidation, identical terms and conditions.

## 17. Notices

- (a) Notices to the holders of Dematerialised Covered Bonds in registered form (*au nominatif*) shall be valid if either (i) they are mailed to them at their respective addresses, in which case they will be deemed to have been given on the fourth (4<sup>th</sup>) weekday (being a day other than a Saturday or a Sunday) after the mailing, or (ii) at the option of the Issuer, they are published in a leading daily newspaper of general circulation in Europe (which is expected to be the *Financial Times*) or, so long as such Covered Bonds are admitted to trading on any Regulated Market(s), in a leading daily newspaper with general circulation in the city/ies where the Regulated Market(s) on which such Covered Bonds is/are admitted to trading, which in the case of the Luxembourg Stock Exchange's Regulated Market is expected to be the *Luxemburger Wort*, or (iii) so long as such Covered Bonds are admitted to trading on any Regulated Market and the rules of such Regulated Market so permit, on the website of the Regulated Market where the admission is sought, which in the case of the Luxembourg Stock Exchange is expected to be the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).
- (b) Notices to the holders of Materialised Covered Bonds and Dematerialised Covered Bonds in bearer form (*au porteur*) shall be valid if published in a leading daily newspaper of general circulation in Europe (which is expected to be the *Financial Times*) or, so long as such Covered Bonds are admitted to trading on any Regulated Market(s), in a leading daily newspaper with general circulation in the city/ies where the Regulated Market(s) on which such Covered Bonds is/are admitted to trading, which in the case of the Luxembourg Stock Exchange's Regulated Market is expected to be the *Luxemburger Wort* or, so long as such Covered Bonds are admitted to trading on any Regulated Market and the rules of such Regulated Market so permit, on the website of the Regulated Market where the admission is sought, which in the case of the Luxembourg Stock Exchange is expected to be the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).
- (c) Notices required to be given to the holders of Dematerialised Covered Bonds (whether in registered or in bearer form) (*au nominatif* or *au porteur*) pursuant to these Conditions may be given by delivery of the relevant notice to Euroclear France, Euroclear, Clearstream, Luxembourg and any other clearing system through which the Covered Bonds are for the time being cleared in substitution for the mailing and publication as required by Conditions 17(a) and (b), above; provided that (i) so long as such Covered Bonds are admitted to trading on any Regulated Market(s) and the rules of that Regulated Market so require, notices shall also be published in a leading daily newspaper with general circulation in the city/ies where the Regulated Market(s) on which such Covered Bonds is/are admitted to trading, which in the case of the Luxembourg Stock Exchange's Regulated Market is expected to be the *Luxemburger Wort*, and (ii) so long as such Covered Bonds are admitted to trading on any Regulated Market and the rules of such Regulated Market so permit, on the website of the Regulated Market where the admission is sought, which in the case of the Luxembourg Stock Exchange is expected to be the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).
- (d) If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any notice given by publication shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. Coupon holders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Materialised Covered Bonds in accordance with this Condition.

## 18. Governing Law and Jurisdiction

### (a) Governing Law

The Covered Bonds, Receipts, Coupons and Talons are governed by, and shall be construed in accordance with, French law.

**(b) Jurisdiction**

Any claim against the Issuer in connection with any Covered Bonds, Receipts, Coupons or Talons may be brought before any competent court in Paris.

## USE OF PROCEEDS

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds, in the following section.*

The net proceeds of the issue of Covered Bonds will be used to fund Borrower Advances under the Borrower Credit Facility to be made available by the Issuer to the Borrower.

The Issuer confirms that the Borrower Collateral Security Assets backing any issue of Covered Bonds will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Covered Bonds (as further described in "**Asset Monitoring – The Asset Cover Test**").

## TEMPORARY GLOBAL CERTIFICATES IN RESPECT OF MATERIALISED COVERED BONDS

*The following description is only applicable to French law Covered Bonds.*

### Temporary Global Certificates

A Temporary Global Certificate without interest coupons will initially be issued in connection with each Tranche of Materialised Covered Bonds, which will be delivered on or prior to the issue date of the Tranche with a common depositary (the "**Common Depositary**") for Euroclear and for Clearstream, Luxembourg. Upon the delivery of such Temporary Global Certificate with a Common Depositary, Euroclear and Clearstream, Luxembourg will credit each subscriber with a nominal amount of Covered Bonds equal to the nominal amount thereof for which it has subscribed and paid.

The Common Depositary may also credit with a nominal amount of Covered Bonds the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, a nominal amount of Covered Bonds that is initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg, or other clearing systems.

### Exchange

Each Temporary Global Certificate issued in respect of Materialised Covered Bonds will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below):

- (i) if the relevant Final Terms indicates that such Temporary Global Certificate is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see section "**General Description of the Programme**" - "**Selling Restrictions**"), in whole, but not in part, for Definitive Materialised Covered Bonds; and
- (ii) otherwise, in whole but not in part, upon certification if required under U.S. Treasury Regulation section 1.163-5 (c)(2)(i)(D)(3) as to non-U.S. beneficial ownership for Definitive Materialised Covered Bonds.

### Delivery of Definitive Materialised Covered Bonds

On or after its Exchange Date, the holder of a Temporary Global Certificate may surrender such Temporary Global Certificate to, or to the order of, the Fiscal Agent. In exchange for any Temporary Global Certificate, the Issuer will deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Materialised Covered Bonds. In this Base Prospectus, Definitive Materialised Covered Bonds means, in relation to any Temporary Global Certificate, the Definitive Materialised Covered Bonds for which such Temporary Global Certificate may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Temporary Global Certificate and a Talon). Definitive Materialised Covered Bonds will be security printed in accordance with any applicable legal and stock exchange requirement.

### Exchange Date

"**Exchange Date**" means, in relation to a Temporary Global Certificate in respect of any Materialised Covered Bonds, the day falling after the expiry of forty (40) days after its issue date, provided that in the event any further Materialised Covered Bonds which are to be assimilated (*assimilables* for the purpose of French law) with such first mentioned Materialised Covered Bonds are issued prior to such day pursuant to Condition 16, the Exchange Date may, at the option of the Issuer, be postponed to the day falling after the expiry of forty (40) days after the issue date of such further Materialised Covered Bonds.

In the case of Materialised Covered Bonds with an initial maturity of more than 365 days (and that are not relying on the TEFRA C Rules), the Temporary Global Certificate shall bear the following legend:

ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES FEDERAL INCOME TAX LAWS INCLUDING THE LIMITATION PROVIDED IN SECTIONS 165(j) AND 1287 (a) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

## THE ISSUER

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds and the expression "Bondholders" includes any holder of such Covered Bonds, in the following section.*

### General information about the Issuer

The Issuer is a limited liability company (*société anonyme*) organised under the laws of France and licensed as a credit institution, registered with the Trade and Companies Register of Paris, France under number 480 034 917.

The Issuer was incorporated on 22 December 2004 for 99 years under the corporate name "Hervet Participations". On 20 June 2008, the general meeting of the shareholders of the Issuer voted to change the corporate name to "HSBC Covered Bonds (France)".

The Issuer is governed by:

- (a) the French Commercial Code (*Code de commerce*) (former Act of 24 July 1966 relating to commercial companies); and
- (b) the French Monetary and Financial Code (*Code monétaire et financier*) (former Act of 24 January 1984 relating to the activities and control of credit institutions).

The Issuer's registered office and principal place of business is located at 15, rue Vernet, 75008 Paris, France. The telephone number of the Issuer's registered office is: +33 1 40 70 25 24.

The Issuer's authorised and issued share capital is € 28,050,000 (twenty eight million fifty thousand euro) consisting of 1,870,000 ordinary shares with a par value of € 15 each.

The Issuer is a subsidiary of HSBC France (entirely owned by HSBC France) and licensed as a credit institution (*établissement de crédit*) with limited and exclusive purpose by the French *Autorité de Contrôle Prudentiel* (the "ACP", formerly the *Comité des établissements de crédit et des entreprises d'investissement* (CECEI)).

As at the date of this Base Prospectus, 99.99 per cent. of the Issuer's share capital is held by HSBC France.

### Issuer's Activities

#### *Special purpose entity and restrictions on object and powers*

The Issuer is an established entity, with separate legal capacity and existence, licensed by the French banking regulator notably for the purpose of making Borrower Advances and issuing the Covered Bonds. The Issuer is a special purpose entity and, as such, the Issuer's objects and powers will to the extent possible be restricted to those activities necessary to carry out its obligations under the Programme Documents. The Issuer does not have and will not have any employees, nor will it own or lease any premises. The Issuer will undertake pursuant to the Administrative Agreement and its articles of association not to engage in unrelated business activities or incur any material liabilities other than those contemplated in the Programme Documents.

#### *Limitations on indebtedness*

Pursuant to the Conditions, the Issuer will be restricted from incurring additional indebtedness (other than as contemplated by the Programme Documents) unless:

- (a) such indebtedness is fully subordinated to the outstanding indebtedness incurred in relation to the Covered Bonds, as the case may be; or



- (b) prior Rating Affirmation has been delivered in relation to such indebtedness.

*Limited recourse*

Each party to any Programme Document will agree:

- (a) not to seek recourse under any obligation, covenant or agreement of the Issuer contained in any Programme Document against any shareholder, member of the board of directors (*conseil d'administration*), Chief Executive Officer (*directeur général*), Deputy Chief Executive Officer (*directeur général délégué*) (if any) or agent of the Issuer, by the enforcement of any assessment or by any proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that any obligation of the Issuer under any Programme Document is a corporate obligation of the Issuer, and that no personal liability shall attach to or be incurred by the shareholders, members of the board of directors (*conseil d'administration*), the Chief Executive Officer (*directeur général*), Deputy Chief Executive Officers (*directeurs généraux délégués*) (if any) or agents of the Issuer, as such, or any of them under or by reason of any of the obligations, covenants or agreements of the Issuer contained in any Programme Document or implied therefrom and, as a condition of and in consideration for the execution by the Issuer of any Programme Document, to waive any and all personal liability of every such shareholder, member of the board of directors (*conseil d'administration*), Chief Executive Officer (*directeur général*), Deputy Chief Executive Officers (*directeurs généraux délégués*) (if any) or agent of the Issuer for breaches by the Issuer of any of its obligations, covenants or agreements under any Programme Document;
- (b) to limit its recourse against the Issuer under any Programme Document to amounts payable or expressed to be payable to it by the Issuer in respect of its obligations and liabilities under any Programme Document (and, for the avoidance of doubt, to irrevocably waive any right or entitlement to seek or receive any damages for breach of contract or other penalties not expressed as being payable by the Issuer under any Programme Document) and in accordance with the then applicable Priority Payment Order; and
- (c) that amounts payable or expressed to be payable by the Issuer in respect of its obligations and liabilities under any Programme Document shall be recoverable only from and to the extent of the amount of the Available Funds, as calculated on the relevant Interest Payment Date or (as applicable) on the relevant Final Maturity Date of each relevant Series of Covered Bonds or on any other relevant date (provided that, to the extent that no Available Funds exist at the relevant date, the Issuer shall not be liable to make payment of the aforementioned amounts and provided further that in the event that the Available Funds at the relevant date are insufficient to pay in full all amounts whatsoever due to it and all other claims ranking *pari passu* to its claims, then its claims against the Issuer shall be limited to its respective shares of such Available Funds (as determined in accordance with the then applicable Priority Payment Order) and, after payment to it of its respective share of such Available Funds, the obligations of the Issuer to it shall be discharged in full).

*Non-petition*

Each party to any Programme Document will also agree that prior to the date which is eighteen (18) months and one (1) day after the earlier of (i) the Final Maturity Date of the last Series issued by the Issuer under the Programme, or (ii) the date of payment of any sums outstanding and owing under the latest outstanding Covered Bond:

- (a) it will not take any corporate action or other steps or legal proceedings for the winding-up, dissolution or organisation or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, examiner, sequestrator or similar officer of the Issuer, or the Issuer or of any or all of the Issuer's revenues and assets; and
- (b) it will not have any right to take steps for the purpose of obtaining payment of any amounts payable to it under any Programme Document by the Issuer and shall not until such time take any step to recover any debts whatsoever owing to it by the Issuer otherwise than in accordance with, and subject to, the Programme Documents;

The above undertakings by each relevant party survive the termination of any Programme Document and the payment of all sums owing under any such Programme Document.

*No risk of Issuer consolidation upon insolvency of any Affiliate*

The Issuer is a special purpose entity, with exclusive and limited purpose and a financial institution license which complies with all the criteria set forth by the Rating Agencies in a French context for bankruptcy remote entities. The Issuer is a ring-fenced entity that benefits from limited recourse and non-petition clauses under the Programme Documents and neither the Issuer nor any of its assets will be subject to any insolvency proceedings commenced in respect of HSBC France or any other Affiliate unless (i) there is commingling of its assets (*confusion de patrimoine*) with the assets of that Affiliate or (ii) it is construed as a "fictitious" entity (*société fictive*) by French courts. In respect of (i) above, the Issuer will have distinct accounts and its own books and records and both, the Issuer and HSBC France will be required to observe certain other separateness covenants set out in the Programme Documents. In respect of (ii) above, the Issuer is duly incorporated under French law and is regulated as a financial institution by the French regulator.

*Restrictions on mergers or reorganisations*

The Issuer will undertake in the Conditions not to enter into any merger, re-organisation or similar transaction without prior Representative Consent and Rating Affirmation.

*Separateness covenants*

Pursuant to the Conditions, the Issuer will undertake to observe certain separateness covenants in order to maintain its independent existence and to avoid the risk of bringing it and its assets within the scope of any Insolvency Proceedings in relation to the Borrower and/or other Affiliates (based on applicable general principles of French law such as "piercing the corporate veil", "alter ego", or "substantive consolidation" principles).

**Issuer Risk Management**

Pursuant to the terms of the Administrative Agreement and of the *Convention d'Externalisation et de Mise à Disposition de Moyens*, the risk management of the Issuer is delegated to HSBC France.

*Compliance control (contrôle de conformité), ongoing internal control (contrôle interne permanent) and periodic internal control (contrôle interne périodique)*

The Issuer has set up ongoing internal and periodic internal control systems, in accordance with the *Règlement 97-02* of the French *Comité de la Réglementation Bancaire et Financière* (the "**Règlement**") relating to the internal control of credit institutions and investment companies. Ongoing internal and periodic internal control systems take into account the Issuer's legal form as a French limited company with a board of directors (*société anonyme à conseil d'administration*) and the fact that the Issuer has no employees or other internal resources to carry out its activities.

**(a) Compliance control (contrôle de conformité)**

In accordance with article 11 of the *Règlement*, the compliance control (*contrôle de conformité*) of the activities of the Issuer will be carried out under the responsibility of the head of compliance at the *Direction de la Conformité et de la Déontologie* of HSBC France. The person in charge of compliance control (*contrôle de conformité*) within the Issuer shall advise the Issuer's board of directors of its activities.

**(b) Ongoing internal control (contrôle interne permanent)**

In accordance with the provisions of article 6(a) of the *Règlement*, the ongoing internal control (*contrôle interne permanent*) of the Issuer will be organised around nine departments of HSBC France which will be coordinated by the Deputy Chief Executive Officer of HSBC France through periodic reports. The reports will be reviewed by the Operational Risk and Internal Control

Committee whose chairman is the Deputy Chief Executive Officer and which includes the heads of the nine aforementioned departments.

In accordance with article 7-1 of the *Règlement*, the departments in charge of the administration of the operations of the Issuer will be separate from the departments in charge of the approval, settlement and monitoring of the risks related thereto.

**(c) Periodic internal control (*contrôle interne périodique*)**

In accordance with article 7-5 of the *Règlement*, the periodic internal control (*contrôle interne périodique*) system for the activities of the Issuer will be the periodic internal control (*contrôle interne périodique*) system implemented under the responsibility of a General Inspector (*Inspecteur Général*) of HSBC France.

*Operational Activities*

In the context of the *Convention d'Externalisation et de Mise à Disposition de Moyens*, the operational activities of the Issuer will be carried out by the relevant departments of HSBC France as described below.

**(a) Selection of the Home Loans**

The HSBC Technology and Services department of HSBC France communicates, to the Global Banking – Agency and Operations (formerly named Agency and Operational Support Unit) of HSBC France, the relevant data regarding the Home Loans. The Agency and Operational Support Unit of HSBC France is then in charge of importing this data into the Covered Bonds Administration System, a specific information system which selects the Home Loans according to the Home Loan Eligibility Criteria.

**(b) Monitoring of the Home Loans**

The Global Banking – Agency and Operations (formerly named Agency and Operational Support Unit) of HSBC France will carry out tests on a monthly basis in order to verify the consistency of the data provided to the Covered Bonds Administration System. In addition, tests will be carried out on samples of Home Loans that present any exceptional characteristics.

The Global Banking – Agency and Operations (formerly named Agency and Operational Support Unit) of HSBC France is also responsible for monitoring the ratings of all relevant counterparties and for determining whether any trigger events under the Programme Documents (including breaches of the Asset Cover Test, Amortisation Test or Pre-Maturity Test) have occurred.

**(c) Reportings**

The Global Banking – Agency and Operations (formerly named Agency and Operational Support Unit) of HSBC France will be responsible for the publication and the delivery of reports, in particular to:

- the Rating Agencies;
- the Bondholders and the prospective investors of the Programme;
- the statutory auditors; and
- the services and departments of HSBC France.

The *Direction Financière* (formerly named *Direction de la Comptabilité et du Contrôle de Gestion*) of HSBC France will be responsible for the publication and delivery of reports to the relevant French banking authorities.

**(d) Front Office**

The management of Covered Bond issuance in the context of the Programme is entrusted to the department *Gestion Financière du Bilan* of HSBC France, which will decide upon the issuance of Covered Bonds pursuant to liquidity needs and market conditions.

The placement of the Covered Bonds will be carried out by the lead managers selected by the department *Gestion Financière du Bilan* of HSBC France. HSBC France may also act as lead manager.

**(e) Middle Office**

The Global Banking – Agency and Operations (formerly named Agency and Operational Support Unit) of HSBC France will be responsible for the operational and administrative management of the Programme on behalf of the Issuer and, in particular, the following duties:

- administrative management of the transactions related to each bond issue;
- organisation and monitoring of the cash flows in relation to each bond issue;
- setting-up and updating a timetable to monitor operational activity;
- control of transaction compliance with validated decisions / strategies;
- control of compliance with internal procedures;
- monitoring outstanding payments and the Home Loans;
- reconciliation between front office, back office and risk control;
- update of the dedicated software; and
- identification and monitoring of transactional risks.

The Global Banking – Agency and Operations (formerly named Agency and Operational Support Unit) of HSBC France will also be responsible for the relationship with the banking branch of HSBC France, *Agence des Grands Clients*, in the books of which the Issuer Accounts and the bank account of the custodian will be maintained.

**(f) Back Office**

The Back Office of the Issuer is entrusted to the Global Banking – Agency and Operations (formerly named Agency and Operational Support Unit) of HSBC France which will instruct the *Agence des Grands Clients*. The department *HSBC Flux* is in charge of monitoring the operation of the Issuer Accounts before any wire transfers are carried out.

A custodian and the Paying Agent will carry out and monitor the delivery of the Covered Bonds and their corresponding payments.

*Accounting*

In the context of the *Convention d'Externalisation et de Mise à Disposition de Moyens*, the accounting systems and activities in relation to the Issuer are carried out by different departments of HSBC France: Global Banking – Agency and Operations (formerly named Agency and Operational Support Unit), Global Banking & Markets Finance, the *Direction Financière* (formerly named *Direction de la Comptabilité et du Contrôl de Gestion*), HSBC Technology and Services and Global Banking & Markets Information Technology.

Transactions carried out by the Issuer in the context of its activities are monitored by HSBC France, which ensures the accounting treatment of such transactions is in accordance with the provisions of the *Règlement*.

In the context of the *Convention d'Externalisation et de Mise à Disposition de Moyens*, the services described herein will be rendered in such way as to ensure that the Issuer complies with its legal and regulatory obligations, and in particular its obligations under the *Règlement*. Under the *Convention d'Externalisation et de Mise à Disposition de Moyens*, HSBC France has undertaken to update all of its software involved in the provision of such services following any regulatory, technical and/or operational modifications.

#### *Risk Control*

##### **(a) Credit risks**

In accordance with the applicable regulatory requirements, the monitoring of credit risks is entrusted to the *Direction des Risques de Crédit* of HSBC France. During normal operations (*i.e.*, for so long as the Home Loans granted as Collateral Security remain on the balance sheet of the Borrower), the counterparty risk will be limited to the risk of HSBC France default.

##### **(a) Market risks**

The Issuer is not authorised to be exposed to market risks. The *Direction des Risques de Marché* of HSBC France will be responsible for verifying the same.

##### **(b) Operational risks**

Teams dedicated to the control of the operational activities of HSBC France will monitor operational risks on behalf of the Issuer, in accordance with the applicable procedure within HSBC France.

The management of operational risks includes the identification, assessment, control and mitigation of risk, which is carried out by a specific computer system developed by HSBC France for the Issuer. The process for rating risk used by HSBC France will be applied to the Issuer.

When a risk is identified, an appropriate action plan will be implemented in order to mitigate it. The central department *Risque Opérationnel* will be regularly informed of variations to the risk exposure and the *Comité Risque Opérationnel* will consider the reports related to the management of operational risk.

##### **(c) ALM risks**

In accordance with the applicable regulatory requirements, the monitoring and the management of ALM risks (liquidity, global interest rate and exchange risks) is entrusted to the department *Gestion Financière du Bilan* of HSBC France.

During normal operations (*i.e.* for so long as the Home Loans granted as Collateral Security remain on the balance sheet of the Borrower), there is no ALM risk for the Issuer with respect to liquidity, global interest rate or exchange rate risk, as the payments under the Borrower Facility will be identical to amounts payable under the Covered Bonds. Following the enforcement by the Issuer of the Collateral Security and the transfer to the Issuer of the relevant Home Loans, the department *Gestion Financière du Bilan* of HSBC France will monitor ALM risks and implement the Hedging Strategy.

##### **(d) Settlement risks**

The sole payment method used by the Issuer will be wire transfer. The settlement risks associated with the issue of Covered Bonds will be mitigated by the payment of the proceeds of an issue of Covered Bonds before the delivery of the corresponding Covered Bonds.

**(e) Intermediation risks**

The *Direction des Risques Marchés* of HSBC France will implement an intermediation risk control process and will be responsible for verifying that the control mechanism in place is satisfactory.

*Duty of care on money laundering transactions*

The Issuer has a duty of care with respect to money laundering risks, which is entrusted to HSBC France. HSBC France will inform the Issuer in the event it identifies any such risk, however the Issuer is primarily responsible for the anti-money laundering control in respect of its transactions. In accordance with the provisions of the *Convention d'Externalisation et de Mise à Disposition de Moyens*, the Issuer benefits from the anti-money laundering procedures of HSBC France. In addition, compliance controls are also applicable to the duties carried out by operational employees of HSBC France on behalf of the Issuer with respect to money laundering risks and know your customers skills.

The individual responsible for communicating with the French committee in charge of the treatment of data against money laundering and embezzlement (TRACFIN) will be the TRACFIN representative within HSBC France.

**Issuer Financial Elements**

The financial year of the Issuer runs from 1 January to 31 December. The annual results of the Issuer incorporated by reference herein are the non-consolidated accounts. The Issuer does not produce consolidated financial statements.

*Prudential ratios*

The Issuer's prudential ratios are assessed at the level of HSBC France.

The Issuer has obtained from the French Banking Commission (*Commission Bancaire*) an exemption from prudential surveillance on an individual basis pursuant to Article 4.1 of Regulation no. 2000-03 of the *Comité de la Réglementation Bancaire et Financière*. Since then, the Issuer has been within the prudential consolidation perimeter of HSBC France.

**Issuer Share capital, Subordinated Loan and Issuer Majority Shareholder's undertakings***Share capital*

The Issuer's issued share capital is € 28,050,000 (twenty eight million and fifty thousand euro), made up of 1,870,000 ordinary shares with a par value of € 15 (fifteen euro) each (the "**Issuer Share Capital**").

The share capital may be increased or decreased in accordance with applicable rules of the French Commercial Code (*Code de commerce*). New shares can be issued either at par value or at a premium.

A capital increase can only be approved by an extraordinary general meeting of shareholders, on the basis of a report by the board of directors (*conseil d'administration*).

An extraordinary general meeting of shareholders can delegate the necessary powers to the board of directors (*conseil d'administration*) to increase the share capital on one (1) or more occasions, to establish the terms of the increase, to certify that such terms have been satisfied and to amend the Issuer's articles of association accordingly.

A reduction in capital can be decided by an extraordinary general meeting of shareholders, which may delegate to the board of directors (*conseil d'administration*) all the necessary powers to carry out such a reduction.

*Subordinated Loan*

On or before the Closing Date, the Issuer will also benefit from a € 14,000,000 (fourteen million euro) subordinated shareholder's loan granted by HSBC France (the "**Subordinated Loan**").

The Subordinated Loan Agreement will provide that all amounts to be paid by the Issuer under the Subordinated Loan agreement will be paid according to the relevant Priority Payment Order, as described in the section "**Cash Flow**".

The Subordinated Loan agreement includes "Limited Recourse" and "Non petition" provisions, as described in "**Issuer's Activities – Limited Recourse**" and "**Issuer's Activities - Non-Petition**".

No amendment, modification, alteration or supplement shall be made to the Subordinated Loan Agreement without prior Rating Affirmation if it materially and adversely affects the interests of the Issuer or the Bondholders.

For the avoidance of doubt, the Subordinated Loan Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to evidence or effect the transition of any party to the Subordinated Loan agreement to any successor;
- (c) to add to the undertakings and other obligations of the lender thereunder under the Subordinated Loan Agreement; or
- (d) to comply with the mandatory requirements of any applicable laws and regulations.

The Subordinated Loan Agreement shall be governed by, and construed in accordance with, French law. The Issuer and the lender thereunder have agreed to submit any dispute that may arise in connection with the Subordinated Loan Agreement to the jurisdiction of the competent courts of Paris.

#### *Letter of Undertakings*

As the majority shareholder of the Issuer and pursuant to a letter of undertakings (the "**Letter of Undertakings**"), HSBC France undertakes, in favour of the respective Representatives of the Bondholders of all Series to be issued:

- (a) not to take, or participate in, any corporate actions or other steps or legal proceedings for the voluntary winding-up, dissolution or re-organisation of the Issuer or of any or all of the Issuer's revenues and assets;
- (b) not to take, or participate in, any corporate action or other steps or legal proceedings for the voluntary appointment of a receiver, administrator, administrative receiver, trustee, liquidator, examiner, sequestrator or similar officer with respect to the Issuer or of any or all of the Issuer's revenues and assets;
- (c) not to amend the constitutional documents (and in particular the articles of association) of the Issuer other than as expressly contemplated under the Programme Documents or without a prior Representative Consent and Rating Affirmation;
- (d) unless required by any administrative or regulatory authorities or under any applicable law or regulation (as the same shall have been notified by the Issuer and/or HSBC France to the Rating Agencies) or unless approved by HSBC France subject to prior Rating Affirmation, HSBC France will ensure that the Issuer will at all times comply with its undertakings and other obligations as set forth in the banking license of the Issuer or in the related application form (*dossier d'agrément*) filed with the *Comité des établissements de crédit et des entreprises d'investissement* (CECEI) currently named the *Autorité de Contrôle Prudentiel* (ACP);
- (e) not to permit any amendments to the Programme Documents other than as expressly permitted or contemplated under the Programme Documents or without prior Representative Consent and prior Rating Affirmation;
- (f) not to create or permit to subsist any encumbrance over the whole or any part of the shares of the Issuer that it owns;

- (g) not to sell, transfer, lease out or otherwise dispose of, by one (1) or more transactions or series of transactions (whether or not related), whether voluntarily or involuntarily, the whole or any part of the shares of the Issuer that it owns; and
- (h) to take any necessary steps, which are available to it as shareholder, to remain the majority shareholder of the Issuer.

In addition, as the head of the tax group of the Issuer and pursuant to the Letter of Undertakings, HSBC Bank plc Paris Branch undertakes in favour of the Bondholders, represented by their respective Representative, not to permit the Issuer to cease to be consolidated within the tax group formed under the *régime d'intégration fiscale* provided by Articles 223 A *et seq.* of the French tax Code, with HSBC Bank plc Paris Branch as head of that tax group, and not to amend the tax consolidation agreement (*convention d'intégration fiscale*) in force at the date hereof between HSBC Bank plc Paris Branch and the Issuer without prior Rating Affirmation.

### Issuer Management Bodies

#### *The Chairman and the Managing Director*

Mr. Matthieu Kiss, chairman of the board of directors (*président du conseil d'administration*) and Mr. Hervé Akoun, Chief Executive Officer (*directeur général*) are responsible for the conduct of the Issuer's activities in respect of the French financial regulator in accordance with the Article L.511-13 of the French Monetary and Financial Code (*Code monétaire et financier*). In accordance with applicable French corporate laws, each of the chairman of the board of directors (*président du conseil d'administration*) and the Chief Executive Officer (*directeur général*) represents the Issuer vis-à-vis third parties.

#### *Board of directors (conseil d'administration)*

The board of directors (*conseil d'administration*) consists of a minimum of 3 members and a maximum of 18 members. The term of office is six years.

As at the date of this Base Prospectus, the board of directors (*conseil d'administration*) of the Issuer is composed of 8 members:

<b>Name and position</b>	<b>Date of appointment</b>
Mr. Matthieu Kiss, <i>président du conseil d'administration</i>	16 July 2009
Mr. Hervé Akoun, <i>directeur général and administrateur</i>	20 June 2008
Mr Loic Bonnat, <i>administrateur</i>	20 June 2008
Mr. Stéphane Derouvroy, <i>administrateur</i>	20 June 2008
Mr. Xavier Boisseau, <i>administrateur</i>	8 January 2010
Mr. Wim Heirman, <i>administrateur</i>	20 June 2008
Mr. François Moreau, <i>administrateur</i>	15 February 2010
Mr. Jean Baudoin, <i>administrateur indépendant</i>	20 June 2008

The members of the board of directors (*conseil d'administration*) of the Issuer have their business addresses at the registered office of the Issuer. Mr. Matthieu Kiss, chairman of the board of directors (*président du conseil d'administration*), is also the Chief Financial Officer (*Directeur Financier*) of HSBC France. Mr. Hervé Akoun, Chief Executive Officer (*directeur general*), is also Head of the department *Gestion Financière du Bilan* of HSBC France. Mr. Loic Bonnat, member of the board of directors (*administrateur*), is also Chief Operating Officer of the Global Banking and Markets division of HSBC France. Mr. Stéphane Derouvroy, member of the board of directors (*administrateur*), is also Co-Head of Debt Capital Markets of HSBC France. Mr. Xavier Boisseau, member of the board of directors (*administrateur*), is also Head of Global Markets activities of HSBC France. Mr. Wim Heirman, member of the board of directors (*administrateur*), is also responsible for PFS credits within the Credit and Risk



Department of HSBC France. Mr. François Moreau, member of the board of directors (*administrateur*), is also COO of the Personal Financial Services division of HSBC France. Mr. Jean Baudoin, Issuer Independent Representative (*administrateur indépendant*), holds no other position with HSBC Holdings plc or any of its direct or indirect subsidiaries.

*Rights and duties of the board of directors (conseil d'administration)*

In accordance with applicable French corporate laws and the articles of association of the Issuer, the board of directors (*conseil d'administration*) of the Issuer determines the scope of the Issuer's business activities. Without prejudice to the powers expressly granted to shareholders' general meetings, and in so far as the articles of association permit, the board of directors (*conseil d'administration*) of the Issuer deals with all matters relating to the conduct of the Issuer's business, within the limit of the Issuer's corporate purpose (*objet social*). When dealing with third parties, the Issuer is bound by acts of its board of directors (*conseil d'administration*) which do not come within the scope of the Issuer's corporate purpose, unless it can prove that the third party knew that a specific action was out of that scope. The board of directors (*conseil d'administration*) of the Issuer shall carry out such inspections and verifications as it considers appropriate. The chairman of the board of directors (*conseil d'administration*) or the Chief Executive Officer (*directeur général*) is required to send all documents and information necessary to perform this task to each director (*administrateur*) (including the Issuer Independent Representative (*administrateur indépendant*)) as and when required. The chairman of the board of directors (*président du conseil d'administration*) organises and oversees the work of the board of directors (*conseil d'administration*) and reports to the shareholders' general meeting.

*Rights and duties of the Chief Executive Officer (directeur général)*

The general management of the Issuer shall be performed by the Chief Executive Officer (*directeur général*) of the Issuer. The Chief Executive Officer (*directeur général*) of the Issuer shall have the most extensive powers to act on behalf of the Issuer in all circumstances, but will exercise its power subject to those that the law reserves explicitly to shareholders' general meetings and to the board of directors (*conseil d'administration*) of the Issuer.

The by-laws of the Issuer provide that some actions shall not be able to be taken by the board of directors (*conseil d'administration*) of the Issuer, nor by the chairman of the board of directors (*président du conseil d'administration*) of the Issuer, nor by the Chief Executive Officer (*directeur général*) of the Issuer, without prior consent of the shareholders' general meeting. Such provisions of the by-laws of the Issuer are not binding upon third parties.

*The Issuer Independent Representative*

According to the by-laws of the Issuer, the board of directors (*conseil d'administration*) of the Issuer will, at any time, include an independent member (*administrateur indépendant*) (the "**Issuer Independent Representative**"), i.e., a director having no relationship with the Issuer, its shareholders or its management, which may compromise the independence of judgement of such member, as further described and detailed in the by-laws of the Issuer. As at the date of this Base Prospectus, Mr. Jean Baudoin is the Issuer Independent Representative. The written confirmation of consent of the Issuer Independent Representative ("**Issuer Independent Representative Consent**") will be required regarding any action, determination or appointment, specified under the Terms and Conditions and/or any Programme Document.

**Issuer Statutory Auditors**

The statutory auditors of the Issuer are:

- (a) KPMG Audit, 1, cours Valmy, 92923 Paris La Défense Cedex, France; and
- (b) BDO France - Léger & Associés, 113 rue de l'Université, 75007 Paris, France.

The statutory auditors of the Issuer are registered with the *Compagnie Nationale des Commissaires aux Comptes* (official statutory auditors' representative body).

## The Administrative Agreement

This section sets out the principal terms of the Administrative Agreement.

### *Background*

The "**Administrative Agreement**" refers to the agreement dated on or about the Signing Date and entered into between the Issuer and HSBC France, as Administrator (the "**Administrator**").

### *Purpose*

Under the Administrative Agreement, the Issuer appoints HSBC France as its servicer for the rendering of administrative services to the Issuer (including the provision of all necessary advice, assistance and know-how, whether technical or not, as well as day to day management and corporate administration services). The Administrator will (in its capacity as such) always act in the best and exclusive interest of the Issuer.

### *Administrator's duties*

Pursuant to the Administrative Agreement, the Administrator will *inter alia*:

- (a) advise and assist the Issuer in all accounting and tax matters;
- (b) advise and assist the Issuer in all legal and administrative matters;
- (c) ensure that the Issuer will exercise each of its rights and perform each of its obligations under the Programme Documents;
- (d) provide the Issuer with all necessary assistance and know-how, whether technical or otherwise, to exercise and perform all of its rights and obligations under the Programme Documents;
- (e) assist the Issuer in operating its bank accounts, the management and investment of its available cash in Permitted Investments in accordance with the relevant Permitted Investments rules, and any other matters in relation to the management of its bank accounts and funds so as to ensure that the Issuer will at all times comply with the provisions of the Programme Documents;
- (f) act as custodian of any and all other documents that any company similar to the Issuer shall be required to keep on file under any applicable laws, until the Service Termination Date;
- (g) upon enforcement of the Borrower Collateral Security following the occurrence of a Borrower Event of Default, cause the Borrower to deliver and transfer title to the Borrower Collateral Security Assets to the Issuer;
- (h) upon enforcement of the Borrower Collateral Security following the occurrence of a Borrower Event of Default which is continuing and upon the Issuer taking title to the Borrower Collateral Security Assets, maintain the servicing of such assets (if not transferred to a substitute servicer), and notify the debtors that they must make direct payment to the Issuer of the amounts due under the Home Loans.

For such purposes, "**Permitted Investments**" means:

- (a) Euro denominated government securities, Euro 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 thirty (30) days or less and mature on or before the next following Issuer Payment Date (defined as, with respect to a Series or Tranche of Covered Bonds, the payment date applicable to the Issuer and specified as such in the relevant Final Terms of the Covered Bonds (an "**Issuer 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 are rated at least A-1 (short term) or A + (long term) by S&P and P-1 (short term) by Moody's;

- (b) Euro denominated government securities, Euro 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 three hundred and sixty-four (364) days or less 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 are rated at least A-1+ (short term) or AA- (long term) by S&P and P-1 by Moody's; and
- (c) Euro denominated government securities, Euro demand or time deposits, certificates of deposit which have a remaining maturity date of more than three hundred and sixty-four (364) days and 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 are rated at least AAA by S&P and Aaa by Moody's.

*Administrator's duties regarding the refinancing of the Transferred Assets*

After title to Home Loans and related Home Loan Security and Substitution Assets has been transferred to the Issuer upon enforcement of the Borrower Collateral Security following the occurrence of a Borrower Event of Default (the "**Transferred Assets**"), the Administrator (or the Substitute Administrator) acting on behalf of the Issuer will sell or refinance such Home Loans, related Home Loan Security and Substitution Assets in order for the Issuer to receive sufficient Available Funds to make payments when due under the relevant Series of Covered Bonds (after taking into account all payments to be made in priority thereto according to the relevant Priority Payment Order on the relevant payment dates and Final Maturity Date of that Series).

The Administrator (or the Substitute Administrator) acting on behalf of the Issuer shall ensure that the Home Loans, related Home Loan Security and Substitution Assets proposed for the contemplated sale or refinancing (the "**Selected Assets**") at any relevant date (each, a "**SARA Relevant Date**"), will be selected on a random basis, provided that (i) no more Selected Assets will be selected than are necessary for the estimated sale or refinancing proceeds to equal the Adjusted Required Redemption Amount, and (ii) the aggregate outstanding principal amount or value (and interest accrued thereon) of such Selected Assets shall not exceed the "**Selected Assets Required Amount (SARA)**", which is calculated as follows:

$$\text{SARA} = \text{Adjusted Required Redemption Amount} * \text{A/B}$$

where:

"**Adjusted Required Redemption Amount**" means an amount equal to the euro equivalent of the outstanding principal amount (together with Interest Amount accrued thereon) of the first Series (or, in the discretion of the Administrator, a group of Series) of Covered Bonds maturing after the SARA Relevant Date less amounts standing to the credit of the Issuer Accounts (excluding all amounts to be applied on the first Issuer Payment Date following the SARA Relevant Date to repay higher ranking amounts in the relevant Priority Payment Order);

"**A**" means the euro equivalent of the aggregate of the outstanding principal amount or value (together with interest accrued thereon) of all Transferred Assets; and

"**B**" means the euro equivalent of the outstanding principal amount (together with Interest Amount accrued thereon) in respect of all Series of Covered Bonds then outstanding.

The Administrator (or the Substitute Administrator) acting on behalf of the Issuer will offer the Selected Assets for sale to potential buyers for the best price reasonably available but in any event for an amount not less than the Adjusted Required Redemption Amount.

If the Selected Assets have not been sold or refinanced (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six (6) months prior to the Final Maturity Date of the Series (or, in the case of a group of Series, the first Final Maturity Date to occur in respect thereof) of Covered Bonds maturing after the SARA Relevant Date (after taking into account all payments, provisions and credits to be made in priority thereto), then the Administrator (or the Substitute Administrator) acting on behalf of the Issuer will (i) offer the Selected Assets for sale for the best price reasonably available or (ii) seek to refinance the Selected Assets on the best terms reasonably available, notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

For the purpose hereof, the Administrator (or the Substitute Administrator) acting on behalf of the Issuer may 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 or refinancing of the relevant Home Loans, related Home Loan Security and the relevant Substitution Assets (if such terms are commercially available in the market) and to advise it in relation to the sale or refinancing of the same to potential buyers.

In respect of any sale or refinancing of the Selected Assets, the Administrator (or the Substitute Administrator) acting on behalf of the Issuer shall use all reasonable endeavours to procure that the same are sold as quickly as reasonably practicable (in accordance, as the case may be, with the recommendations of the portfolio manager), taking into account the market conditions at that time.

*Substitution and Agency*

The Administrator may not assign its rights and obligations under the Administrative Agreement but will have the right to be assisted by, to appoint or to substitute for itself any third party in the performance of certain or all its tasks under the Administrative Agreement, provided that:

- (a) the Administrator has given written notice of the exercise of that right to the Issuer;
- (b) the Administrator remains liable to the Issuer for the proper performance of those tasks and, with respect to the Issuer only, the relevant third party has expressly waived any right to any contractual claim against the Issuer; and
- (c) the relevant third party has undertaken to comply with all obligations binding upon the Administrator under the Administrative Agreement.

*Fees*

In consideration of the services provided by the Administrator to the Issuer under the Administrative Agreement, the Issuer will pay to the Administrator an administration fee in accordance with the Administrative Agreement.

*Representations, warranties and undertakings*

The Administrator has made customary representations and warranties and undertakings to the Issuer, such representations and warranties being given on the execution date of the Administrative Agreement and continuing until the Service Termination Date.

*Indemnities*

Pursuant to the Administrative Agreement, the Administrator undertakes to hold harmless and fully and effectively indemnify the Issuer against all actions, proceedings, demands, damages, costs, expenses (including legal fees), claims, losses, prejudice or other liability, which the Issuer may sustain or incur as a consequence of the occurrence of any default by the Administrator in the performance of any of its obligations under the Administrative Agreement.

*Resignation of the Administrator*

The Administrator will not resign from the duties and obligations imposed on it as Administrator pursuant to the Administrative Agreement, except:

- (a) upon a determination that the performance of its duties under the Administrative Agreement will no longer be permissible under applicable law; or
- (b) if the Issuer does not comply with any of its material obligations under the Administrative Agreement and fails to remedy the situation within one hundred and eighty (180) days from the receipt by the Issuer of a notice of the same from the Administrator,

such resignation being effective (i) on the date upon which the event in paragraph (a) above occurs; or (ii) one hundred and eighty (180) days after the date of delivery of the notice referred to in paragraph (b) above.

*Administrator's Defaults*

Each of the following events shall constitute an Administrator's Default:

- (a) any material representation or warranty made by the Administrator is or proves to have been incorrect or misleading in any material respect when made, and the same is not remedied (if capable of remedy) within sixty (60) Business Days after the Issuer has given notice thereof to the Administrator or (if sooner) the Administrator has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;
- (b) the Administrator fails to comply with any of its material obligations under the Administrative Agreement unless such breach is capable of remedy and is remedied within sixty (60) Business Days after the Issuer has given notice thereof to the Administrator or (if sooner) the Administrator has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;
- (c) an Insolvency Event occurs in respect of the Administrator; or
- (d) at any time it is or becomes unlawful for the Administrator to perform or comply with any or all of its material obligations under the Administrative Agreement or any or all of its material obligations under the Administrative Agreement are not, or cease to be, legal, valid and binding.

For such purposes, and in relation to any French entity participating in the Programme, "**Insolvency Event**" means the occurrence of any of the following events:

- (a) the relevant entity is, or is deemed or declared for the purposes of any law to be, unable to pay its debts as they fall due or to be insolvent, including without limitation, *en état de cessation des paiements*, or admits in writing its inability to pay its debts as they fall due or, if such entity is a credit institution, is not able to ensure its immediate or short-term payment obligations;
- (b) the relevant entity by reason of financial difficulties, begins formal negotiations with one (1) or more of its creditors with a view to the general readjustment or rescheduling of any of its indebtedness or applies for or is subject to an amicable settlement or a *règlement amiable* pursuant to Articles L.611-1 *et seq.* of the French Commercial Code (*Code de commerce*);
- (c) a meeting of the shareholders of the relevant entity is convened for the purpose of considering any resolution for (or to petition for) its winding-up or its administration or any such resolution is passed;
- (d) any person presents a petition for the winding-up or for the administration or for the bankruptcy of the relevant entity and the petition is not discharged within thirty (30) days;
- (e) any order for the winding-up or administration of the relevant entity is issued;
- (f) a judgment is issued for the judicial liquidation ("*liquidation judiciaire*"), the safeguard of the relevant entity ("*procédure de sauvegarde*"), the rescheduling of the debt of the relevant entity ("*redressement judiciaire*") or the transfer of the whole or part of the business of the relevant entity ("*cession de l'entreprise*"); or
- (g) any liquidator, trustee in bankruptcy, receiver, administrative receiver, administrator or the like (including, without limitation, any "*mandataire ad hoc*", "*administrateur judiciaire*", "*administrateur provisoire*", "*conciliateur*" or "*mandataire liquidateur*") is appointed in respect of the relevant entity or any substantial or material part of its assets or the directors of the relevant entity request such appointment.

*Administrator Rating Trigger Event*

If an Administrator Rating Trigger Event occurs, the Administrator will notify the Issuer of the same in writing within five (5) Business Days from the date upon which it becomes aware of such event and this will constitute a termination event under the Administrative Agreement.

An "**Administrator Rating Trigger Event**" will occur if the long-term senior unsecured, unsubordinated and unguaranteed debt obligations of the Administrator are rated below BBB by S&P or Baa2 by Moody's.

*Termination*

"**Administrator Termination Events**" under the Administrative Agreement will include the following events:

- (a) the occurrence and continuation of any Administrator's Default;
- (b) the occurrence of an Administrator Rating Trigger Event;
- (c) the occurrence of a Borrower Event of Default; or
- (d) the resignation of the Administrator.

If an Administrator Termination Event occurs and is continuing, the Issuer shall terminate the Administrative Agreement by delivery of a written termination notice to the Administrator (the "**Notice of Termination**"). Upon receipt by the Administrator of the Notice of Termination, the Administrative Agreement will terminate with effect:

- not earlier than twenty (20) Business Days as from the receipt by the Administrator of the Notice of Termination, if such Notice of Termination is served due to the occurrence of a Borrower Event of Default or of an Administrator Rating Trigger Event;
- not earlier than twenty (20) Business Days as from the receipt by the Administrator of the Notice of Termination or at any other date that the Issuer may have specified in the Notice of Termination, if such Notice of Termination is served due to any other reason,

(each, a "**Service Termination Date**").

Upon the Service Termination Date, the Issuer will replace HSBC France, as Administrator, with a substitute entity (the "**Substitute Administrator**"), the choice of which shall be subject to prior Rating Affirmation.

Notwithstanding the Service Termination Date, the Administrator will continue to be bound by all its obligations under the Administrative Agreement until the appointment of the Substitute Administrator is effective. The Administrator undertakes to act in good faith to assist any Substitute Administrator.

*Limited Recourse – Non Petition*

The Administrative Agreement includes "Limited Recourse" and "Non petition" provisions, as described in "**Issuer's Activities – Limited Recourse**" and "**Issuer's Activities - Non-Petition**".

*Amendment*

No amendment, modification, alteration or supplement shall be made to the Administrative Agreement without prior Rating Affirmation if the same materially and adversely affects the interests of the Issuer or the Bondholders.

For the avoidance of doubt, the Administrative Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;

- (b) to evidence or effect the transition of any party to the Administrative Agreement to any successor;
- (c) to add to the undertakings and other obligations of the Administrator under the Administrative Agreement; or
- (d) to comply with any mandatory requirements of applicable laws and regulations.

#### *Governing Law – Jurisdiction*

The Administrative Agreement shall be governed by, and construed in accordance with, French law. The Issuer and the Administrator have agreed to submit any dispute that may arise in connection with the Administrative Agreement to the jurisdiction of the competent courts of Paris.

#### **The Issuer Accounts Agreement**

This section sets out the principal terms of the Issuer Accounts Agreement pursuant to which the Issuer Accounts are opened in the books of the Issuer Accounts Bank.

#### *Background*

The Issuer Accounts Agreement refers to the agreement dated on or about the Signing Date and entered into between the Issuer and HSBC France, as "Issuer Accounts Bank" (the "**Issuer Accounts Bank**") (the "**Issuer Accounts Agreement**").

#### *Purpose*

Under the Issuer Accounts Agreement, the Issuer appoints HSBC France as its account bank for the opening and operation of its bank accounts (the "**Issuer Accounts**").

#### *Issuer Accounts*

The Issuer Accounts shall include:

- (a) the "**Issuer Cash Accounts**", including the "**Issuer General Account**" (denominated in Euro), the "**Cash Collateral Account**" (denominated in Euro) and the "**Share Capital Proceeds Account**" (denominated in Euro); and
- (b) the "**Issuer Securities Accounts**", which are securities accounts (*comptes d'instruments financiers*) opened in relation to each Issuer Cash Account,

it being provided that, according to the Issuer Accounts Agreement, upon request of the Issuer, the Administrator may open within the books of the Issuer Accounts Bank any new bank cash account (and the corresponding securities account) in the name of the Issuer which may be necessary or advisable for the performance by the Issuer of its rights and obligations under any Programme Document, and notably in case of issuance of Covered Bonds denominated in a Specified Currency other than Euro.

#### *Funds Allocation*

Each of the Issuer Accounts shall be exclusively dedicated to the operation of the Issuer.

Each Issuer Account will be pledged in accordance with the Issuer Accounts Pledge Agreement (see "**The Issuer Security**" – "**The Issuer Accounts Pledge Agreement**").

All sums standing to the credit balance of the Issuer Cash Accounts may be invested from time to time in Permitted Investments by the Administrator (see "**The Issuer**" - "**The Administrative Agreement**").

### *Operation*

The Issuer Cash Accounts shall not be operated by the Issuer Accounts Bank otherwise than in accordance with the provisions of the Issuer Accounts Agreement and the Administrative Agreement and, in particular, the Issuer Accounts Bank shall be entitled to refuse, without being liable for any such refusal to:

- (a) deliver credit cards or other means of payment with respect to the Issuer Cash Accounts or make any transfer from any of the Issuer Cash Accounts upon instructions of the Administrator other than by bank transfer or such other means as is agreed with the Issuer;
- (b) debit any of the Issuer Cash Accounts upon instructions of any person other than the Issuer or the Administrator;
- (c) debit any of the Issuer Cash Accounts upon instructions of the Administrator, if the Issuer Accounts Bank is aware that such instructions may cause a debit balance of the relevant Issuer Cash Accounts (in which case the Issuer Accounts Bank will promptly inform the Administrator and the Issuer and postpone the performance of the relevant instructions until it has received the relevant renewed written instructions of the same); or
- (d) implement any instruction from the Issuer (or the Administrator acting on its behalf) in connection with the Issuer Accounts if it is aware that an implementation of such instruction would constitute a breach of any provision of the Issuer Accounts Agreement.

### *Issuer General Account*

As from the Signing Date and on any relevant date thereafter, the Issuer General Account shall be credited or debited by the Issuer Accounts Bank, acting upon the instructions of the Issuer (or the Administrator acting on its behalf), with any and all amounts which are not specified to be credited or debited to any other Issuer Cash Account.

### *Cash Collateral Account*

The Cash Collateral Account shall be credited and debited only subject to, and in accordance with, the Cash Collateral Agreement as described in "**The Borrower Security Documents**" – "**The Cash Collateral Agreement**" and in "**Asset Monitoring**" - "**The Pre-Maturity Test**".

Upon the occurrence of a Borrower Event of Default, the Issuer (or the Administrator acting on its behalf) will give the appropriate instructions in order to ensure that the balance of the Cash Collateral Account is allocated in accordance with the applicable Priority Payment Order.

### *Share Capital Proceeds Account*

On or prior to the Signing Date, the Share Capital Proceeds Account shall be credited with the amount of the Issuer Share Capital and that of the Issuer Subordinated Loan.

Upon the occurrence of a Borrower Event of Default, the Issuer (or the Administrator acting on its behalf) will give the appropriate instructions in order to ensure that the balance of the Share Capital Proceeds Account is allocated in accordance with the applicable Priority Payment Order.

### *Representations, warranties and undertakings*

The Issuer Accounts Bank has made customary representations and warranties and undertakings to the Issuer, such representations and warranties being given on the execution date of the Issuer Accounts Agreement and continuing until the Service Termination Date.

### *Indemnities*

Pursuant to the Issuer Accounts Agreement, the Issuer Accounts Bank undertakes to hold harmless and fully and effectively indemnify the Issuer against all actions, proceedings, demands, damages, costs, expenses (including legal fees), claims, losses, prejudice or other liability, which the Issuer may sustain or



incur as a consequence of the occurrence of any default by the Issuer Accounts Bank in the performance of any of its obligations under the Issuer Accounts Agreement.

*Resignation of Issuer Accounts Bank*

The Issuer Accounts Bank will not resign from the duties and obligations imposed on it as Issuer Accounts Bank pursuant to the Issuer Accounts Agreement, except as follows:

- (a) upon a determination that the performance of its duties under the Issuer Accounts Agreement will no longer be permissible under applicable law; or
- (b) if the Issuer does not comply with any of its material obligations under the Issuer Accounts Agreement and fails to remedy the situation within one hundred and eighty (180) days from the receipt by the Issuer of a notice of the same from the Issuer Accounts Bank (with copy to the Administrator),

such resignation being effective (i) on the date upon which the event in paragraph (a) above occurs or (ii) one hundred and eighty (180) days after the date of delivery of the notice referred to in paragraph (b) above.

*Issuer Accounts Bank's Defaults*

Each of the following events shall constitute an Issuer Accounts Bank's Default (each, an "**Issuer Accounts Bank's Default**"):

- (a) any material representation or warranty made by the Issuer Accounts Bank is or proves to have been incorrect or misleading in any material respect when made, and the same is not remedied (if capable of remedy) within sixty (60) Business Days after the Issuer has given notice thereof to the Issuer Accounts Bank or (if sooner) the Issuer Accounts Bank has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;
- (b) the Issuer Accounts Bank fails to comply with any of its material obligations under the Issuer Accounts Agreement to which it is a party unless such breach is capable of remedy and is remedied within sixty (60) Business Days after the Issuer has given notice thereof to the Issuer Accounts Bank or (if sooner) the Issuer Accounts Bank has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;
- (c) an Insolvency Event occurs in respect of the Issuer Accounts Bank; or
- (d) at any time it is or becomes unlawful for the Issuer Accounts Bank to perform or comply with any or all of its material obligations under the Issuer Accounts Agreement or any or all of its material obligations under the Issuer Accounts Agreement are not, or cease to be, legal, valid and binding.

*Issuer Accounts Bank Rating Trigger Event*

If an Issuer Accounts Bank Rating Trigger Event occurs, the Administrator will notify the Issuer in writing of the occurrence of such event and then, within thirty (30) Business Days of such occurrence, either:

- the then existing Issuer Bank Accounts will be closed and new accounts will be opened under the terms of a new Issuer Accounts Agreement substantially on the same terms as the Issuer Accounts Agreement, with another financial institution whose short term, unsecured, unsubordinated and un-guaranteed debt obligations are rated at least A-1 by S&P and P-1 by Moody's; or
- subject to prior Rating Affirmation, the Issuer Accounts Bank will obtain a guarantee of its obligations under the Issuer Accounts Agreement on terms acceptable to the Issuer, acting reasonably, from a financial institution whose short term, unsecured, unsubordinated and un-guaranteed debt obligations are rated at least A-1 by S&P and P-1 by Moody's.

An, "**Issuer Accounts Bank Rating Trigger Event**" will occur if the short-term senior unsecured, unsubordinated and un-guaranteed debt obligations of the Issuer Accounts Bank are rated below A-1 by S&P or P-1 by Moody's.

*Termination*

"**Issuer Accounts Bank Termination Events**" under the Issuer Accounts Agreement will include the following events:

- (a) the occurrence and continuation of any Issuer Accounts Bank's Default;
- (b) the occurrence of the Issuer Accounts Bank Rating Trigger Event;
- (c) the occurrence of a Borrower Event of Default; or
- (d) the resignation of the Issuer Accounts Bank.

If an Issuer Accounts Bank Termination Event occurs and is continuing, the Issuer shall terminate the Issuer Accounts Agreement by delivery of a written Notice of Termination to the Issuer Accounts Bank. Upon receipt by the Issuer Accounts Bank of the Notice of Termination, the Issuer Accounts Agreement will terminate with effect on a Service Termination Date which shall fall not earlier than twenty (20) Business Days as from the receipt by the Issuer Accounts Bank of the Notice of Termination or at any other date that the Issuer may have specified in the Notice of Termination.

Upon the Service Termination Date, the Issuer will replace HSBC France, as Issuer Accounts Bank, with a substitute entity (the "**Substitute Issuer Accounts Bank**"), the choice of which shall be subject to prior Rating Affirmation.

Notwithstanding the Service Termination Date, the Issuer Accounts Bank will continue to be bound by all its obligations under the Issuer Accounts Bank Agreement until the appointment of the Substitute Issuer Accounts Bank is effective. The Issuer Accounts Bank undertakes to act in good faith to assist any Substitute Issuer Accounts Bank.

*Limited Recourse – Non Petition*

The Issuer Accounts Agreement includes "Limited Recourse" and "Non petition" provisions, as described in "**Issuer's Activities – Limited Recourse**" and "**Issuer's Activities - Non-Petition**".

*Amendment*

No amendment, modification, alteration or supplement shall be made to the Issuer Accounts Agreement without prior Rating Affirmation if the same materially and adversely affects the interests of the Issuer or the Bondholders.

For the avoidance of doubt, the Issuer Accounts Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to evidence or effect the transition of any party to the Issuer Accounts Agreement to any successor;
- (c) to add to the undertakings and other obligations of the Issuer Accounts Bank under the Issuer Accounts Agreement; or
- (d) to comply with any mandatory requirements of applicable laws and regulations.

*Governing Law – Jurisdiction*

The Issuer Accounts Agreement shall be governed by, and construed in accordance with, French law. The Issuer and the Issuer Accounts Bank have agreed to submit any dispute that may arise in connection with the Issuer Accounts Agreement to the jurisdiction of the competent courts of Paris.

## THE ISSUER SECURITY

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds and the expression "Bondholders" includes any holder of such Covered Bonds, in the following section.*

The Issuer Security is the first-ranking pledge of the Issuer Accounts granted pursuant to the Issuer Accounts Pledge Agreement and the first-ranking pledge of the Borrower Facility Receivables granted pursuant to the Issuer Receivables Pledge Agreement. The Issuer Security Assets are the Issuer Accounts and the Borrower Facility Receivables pledged as described below (the "**Issuer Security Assets**").

### **The Issuer Accounts Pledge Agreement**

#### *Background*

The Issuer Accounts Pledge Agreement refers to the agreement dated on or about the Signing Date and made between (i) the Issuer in its capacity as pledgor, (ii) HSBC France as Administrator and (iii) BNP Paribas Securities Services as Issuer Security Agent (the "**Issuer Security Agent**") acting in the name and on behalf of the Bondholders in their capacity as beneficiaries (the "**Beneficiaries**") under the pledge.

#### *Issuer Secured Liabilities*

Under the Issuer Accounts Pledge Agreement, the Issuer will undertake, in respect to any issue of Covered Bonds, to:

- (a) charge to the Bondholders, as represented by the Issuer Security Agent, all its rights, title and interest, whether present or future, actual or contingent, in respect of the Issuer Cash Accounts in accordance with the provisions of Articles L.521-1 and L.521-3 of the French Commercial Code (*Code de commerce*) and Articles 2355 *et seq.* of the French Civil Code (*Code civil*); and
- (b) pledge in favour of the Bondholders, as represented by the Issuer Security Agent, the Issuer Securities Accounts, including any investments at any time and from time to time standing to the credit of the said Issuer Securities Accounts, in accordance with the provisions of Article L.221-20 of the French Monetary and Financial Code (*Code monétaire et financier*);

so as to secure as they become due and payable the payments of all and any amount owed in respect of Covered Bonds issued by the Issuer, whether present or future (the "**Issuer Secured Liabilities**").

The subscription or purchase of Covered Bonds results by force of law in the (i) acceptance that all the Beneficiaries will benefit *pari passu* from the first-ranking security provided under the Issuer Accounts Pledge Agreement and any Issuer Accounts Pledge Agreement Deed of Retake and (ii) appointment of the Issuer Security Agent as agent in order to manage the said security in their name and on their behalf.

#### *Release and retake*

Upon the issue of further Series of Covered Bonds on each issue date after the Closing Date, the existing security provided in accordance with the Issuer Accounts Pledge Agreement securing the repayment of all and any amount owed in respect of the then outstanding Covered Bonds will be (a) released by the Issuer Security Agent and (b) re-taken by the Issuer Security Agent, as first-ranking security for the repayment of all and any amount owed in respect of the then outstanding Covered Bonds and the new Series of Covered Bonds issued on such subsequent issue date. A deed of release and a deed of retake, specifying the Issuer Secured Liabilities, the Beneficiaries, and the relevant Issuer Accounts to be pledged, will be executed upon each subsequent issue of Covered Bonds (respectively, the "**Issuer Accounts Pledge Agreement Deed of Release**" and the "**Issuer Accounts Pledge Agreement Deed of Retake**").

All the Beneficiaries will benefit *pari passu* from the first-ranking security provided under the Issuer Accounts Pledge Agreement and any Issuer Accounts Pledge Agreement Deed of Retake.

*Representations, warranties and undertakings*

The Issuer, as Pledgor, has made customary representations and warranties and undertakings to the Beneficiaries, such representations and warranties being given on the execution date of the Accounts Pledge Agreement and continuing until satisfaction in full of the Issuer Secured Liabilities.

*Enforcement of the charge over the Issuer Cash Accounts*

Following the service of an Issuer Enforcement Notice following the occurrence of an Issuer Event of Default, the Issuer Security Agent (on behalf of the Beneficiaries and upon instructions of such relevant Representative), will be entitled to request from the Issuer Accounts Bank that all sums standing to the credit of all the Issuer Cash Accounts be paid to the Beneficiaries, up to the outstanding amount of the Issuer Secured Liabilities and pursuant to the Accelerated Post-Enforcement Priority Payment Order.

*Enforcement of the pledge over the Issuer Securities Accounts*

Following the service of an Issuer Enforcement Notice following the occurrence of an Issuer Event of Default, the Issuer Security Agent (on behalf of the Beneficiaries and upon instructions of such relevant Representative), will be entitled to request from the Issuer Accounts Bank that title to all financial instruments or other securities (*instruments financiers*) credited to the Issuer Securities Account be transferred to the Beneficiaries, up to the outstanding amount of the Issuer Secured Liabilities.

For the purpose of such transfer of title, the relevant financial instruments and other securities (*instruments financiers*) will be valued, on the date of enforcement of the pledge, on the basis of (a) their public quotation or, as appropriate, (ii) their marked to market value, as determined in both cases on the first Business Day immediately preceding the day of such enforcement.

*Registration – Notification*

The French translation of the Issuer Accounts Pledge Agreement and any subsequent Issuer Accounts Pledge Agreement Deed of Release and Issuer Accounts Pledge Agreement Deed of Retake will be registered by the Issuer Security Agent, acting on behalf of the Beneficiaries, at the expense of the Issuer, with the relevant tax authorities and the Issuer Security Agent will cause, at the Issuer's expense, notice of the Issuer Accounts Pledge Agreement and any subsequent Issuer Accounts Pledge Agreement Deed of Release and Issuer Accounts Pledge Agreement Deed of Retake to be given to the Issuer Accounts Bank by registered letter in accordance with the provisions of Article 2362 para.1 of the French Civil Code (*Code civil*).

*Termination upon the occurrence of an Issuer Security Agent Rating Trigger Event under the Issuer Accounts Pledge Agreement*

If an Issuer Security Agent Rating Trigger Event occurs, the Issuer Security Agent will notify the Issuer and the Representative in writing of the occurrence of the same. In this case, the Representative, acting on behalf of the Bondholders, shall terminate the appointment of BNP Paribas Securities Services as Issuer Security Agent by delivery of a written Notice of Termination to the Issuer Security Agent. Upon receipt by the Issuer Security Agent of the Notice of Termination, the appointment of BNP Paribas Securities Services as Issuer Security Agent will terminate with effect not earlier than twenty (20) Business Days as from the receipt by the Issuer Security Agent of the Notice of Termination or at any other date that the Representative may have specified in the Notice of Termination (each, a "**Termination Date**").

Upon the Termination Date, the Representative will replace BNP Paribas Securities Services, as Issuer Security Agent, with a substitute entity (the "**Substitute Issuer Security Agent**"), the choice of which shall be subject to prior Rating Affirmation.

Notwithstanding the Termination Date, the Issuer Security Agent will continue to be bound by all its obligations as Issuer Security Agent until the appointment of the Substitute Issuer Security Agent is effective. The Issuer Security Agent undertakes to act in good faith to assist any Substitute Issuer Security Agent.

An "**Issuer Security Agent Rating Trigger Event**" will occur if the long-term senior unsecured, unsubordinated and unguaranteed debt obligations of the Issuer Security Agent or (if not rated) those of its guarantor are rated below BBB by S&P or Baa2 by Moody's.

#### *Amendment*

No amendment, modification, alteration or supplement shall be made to the Accounts Pledge Agreement without prior Rating Affirmation if the same materially and adversely affects the interests of the Issuer or the Bondholders.

For the avoidance of doubt, the Accounts Pledge Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to evidence or effect the transition of any party to the Accounts Pledge Agreement to any successor;
- (c) to add to the undertakings and other obligations of the Issuer Security Agent under the Accounts Pledge Agreement; or
- (d) to comply with any mandatory requirements of applicable laws and regulations.

#### *Governing Law – Jurisdiction*

The Accounts Pledge Agreement shall be governed by, and construed in accordance with, French law. The Issuer and the Issuer Security Agent (acting on behalf of the Beneficiaries) have agreed to submit any dispute that may arise in connection with the Accounts Pledge Agreement to the jurisdiction of the competent courts of Paris.

### **The Receivables Pledge Agreement**

#### *Background*

The Receivables Pledge Agreement refers to the French law-governed agreement dated on or prior to the Signing Date made between (i) the Issuer (the "**Pledgor of Receivables**"), (ii) HSBC France as Administrator and (iii) BNP Paribas Securities Services as Issuer Security Agent on behalf of the Bondholders in their capacity as beneficiaries (the "**Beneficiaries**") under the pledge.

#### *Issuer Secured Liabilities*

Under the Receivables Pledge Agreement, the Issuer, as Pledgor of Receivables, undertakes, in respect to any issue of Covered Bonds, to pledge to the Beneficiaries any and all receivables from time to time held by the Issuer against the Borrower under the Borrower Facility (the "**Borrower Facility Receivables**") so as to secure as they become due and payable the payments of all Issuer Secured Liabilities.

The subscription or purchase of Covered Bonds results by force of law in the (i) acceptance that all the Beneficiaries will benefit *pari passu* from the first-ranking security provided under the Receivables Pledge Agreement and any Receivables Pledge Agreement Deed of Retake and (ii) appointment of the Issuer Security Agent as agent in order to manage the said security in their name and on their behalf.

#### *Release and retake*

Upon the issue of further Series of Covered Bonds on each issue date after the Closing Date, the existing security provided in accordance with the Receivables Pledge Agreement securing the repayment of all and any amount owed in respect of the then outstanding Covered Bonds will be (a) released by the Issuer Security Agent and (b) re-taken by the Issuer Security Agent, as first-ranking security for the repayment of all and any amount owed in respect of the then outstanding Covered Bonds and the new Series of Covered Bonds issued on such subsequent issue date. A deed of release and a deed of retake, specifying the Issuer Secured Liabilities, the Beneficiaries, and the relevant Borrower Facility Receivables to be pledged, will

be executed upon each subsequent issue of Covered Bonds (respectively, the "**Receivables Pledge Agreement Deed of Release**" and the "**Receivables Pledge Agreement Deed of Retake**").

All the Beneficiaries will benefit *pari passu* from the first-ranking security provided under the Receivables Pledge Agreement and any Receivables Pledge Agreement Deed of Retake.

#### *Representations, warranties and undertakings*

The Issuer, as Pledgor, has made customary representations and warranties and undertakings to the Beneficiaries, such representations and warranties being given on the execution date of the Receivables Pledge Agreement and continuing until satisfaction in full of the Issuer Secured Liabilities.

#### *Enforcement*

Upon the service of an Issuer Enforcement Notice following the occurrence of an Issuer Event of Default, the Issuer Security Agent (on behalf of the Beneficiaries and upon instructions of such relevant Representative) will be entitled:

- (a) to request from the Pledgor of Receivables that title to all Borrower Facility Receivables and any ancillary rights thereof (*droits qui s'y attachent*) be transferred to the Issuer Security Agent for the benefit of the Beneficiaries up to the outstanding amount of the Issuer Secured Liabilities, in accordance with the provisions of Article 2365 of the French Civil Code (*Code civil*); and
- (b) as the case may be, to notify, at the expense of the Pledgor of Receivables, the Borrower by registered letter (the "**Receivables Pledge Notice**"), of the Receivables Pledge Agreement and any subsequent Receivables Pledge Agreement Deed of Release and Receivables Pledge Agreement Deed of Retake, it being expressly provided that upon receipt by the Borrower of the Receivables Pledge Notice, the Borrower will pay any and all amounts due and payable pursuant to the Borrower Facility (including but not limited to, any principal and interest) to the credit of the bank account specified in the Receivables Pledge Notice (the "**Receivables Pledge Account**"), opened in the name of the Issuer Security Agent on behalf of the Beneficiaries. Any such amount received by the Issuer Security Agent on behalf of the Beneficiaries shall be held by the Issuer Security Agent as cash collateral (*gage-espèces*) for the satisfaction in full of the Issuer Secured Liabilities pursuant to the Accelerated Post-Enforcement Priority Payment Order.

For the purpose of the transfer of title specified above, the relevant Borrower Facility Receivables will be valued, on the date of enforcement of the pledge, on the basis of their outstanding principal amount as of the first Business Day immediately preceding the day of such enforcement.

#### *Registration – Notification*

The French translation of the Receivables Pledge Agreement and any subsequent Receivables Pledge Agreement Deed of Release and Receivables Pledge Agreement Deed of Retake will be registered by the Issuer Security Agent, acting on behalf of the Beneficiaries, at the expense of the Issuer, with the relevant tax authorities.

#### *Termination upon the occurrence of an Issuer Security Agent Rating Trigger Event under the Receivables Pledge Agreement*

If an Issuer Security Agent Rating Trigger Event occurs, the Issuer Security Agent will notify the Issuer and the Representative in writing of the occurrence of the same. In this case, the Representative, acting on behalf of the Bondholders, shall terminate the appointment of BNP Paribas Securities Services as Issuer Security Agent by delivery of a written Notice of Termination to the Issuer Security Agent. Upon receipt by the Issuer Security Agent of the Notice of Termination, the appointment of BNP Paribas Securities Services as Issuer Security Agent will terminate with effect not earlier than twenty (20) Business Days as from the receipt by the Issuer Security Agent of the Notice of Termination or at any other date that the Representative may have specified in the Notice of Termination (each, a "**Termination Date**"). Upon the Termination Date, the Representative will replace BNP Paribas Securities Services, as Issuer Security Agent, with a Substitute Issuer Security Agent, the choice of which shall be subject to prior Rating Affirmation. Notwithstanding the Termination Date, the Issuer Security Agent will continue to be bound by all its obligations as Issuer Security Agent until the appointment of the Substitute Issuer Security Agent

is effective. The Issuer Security Agent undertakes to act in good faith to assist any Substitute Issuer Security Agent.

*Amendment*

No amendment, modification, alteration or supplement shall be made to the Receivables Pledge Agreement without prior Rating Affirmation if the same materially and adversely affects the interests of the Issuer or the Bondholders.

For the avoidance of doubt, the Receivables Pledge Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to evidence or effect the transition of any party to the Receivables Pledge Agreement to any successor;
- (c) to add to the undertakings and other obligations of the Issuer Security Agent under the Receivables Pledge Agreement; or
- (d) to comply with any mandatory requirements of applicable laws and regulations.

*Governing Law – Jurisdiction*

The Receivables Pledge Agreement shall be governed by, and construed in accordance with, French law. The Issuer and the Issuer Security Agent (acting on behalf of the Beneficiaries) have agreed to submit any dispute that may arise in connection with the Receivables Pledge Agreement to the jurisdiction of the competent courts of Paris.

## THE BORROWER AND THE BORROWER FACILITY AGREEMENT

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds and the expression "Bondholders" includes any holder of such Covered Bonds, in the following section.*

### The Borrower

The borrower under the Borrower Facility Agreement (the "**Borrower**") is HSBC France.

#### *General information relating to HSBC France*

HSBC France is a limited liability company (*société anonyme*) organised under the laws of France and licensed as a credit institution, having its registered office at 103 avenue des Champs-Élysées, 75008 Paris, France and registered with the Trade and Companies Register of Paris, France under number 775 670 284. HSBC France was incorporated on 1 July 1894 and the duration of the company has been extended until 30 June 2043. HSBC France is governed by the laws and regulations applicable to commercial companies and, in particular, the French Commercial Code (*Code de commerce*), to the extent that they are not disapplied by more specific laws such as, *inter alia*, the various applicable rules of French law applicable to licensed entities and by the articles of association of HSBC France.

The shares of HSBC France are not listed but HSBC France is an issuer of financial instruments to the public. As at the date of this Base Prospectus, the short term rating of HSBC France senior bond issues is F1+ (Fitch), P-1 (Moody's) and A-1+ (S&P) and the long term rating of HSBC France senior bond issues is AA (Fitch), Aa3 (Moody's) and AA (S&P).

#### *Activities*

HSBC France offers its customers the power of a global banking and finance group coupled with a one on one relationships founded on in-depth local expertise.

HSBC in France boasts a network of 402 branches operating under the name HSBC. HSBC France was created when the brand was adopted by CCF, Union de Banques à Paris (UBP), Banque Herve in the Paris region, Banque de Picardie and Banque de Baecque Beau in autumn 2005. The merger of HSBC Herve, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France was completed on 31 July 2008.

In addition to its retail banking network, HSBC France offers its clientele a full range of products and services in the following businesses: Global Banking and Markets, Asset Management and Insurance, and Private Banking.

HSBC France is a member of the HSBC Holdings plc group.

HSBC France's 2007 annual report is available on [www.hsbc.fr](http://www.hsbc.fr).

#### *General information relating to share capital*

The issued capital of HSBC France is € 337,189,100 and consists of 67,437,820 shares with a par value of € 5 each.

HSBC Bank plc has owned 99.99 per cent of the share capital and voting rights since 31 October 2000. HSBC Bank plc is a wholly-owned subsidiary of HSBC Holdings plc, a company listed in London, Hong Kong, New York, Paris and Bermuda.



*Management and administration*

HSBC France is administered by a board of directors which consists of at least sixteen (16) and no more than twenty (20) members, four (4) of whom are representatives of salaried staff elected by the employees of HSBC France. The members of the board are appointed or elected for a term of four (4) years.

*Control*

As a regulated bank, HSBC France is subject to various controls by the French financial regulators (*Autorité de Contrôle Prudentiel, Autorité des Marchés Financiers*, etc.).

*Accounting regulations and methods*

HSBC France presents its accounts according to the provisions in use in all private industrial and commercial companies and is subject to tax in the same way as any commercial entity.

The accounts of HSBC France are subject to examination by KPMG Audit and BDO France - Léger & Associés, the statutory auditors (*commissaires aux comptes*) of HSBC France which were appointed for a period of six (6) years, expiring at the close of the ordinary general meeting to be called in 2012 to approve the financial statements for the year ending 2011. The accounts of HSBC France must be approved by its board of directors and are submitted, within five (5) months following the end of each financial year, together with the statutory auditors' report, for examination by the shareholders meeting of HSBC France.

**The Borrower Facility Agreement***Background*

The proceeds from the issuance of the Covered Bonds under the Programme will be used by the Issuer, as Lender, to fund advances to be made available to HSBC France as Borrower, under a multicurrency term facility agreement (the "**Borrower Facility**"). The Lender and the Borrower have agreed to enter into a Borrower Facility agreement (the "**Borrower Facility Agreement**") in order to determine the terms and conditions according to which the Lender shall grant the Borrower Advances under the Borrower Facility.

*The Borrower Facility*

The Borrower Facility shall be made available to the Borrower in an aggregate maximum amount equal to € 8,000,000,000 (the "**Borrower Facility Commitment**") for the purpose of financing the general financial needs of the Borrower. Pursuant to the Borrower Facility Agreement, the Borrower shall send to the Administrator (with a copy to the Issuer) a duly completed drawdown request (a "**Drawdown Request**") in respect of the Borrower Advance to be made available under the Borrower Facility. Upon receipt of a Drawdown Request by the Administrator (with copy to the Lender), the Lender, together with the Administrator, shall elaborate (i) corresponding Final Terms of the Covered Bonds to be issued to fund such Drawdown Request, and (ii) final terms of Borrower Advance ("**Final Terms of Borrower Advance**") reflecting the terms and conditions of such corresponding Final Terms of the Covered Bonds.

The Borrower may (i) accept the terms and conditions of the Final Terms of Borrower Advance proposed by the Administrator and the Lender, in which case such Final Terms of Borrower Advance shall be definitive between the Borrower and the Lender and a Borrower Advance shall be made available according to such Final Terms of Borrower Advance, or (ii) refuse the terms and conditions of such Final Terms of Borrower Advance, in which case such Final Terms of Borrower Advance and the relevant Drawdown Request shall be considered as null and void between the Borrower and the Lender.

*Principal and interest amounts*

The terms and conditions regarding the calculation and the payment of principal and interest under a Borrower Advance shall mirror the equivalent terms and conditions of the corresponding Series of Covered Bonds, it being provided that, as a principle, the interest to be paid by the Borrower under a Borrower Advance shall be the financing costs of the Lender under the Covered Bonds funding such Borrower Advance. The terms and conditions regarding the calculation and the payment of principal and

interest under a Borrower Advance shall be further described hereunder and in the relevant Final Terms of Borrower Advance. Any amounts repaid or prepaid under the Borrower Facility may be re-borrowed.

*Representations, warranties and undertakings*

The Borrower has made customary representations and warranties and undertakings to the Lender, such representations and warranties being given on the execution date of the Borrower Facility Agreement and continuing until all sums due by the Borrower under the Borrower Facility Agreement shall have been repaid in full.

*Main other terms*

The Borrower Facility Agreement also provides for:

- (a) customary tax gross-up provisions relating to payments to be made by the Borrower to the Lender under Borrower Facility Agreement;
- (b) customary tax indemnity provisions relating to any payment to be made by the Lender on account of tax on or in relation to any sum received or receivable under the Borrower Facility Agreement by the Lender from the Borrower or any liability in respect of any such payment being asserted, imposed, levied or assessed against the Lender;
- (c) customary "increased costs" provisions;
- (d) general financial information covenants and other customary borrower covenants.

The Borrower Facility Agreement will provide for the payment by the Borrower to the Issuer of commissions covering all the costs and expenses related to the structuring and the updating of the Programme, all the costs and expenses related to the issuance of Covered Bonds and the taxes of the Issuer during the Programme.

*Borrower Events of Default*

Each of the following events constitutes a Borrower Event of Default for the purposes of the Borrower Facility Agreement:

- (a) the Borrower fails to pay any sum due under the Borrower Facility when due, in the currency and in the manner specified therein; provided, however, that where such non-payment is due to an administrative error or the failure of continuing external payment systems or clearing systems reasonably used by the Borrower and such payment is made by the Borrower within three (3) Business Days of such non-payment, such non-payment shall not constitute a Borrower Event of Default;
- (b) a Breach of Pre-Maturity Test occurs;
- (c) a Breach of Asset Cover Test occurs;
- (d) a Breach of Collection Loss Reserve Funding Requirement occurs;
- (e) any material representation or warranty made by the Borrower, in the Borrower Facility Agreement or in any notice or other document, certificate or statement delivered by it pursuant thereto or in connection therewith is or proves to have been incorrect or misleading in any material respect when made, and the same is not remedied (if capable of remedy) within sixty (60) Business Days after the Administrator or the Issuer has given notice thereof to the Borrower or (if sooner) the Borrower has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;
- (f) the Borrower fails to comply with any of its material obligations under the Borrower Facility Agreement unless such breach is capable of remedy and is remedied within sixty (60) Business Days after the Administrator or the Issuer has given notice thereof to the Borrower or (if sooner) the

Borrower has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;

- (g) the Borrower fails to comply with any of its material obligations under the Borrower Collateral Security Agreement unless such breach is capable of remedy and is remedied within sixty (60) Business Days after the Administrator or the Issuer has given notice thereof to the Borrower or (if sooner) the Borrower has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;
- (h) an Insolvency Event occurs in respect of the Borrower;
- (i) at any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its material obligations under the Borrower Facility Agreement or any of the material obligations of the Borrower under the Borrower Facility Agreement are not or cease to be legal, valid and binding; or
- (j) upon the occurrence of a Hedging Rating Trigger Event (as defined in section "**The Hedging Strategy**"), (x) any failure by the Borrower (i) to enter into appropriate Borrower Hedging Agreement(s) and related Borrower Hedging Transaction(s) (as defined in section "**The Hedging Strategy**") with the Issuer, within thirty (30) calendar days from the date of occurrence of the relevant Hedging Rating Trigger Event (as defined in section "**The Hedging Strategy**") or (ii) to pay any costs and expenses referred to in section "**The Hedging Strategy**" or (y) any failure by the Issuer to enter into (i) appropriate Issuer Hedging Agreements and related Issuer Hedging Transactions (as defined in section "**The Hedging Strategy**") with Eligible Hedging Provider(s) (as defined in section "**The Hedging Strategy**") or (ii) Borrower Hedging Agreement(s) and related Borrower Hedging Transaction(s) (as defined in section "**The Hedging Strategy**") with the Borrower, within thirty (30) calendar days from the occurrence date of such Hedging Rating Trigger Event, as described in section "**The Hedging Strategy**".

Upon the occurrence of a Borrower Event of Default, the Administrator shall, by sending a written Borrower Enforcement Notice (such notice to constitute a *mise en demeure*) to the Borrower (with a copy to the Rating Agencies), (i) declare that no more Borrower Advances shall be made under the Borrower Facility, (ii) declare that the Borrower Facility shall be cancelled, and (iii) declare that the Borrower Advances shall immediately become due and payable and enforce its rights under the Security Documents.

#### *Broken Funding Indemnity*

If, as a consequence of a Borrower Event of Default, the Lender receives or recovers all or any part of a Borrower Advance otherwise than as described or scheduled under the relevant Finals Terms of Borrower Advance, the Borrower shall pay to the Lender on demand an amount equal to the amount (if any) of the difference (if positive) between (x) the additional interest which would have been payable on the amount so received or recovered had such Borrower Event of Default not occurred, and (y) the amount of interest which the Lender reasonably determines would have been payable to the Lender on the last day of the term thereof in respect of a deposit equal to the amount so received or recovered placed by it with a prime bank for a period starting on the third Business Day following the date of such receipt or recovery and ending on the last day of the term thereof.

#### *Limited Recourse – Non Petition*

The Borrower Facility Agreement includes "Limited Recourse" and "Non petition" provisions, as described in "**Issuer's Activities – Limited Recourse**" and "**Issuer's Activities - Non-Petition**".

#### *Amendment*

No amendment, modification, alteration or supplement shall be made to the Borrower Facility Agreement without prior Rating Affirmation if the same materially and adversely affects the interest of the Issuer or the Bondholders.

For the avoidance of doubt, the Borrower Facility Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to evidence or effect the transition of any party to the Borrower Facility Agreement to any successor;
- (c) to add to the undertakings and other obligations of the Borrower under the Borrower Facility Agreement; or
- (d) to comply with any mandatory requirements of applicable laws and regulations.

*Governing Law – Jurisdiction*

The Borrower Facility Agreement shall be governed by, and construed in accordance with, French law. The Lender and the Borrower have agreed to submit any dispute that may arise in connection with the Borrower Facility Agreement to the jurisdiction of the competent courts of Paris.

## THE BORROWER COLLATERAL SECURITY

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds and the expression "Bondholders" includes any holder of such Covered Bonds, in the following section.*

### The Borrower Collateral Security Agreement

#### *Background*

The Borrower Collateral Security Agreement refers to the agreement dated on or prior to the Signing Date and made between (i) the Issuer, in its capacity as "Lender", and (ii) HSBC France, in its respective capacity as "Borrower", "Administrator" and "Issuer Calculation Agent" (the "**Borrower Collateral Security Agreement**").

#### *Borrower Secured Liabilities*

The Borrower Collateral Security Agreement sets forth the terms and conditions upon which the Borrower shall grant Eligible Assets as Borrower Collateral Security (*garantie financière*) for the benefit of the Lender in order to secure, as they become due and payable, the payments of all of the Borrower Secured Liabilities.

#### *Eligible Assets*

For the purposes of the Borrower Collateral Security Agreement, an Eligible Asset is any Home Loan Receivable that complies with the Home Loan Eligibility Criteria (each as further described below) and any Substitution Asset.

Each Home Loan Receivable granted as Borrower Collateral Security pursuant to the Borrower Collateral Security Agreement shall, on the relevant date, arise from a Home Loan which complies with all the following cumulative eligibility criteria (each, a "**Home Loan Eligibility Criteria**"):

- (a) prior to the date upon which the Home Loan has been made available to the borrower thereof, all scoring, lending criteria and preconditions as applied by the originator of the Home Loan pursuant to its customary lending procedures were satisfied;
- (b) the purpose of the loan is either to buy, to renovate, to build or to refinance a residential real estate property;
- (c) the underlying property is located in France;
- (d) the Home Loan is governed by French law;
- (e) the Home Loan is denominated in Euro;
- (f) all sums due under the Home Loan (including interest and costs) are secured by a fully effective Home Loan Security;
- (g) at the relevant selection date, the current principal balance of such Home Loan is no more than Euro 1,000,000 ;
- (h) at the relevant selection date, the loan-to-value of the Home Loan is no more than one hundred per cent. (100%);
- (i) at the relevant selection date, the remaining term for the Home Loan is less than thirty (30) years;
- (j) at the relevant selection date, the borrower under the Home Loan has paid at least one (1) instalment in respect of the Home Loan;

- (k) the borrower under the Home Loan is an individual who is not an employee of the originator of such Home Loan;
- (l) the Home Loan is current (i.e. does not present any arrears) as at the relevant selection date;
- (m) the Home Loan is either monthly or quarterly amortising as at the relevant selection date;
- (n) the borrower under the Home Loan does not benefit from a contractual right of set off;
- (o) the opening by the borrower under the Home Loan of a bank account dedicated to payments due under the Home Loan is not provided in the relevant contractual arrangements as a condition precedent to the originator of the Home Loan making the Home Loan available to the borrower under the Home Loan; and
- (p) except where prior Rating Affirmation has been obtained, no amount drawn under the Home Loan is capable of being redrawn by the borrower thereof (i.e. the Home Loan is not flexible).

If it is confirmed that a Home Loan ceases to comply with one (1) or several of the above Home Loan Eligibility Criteria (each, an "**Ineligible Home Loan**"), any Home Loan Receivables granted as Borrower Collateral Security under such Ineligible Home Loan shall account for zero for the purpose of calculation of the Asset Cover Test on the relevant Asset Cover Test Date (see "**Asset Monitoring - Asset Cover Test**"). In addition, the Borrower may request that such Ineligible Home Loan Receivables be released from the scope of the Borrower Collateral Security.

The Home Loan Eligibility Criteria may be amended from time to time subject to prior Rating Affirmation.

For the purpose hereof:

"**Home Loan**" means each and any loan originated by the Borrower which finances or refinances the acquisition (and/or, as the case may be, the construction) of residential real estate property.

"**Home Loan Receivable**" means each and any loan receivable arising from any Home Loan.

"**Home Loan Security**" means together the Mortgages and the Home Loan Guarantees.

"**Home Loan Guarantee**" means (i) each and any joint and several guarantee or other type of guarantee provided by *Crédit Logement*; or (ii) subject to Rating Affirmation from the Rating Agencies and as long as the Programme is rated Aaa by Moody's, each and any financial guarantee or other type of guarantee provided by insurance companies, mutual insurance companies or credit institutions and guaranteeing the Home Loans.

"**Mortgage**" means each duly registered first ranking mortgage (and in particular in respect of Home Loans governed by French law, any *hypothèque*) or similar first ranking legal privilege (and in particular in respect of Home Loans governed by French law, any *privilège de prêteur de deniers*) securing the repayment of any given Home Loan or any second ranking mortgage securing the repayment of any given Home Loan if the relevant first ranking mortgage is granted to secure the repayment of a Home Loan for which receivables are granted as Collateral Security.

"**Substitution Assets**" means:

- (a) Euro or other Specified Currency 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 (1) 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 duly licensed for such purposes) are rated at least P-1/Aa3 by Moody's and A-1+/AA- by S&P; or

- (b) Euro or other Specified Currency denominated government and public securities, provided that such investments have a remaining maturity of one (1) year or less and which are rated at least Aaa by Moody's and AAA by S&P.

*Borrower Collateral Security Assets*

Eligible Assets shall be validly granted as Borrower Collateral Security and shall qualify as "**Borrower Collateral Security Assets**" for the purposes of the Borrower Collateral Security Agreement only upon satisfaction of numerous conditions precedents, including in particular that the same shall have been duly identified by the Borrower.

*Creation and Perfection*

The Borrower Collateral Security shall be created in accordance with Articles L211-36 II and L.211-38 to L.211-40 (formerly L.431-7 *et seq.*) of the French Monetary and Financial Code (*Code monétaire et financier*). The Borrower Collateral Security shall not entail any transfer of title with respect to the relevant Eligible Assets until enforcement.

The Borrower Collateral Security shall be perfected pursuant to paragraphs I and II, 1°) and II, 2°) of Article L.211-38 of the French Monetary and Financial Code (*Code monétaire et financier*).

*Asset Monitoring and Asset Cover Test*

The Borrower shall monitor the Borrower Collateral Security Assets so as to comply with the Asset Cover Test at all times (as further described in "**Asset Monitoring – The Asset Cover Test**").

In particular, the Borrower may at any time add, substitute or release Borrower Collateral Security Assets (including Home Loan Receivables arising from Ineligible Home Loans) from the scope of the Borrower Collateral Security. However, any such addition, substitution and/or release shall be effective only subject to confirmation by the Issuer Calculation Agent that a Non Compliance with Asset Cover Test would not occur as a result of such addition, substitution and/or release. For such purpose, the Issuer Calculation Agent shall recalculate the Asset Percentage (as defined in "**Asset Monitoring – The Asset Cover Test**") that would be applicable following such addition, substitution and/or release each time any such addition, substitution or release is requested by the Borrower.

Upon non compliance with the Asset Cover Test on any applicable test date, the Borrower shall cure such non compliance by granting sufficient additional or substitute Eligible Assets as Borrower Collateral Security.

A failure to cure a Non Compliance with the Asset Cover Test which has occurred on any Asset Cover Test Date prior to the next following Asset Cover Test Date shall constitute a Breach of Asset Cover Test under the Borrower Collateral Security Agreement. Any Breach of Asset Cover Test shall be deemed the occurrence of a "Borrower Event of Default" under the Borrower Facility Agreement.

*Asset Servicing*

The Borrower shall perform the servicing of the Borrower Collateral Security Assets in accordance with applicable laws and its customary Servicing Procedures, using the degree of skill, care and attention as it would use for the servicing of its assets for its own account, without interfering with the Issuer's material rights under the Borrower Collateral Security Agreement and allowing control by the Issuer over the Borrower Collateral Security Assets.

The Borrower shall provide the Issuer with: (i) on each Asset Cover Test Date (being defined as the 20<sup>th</sup> day of each calendar month or, if such day is not a Business Day, the preceding Business Day), an asset report (the "**Asset Report**") which shall be up-to-date as at the last day of the preceding calendar month, and (ii) on each other date (each, an "**Interim Selection Date**") upon which substituted or additional Borrower Collateral Security Assets are selected by the Borrower for inclusion in the scope of the Borrower Collateral Security, an Asset Report, up-to-date as of such Interim Selection Date. Each Asset Report shall include the relevant data and information with respect to the relevant assets.

The Borrower shall furthermore, in accordance with the Servicing Procedures, establish, maintain or cause to be maintained and furthermore administer at all times accurate, complete and up-to-date records with respect to the Borrower Collateral Security Assets.

For the purpose of satisfying itself as to whether the Borrower Collateral Security Assets remain Eligible Assets or control Asset Reports, the Issuer (or any agent acting on its behalf) is granted the access to the Borrower's premises or to premises where the Asset Records are located, in order to inspect or audit such Asset Records (such right of inspection or audit shall include the right to take copies of all or any document or data).

If a Servicing Rating Trigger Event occurs, the Administrator will notify the Issuer in writing of the occurrence of such event and then within thirty (30) Business Days of such occurrence, the Issuer and the Borrower will use reasonable endeavours to appoint a new servicer (whose long-term senior unsecured, unsubordinated and unguaranteed debt obligations (if rated) are rated at least BBB by S&P and Baa2 by Moody's) for the servicing of the Borrower Collateral Security Assets. For such purposes, "**Servicing Rating Trigger Event**" means the long-term senior unsecured, unsubordinated and unguaranteed debt obligations of the Borrower being rated below BBB by S&P or Baa2 by Moody's.

For the purpose hereof:

"**Asset Records**" means

- (a) the electronic and manual records, files, internal data, books and all other information (including information stored in information systems) related to the Borrower Collateral Security Assets, together with the underlying contracts and other documents evidencing title of the relevant entity to such assets (including, with respect to Home Loans, the related Home Loan Security); and
- (b) the records, files, internal data, computer systems and all other information related to the Collection Accounts and the operation of the same.

"**Collection Accounts**" means any and all bank accounts opened in the name of the Borrower to collect interest and principal paid under the Home Loan Receivables granted as Borrower Collateral Security, as specified from time to time to the Issuer Calculation Agent pursuant to the relevant terms of the Borrower Collateral Security Agreement.

*Representations, warranties and undertakings*

The Borrower has made customary representations, warranties and undertakings in favour of the Issuer, such representations and warranties being given on the execution date of the Borrower Collateral Security Agreement and continuing until satisfaction in full of the Borrower Secured Liabilities.

*Collection Loss Trigger Event*

Upon downgrading of the credit rating of the Borrower below A-2 (short-term) (S&P) or P-1 (short-term) (Moody's) (or any other credit rating trigger which may be agreed with the Rating Agencies) (the "**Collection Loss Trigger Event**") and within ten (10) Business Days from the occurrence of such Collection Loss Trigger Event, the Borrower shall be required (i) to pay into the credit of a bank account to be opened within such period in its name and in its books (the "**Collection Loss Reserve Account**"), an amount equal to the amount of collections received by the Borrower under the Home Loans and the Substitution Assets granted as Borrower Collateral Security during the three (3) calendar months preceding the date of occurrence of the Collection Loss Trigger Event, as such occurrence shall be reported to the Issuer, the Administrator and the Issuer Calculation Agent (with a copy to the Rating Agencies) within the above mentioned ten (10) Business Day-period and (ii) further, to adjust, within ten (10) Business Days following each Asset Cover Test Date, the amount standing to the credit of this Collection Loss Reserve Account so that it is an amount equal to the sum of collections received by the Borrower under the Home Loans and the Substitution Assets granted as Collateral Security during the three (3) calendar months preceding the most recent Asset Cover Test Calculation Date, and any such adjustment shall be reported to the Issuer, the Administrator and the Calculation Agent (with a copy to the Rating Agencies).



All cash credited to the Collection Loss Reserve Account as described above shall be granted as Borrower Collateral Security subject to, and in accordance with, the relevant terms of the Borrower Collateral Security Agreement and shall secure the Borrower Secured Liabilities as they become due and payable.

The failure by the Borrower to fund the Collection Loss Reserve Account up to the required amount within the required period following the occurrence of the Collection Loss Trigger Event (including, whenever required, to increase such amount) shall constitute a "**Breach of Collection Loss Reserve Funding Requirement**" within the meaning of the Borrower Collateral Security Agreement. A Breach of Collection Loss Reserve Funding Requirement shall result in the occurrence of a Borrower Event of Default under the Borrower Facility Agreement.

#### *Enforcement*

Upon the service of a Borrower Enforcement Notice subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement following the occurrence of a Borrower Event of Default, the Issuer (represented by the Issuer Independent Representative or by the Administrator or the Substitute Administrator) shall be entitled to exercise all rights, actions and privileges with respect to the Borrower Collateral Security Assets as granted to a secured creditor in accordance with paragraph II, 3°) of Article L.211-38 of the French Monetary and Financial Code (*Code monétaire et financier*). In particular, with immediate effect as from the service to the Borrower of a Borrower Enforcement Notice:

- (a) the Borrower shall no longer be entitled to service the Borrower Collateral Security Assets and shall refrain from taking any action whatsoever in connection with the Borrower Collateral Security Assets or vis-à-vis the underlying debtors, except upon the written prior instructions of the Issuer or the Administrator (or the Substitute Administrator), or any of their respective representatives, agents or experts acting on their behalf;
- (b) the Issuer shall be vested in all the rights of title, all discretions, benefits and all other rights of the Borrower with respect to any and all Borrower Collateral Security Assets, related Asset Records and related documents, including, without formality whatsoever, all rights of title, all discretions, benefits and all other rights in relation to any right, privilege, guarantee or security interest (*droit accessoire, privilège, garantie ou sûreté*) ancillary or as the case may be attached to the Borrower Collateral Security Assets (and, in particular, any and all relevant Home Loan Security); and
- (c) the Issuer (represented by the Administrator (or the Substitute Administrator) or any of its representative, agent or expert acting on its behalf) shall:
  - take whatever action required in order to perfect, or any other action which it deems necessary for the purpose of perfecting, its rights of title, discretions, privileges, remedies and other rights with respect to any or all Borrower Collateral Security Assets and any related rights, privileges, guarantees and security interest ancillary or attached to any or all Borrower Collateral Security Assets; and/or
  - exercise all its rights, discretions, privileges and remedies under any or all Borrower Collateral Security Assets or any related documents; and/or
  - enforce all its rights, discretions, privileges and remedies under any or all Home Loan Security and the other guarantees and security interest ancillary or attached to any or all Borrower Collateral Security Assets; and/or
  - serve a notice to any or all the debtors and all other relevant entities under any or all Borrower Collateral Security Assets, mentioning the new payment instructions to be observed by the same with respect to the payment of sums due under the Borrower Collateral Security Assets and/or the related Asset Contractual Documentation.

After transfer of title with respect to any or all Borrower Collateral Security Assets, the Issuer (represented by the Administrator or the Substitute Administrator) or any representative, agent or expert acting on its behalf may dispose of, transfer, sell or cause to be sold, any or all the Borrower Collateral Security Assets to any third party or refinance the same (by way of securitisation or otherwise).

For the purpose hereof, "**Asset Contractual Documentation**" means, in relation to any and all Borrower Collateral Security Assets, all originals or executive or true copies (*copies exécutoires* or *bordereaux d'inscription*) of any contract, instrument or other document (such as riders, waivers and amendments) providing for the terms and conditions of, and/or evidencing title and benefit to, such Borrower Collateral Security Assets and any right, privilege, guarantee or security interest (*droit accessoire, privilège, garantie ou sûreté*) ancillary or as the case may be attached thereto (and, in particular, any and all relevant Home Loan Security).

#### *Conditions of enforcement*

Enforcement requires no formality other than the service of the Borrower Enforcement Notice in accordance with the Borrower Facility Agreement (including no requirement to obtain a court order or conduct an auction), no notification requirements whatsoever (whether to the Borrower or to any other person) nor any other procedures. Pursuant to Article L.211-40 of the French Monetary and Financial Code (*Code monétaire et financier*), no right of the Issuer to enforce the Borrower Collateral Security shall be in any manner affected or limited by any insolvency proceedings mentioned under the sixth book of the French Commercial Code (*Livre VI du Code de commerce*) which would have been opened with respect to the Borrower or any of its assets.

#### *Borrower's obligations upon enforcement*

With immediate effect as from the service to the Borrower of a Borrower Enforcement Notice and upon the instructions of each of the Issuer, the Administrator (or the Substitute Administrator) or any of their respective representatives, agents or experts acting on their behalf (each, an "**Enforcing Party**"), the Borrower shall:

- (a) execute any document, take whatever action and do all such things required in order to perfect, or any other action that the Enforcing Party deems necessary for the purpose of perfecting, the Issuer's rights of title, discretions, privileges, remedies and other rights in relation to any or all Borrower Collateral Security Assets and any related rights, privileges, guarantees and security interest ancillary or attached thereto;
- (b) deliver such Asset Records and related documents to the Enforcing Party to such place as the same may reasonably designate;
- (c) allow to the Enforcing Party reasonable access to its facilities, premises, computer and/or software systems; and
- (d) take all steps and do all things and cooperate in good faith to enable any entity which shall have been appointed as Substitute Administrator in replacement of the Administrator to take over its duties in such capacity.

#### *Application of proceeds*

Once the Issuer shall have been vested in all rights of title, discretions, benefits and other rights with respect to any and all the Borrower Collateral Security Assets and following enforcement of the Borrower Collateral Security, any principal and interest payments, distributions, sale or liquidation proceeds and other sums (together, the "**Enforcement Proceeds**") received by the Issuer thereunder shall be held by the Issuer as cash collateral (*gage-espèces*) for the satisfaction in full of the Borrower Secured Liabilities.

Subject to the discharge in full of all the Borrower Secured Liabilities, the Borrower shall have the right to claim against the Issuer for repayment (*créance de restitution*) of the portion of the Enforcement Proceeds received by the Issuer and not applied to the satisfaction of the Borrower Secured Liabilities. Such repayment by the Issuer to the Borrower shall be made as soon as reasonably practicable following the day upon which all sums due under any and all the Tranches and Series of Covered Bonds shall have been repaid in full.

#### *Limited Recourse – Non Petition*

The Borrower Collateral Security Agreement includes "Limited Recourse" and "Non petition" provisions, as described in "**Issuer's Activities – Limited Recourse**" and "**Issuer's Activities – Non-Petition**".

*Amendment*

No amendment, modification, alteration or supplement shall be made to the Borrower Collateral Security Agreement without prior Rating Affirmation if the same materially and adversely affects the interests of the Issuer or the Bondholders.

For the avoidance of doubt, the Borrower Collateral Security Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to evidence or effect the transition of any party to the Borrower Collateral Security Agreement to any successor;
- (c) to add to the undertakings and other obligations of the Borrower under the Borrower Collateral Security Agreement; or
- (d) to comply with any mandatory requirements of applicable laws and regulations.

*Governing Law – Jurisdiction*

The Borrower Collateral Security Agreement shall be governed by, and construed in accordance with, French law. The parties to the Borrower Collateral Security Agreement have agreed to submit any dispute that may arise in connection with the Borrower Collateral Security Agreement to the jurisdiction of the competent courts of Paris.

**The Cash Collateral Agreement***Background*

The Cash Collateral Agreement refers to the agreement dated on or about the Signing Date and made between (i) the Issuer in its capacity as "Lender", and (ii) HSBC France in its capacity as "Cash Collateral Provider" (the "**Cash Collateral Provider**"), "Administrator" and "Issuer Calculation Agent" (the "**Cash Collateral Agreement**").

*Secured Liabilities*

The Cash Collateral Agreement sets forth the terms and conditions upon which the Cash Collateral Provider shall fund certain amounts as cash collateral (*gage espèces*) (each, a "**Cash Collateral**") into the Cash Collateral Account so as to secure as they become due and payable the Borrower Secured Liabilities.

*Creation and Perfection*

Any Cash Collateral shall be created upon credit of the corresponding sums into the Cash Collateral Account.

The perfection of each Cash Collateral shall not be conditional upon any formality. Each Cash Collateral shall entail the transfer of title in favour of the Issuer with respect to the relevant cash funded into the Cash Collateral Account.

Cash at any time standing to the credit of the Cash Collateral Account may be invested only in Permitted Investments whose maturity is earlier than the Final Maturity Date of the relevant Series of Covered Bonds (which is not a Series of Extendable Maturity Covered Bonds) or the Extended Final Maturity Date of Extendable Maturity Covered Bonds.

*Pre-Maturity Test*

If the Borrower fails to have all the Pre-Maturity Ratings Required Levels (as defined in section "**Asset Monitoring**" – "**The Pre-Maturity Test**") at any time during any relevant Pre-Maturity Test Period (defined as each period starting from, and including, the two hundred and seventieth (270th) day preceding

the Final Maturity Date of each Series of Covered Bonds (other than Extendable Maturity Covered Bonds) and ending on, and excluding, such Final Maturity Date), the Cash Collateral Provider shall fund the Cash Collateral Account in the amount and within the time period as specified in the Cash Collateral Agreement.

Failure by the Cash Collateral Provider to fund the Cash Collateral Account in the amount and within the time period as specified in the Cash Collateral Agreement shall constitute a Breach of Pre-Maturity Test under the Cash Collateral Agreement which breach shall in turn result in the occurrence of a Borrower Event of Default under the Borrower Facility Agreement.

*Representations, warranties and undertakings*

The Cash Collateral Provider has made the customary representations and warranties and undertakings to the Issuer, such representations and warranties being given on the execution date of the Cash Collateral Agreement and continuing until satisfaction in full of the Secured Liabilities.

*Enforcement*

Upon the service of a Borrower Enforcement Notice subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement following the occurrence of a Borrower Event of Default, the Issuer (represented by the Issuer Independent Representative or by the Administrator or Substitute Administrator) shall be entitled to apply all sums standing to the credit of the Cash Collateral Account in satisfaction of all the Borrower Secured Liabilities.

Any sum remaining to the credit of the Cash Collateral Account after satisfaction in full of the Borrower Secured Liabilities shall be repaid promptly to the Borrower subject to, and in accordance with, the relevant Priority Payment Order.

*Conditions of enforcement*

Enforcement requires no other formality whatsoever (including the necessity to obtain a court order or conduct an auction), any notification requirements (to the Borrower, the Cash Collateral Provider or any other person) nor any other procedures. No right of the Issuer to enforce its rights under the Cash Collateral Agreement shall be in any manner affected or limited by any Insolvency Proceedings with respect to the Borrower.

*Limited Recourse – Non Petition*

The Cash Collateral Agreement includes "Limited Recourse" and "Non petition" provisions, as described in "**Issuer's Activities – Limited Recourse**" and "**Issuer's Activities - Non-Petition**".

*Amendment*

No amendment, modification, alteration or supplement shall be made to the Cash Collateral Agreement without prior Rating Affirmation if the same materially and adversely affects the interest of the Issuer or the Bondholders.

For the avoidance of doubt, the Cash Collateral Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to evidence or effect the transition of any party to the Cash Collateral Agreement to any successor;
- (c) to add to the undertakings and other obligations of the Cash Collateral Provider under the Cash Collateral Agreement; or
- (d) to comply with any mandatory requirements of applicable laws and regulations.

*Governing Law – Jurisdiction*

The Cash Collateral Agreement shall be governed by, and construed in accordance with, French law. The Issuer and the Cash Collateral Provider have agreed to submit any dispute that may arise in connection with the Cash Collateral Agreement to the jurisdiction of the competent courts of Paris.

## ASSET MONITORING

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds and the expression "Bondholders" includes any holder of such Covered Bonds, in the following section.*

Under the Borrower Collateral Security Agreement and for so long as no Borrower Event of Default has occurred and been enforced subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement, the Borrower shall monitor the Borrower Collateral Security Assets so as to ensure compliance with the Asset Cover Test described in this section below.

Under the Cash Collateral Agreement and for so long as no Borrower Event of Default has occurred and been enforced subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement, the Borrower shall fund the Cash Collateral Account up to an amount sufficient so as to ensure compliance with a Pre-Maturity Test described in this section below.

Under Condition 5(f) and following the enforcement of a Borrower Event of Default subject to, and in accordance with, the relevant terms of the Borrower Facility Agreement, the Issuer shall ensure compliance with the Amortisation Test described in this section below.

### The Asset Cover Test

The following terms shall have the following definitions:

**"Asset Cover Test Date"** means the 20<sup>th</sup> day of each calendar month (or, if such day is not a Business Day, the immediately preceding Business Day) and each issuance date of a Series or a Tranche of Covered Bonds;

**"Asset Cover Test Calculation Period"** means, in relation to any Asset Cover Test Date, each one-month period ending on, and including, the Asset Cover Test Calculation Date which was within the preceding calendar month; and

**"Asset Cover Test Calculation Date"** means the last day of every calendar month.

Compliance with the Asset Cover Test requires compliance with the asset cover ratio R specified below (the **"Asset Cover Ratio"**). Such compliance is tested by the Issuer Calculation Agent from time to time subject to, and in accordance with, the relevant terms of the Borrower Collateral Security Agreement and the Calculation Services Agreement.

*The Asset Cover Ratio (R)*

**"R"** means the following ratio which shall be at least equal to 1 at each Asset Cover Test Date:

$$R = \left[ \frac{\text{Adjusted Aggregate Asset Amount (AAAA)}}{\text{Aggregate Covered Bond Outstanding Principal Amount}} \right]$$

whereby:

**"Aggregate Covered Bond Outstanding Principal Amount"** means, at any Asset Cover Test Date, the aggregate amount of principal (in euro or euro equivalent with respect to Covered Bonds denominated in a Specified Currency) outstanding at such date under all Covered Bonds (taking into account all Covered Bonds issued on that date).

**"Adjusted Aggregate Asset Amount (AAAA)"** means, at any Asset Cover Test Date:

$$(AAAA) = A + B + C + D - (Y + Z)$$

whereby:

"A" means the lower of "A1" and "A2".

"A1" is equal to the sum of all Adjusted Home Loan Outstanding Principal Amounts of all Relevant Home Loans (see "**The Borrower Collateral Security**" for a description of the Home Loans Eligibility Criteria) during the most recently completed Asset Cover Test Calculation Period whereby:

"**Adjusted Home Loan Outstanding Principal Amount**" means, with respect to each Relevant Home Loan granted as Borrower Collateral Security, the lower of:

- (i) the Home Loan Outstanding Principal Amount of such Relevant Home Loan as of the most recent Asset Cover Test Calculation Date minus the Applicable Deemed Reductions; and
- (ii) the LTV Cut-Off Percentage of the Indexed Valuation relating to such Relevant Home Loan as of the most recent Asset Cover Test Calculation Date minus the Applicable Deemed Reductions.

"**Applicable Deemed Reductions**" means, with respect to any Relevant Home Loan, the aggregate sum of the financial losses incurred by the Borrower with respect to such Relevant Home Loan to the extent that such financial losses have been incurred as a direct result of a material breach of the Servicing Procedures by the Borrower during the applicable Asset Cover Test Calculation Period (see "**The Borrower Collateral Security Agreement – Asset Servicing**" for a description of the Servicing Procedures).

"**Home Loan Outstanding Principal Amount**" means, with respect to each Relevant Home Loan, the amount of principal outstanding under such Relevant Home Loan as of the most recent Asset Cover Test Calculation Date.

"**Index**" means (i) with respect to properties located in France (except in the Ile de France's district), the index of increases of prices issued by the INSEE and named "*Indice trimestriel du prix des logements anciens – Province – Appartements / Maisons*", or (ii) with respect to properties located in the Ile de France district, the index of increases of prices issued by the INSEE and named "*Indice trimestriel du prix des logements anciens – Ile de France – Appartements / Maisons*".

"**Indexed Valuation**" means, as of any Asset Cover Test Calculation Date, in relation to any Relevant Home Loan secured over any Property:

- (i) where the Original Market Value of that Property is equal to or greater than the Price Indexed Valuation as at that date, the Price Indexed Valuation; or
- (ii) where the Original Market Value of that Property is less than the Price Indexed Valuation as at that date, the Original Market Value plus eighty per cent. (80%) of the difference between the Price Indexed Valuation and the Original Market Value.

"**LTV Cut-Off Percentage**" means:

- (i) eighty per cent. (80%) for each Relevant Home Loan secured by a Mortgage;
- (ii) eighty per cent. (80%) for each Relevant Home Loan secured by a Home Loan Guarantee issued by *Crédit Logement*;
- (iii) a percentage which will be subject to prior Rating Affirmations from time to time for each Relevant Home Loan that has the benefit of an insurance policy with an acceptable insurer or guarantee with an acceptable financial institution, insuring the credit risk under such Relevant Home Loan; and

- (iv) a percentage which will be subject to Rating Affirmation from time to time for each Relevant Home Loan not mentioned under (i) to (iii) above.

**"Original Foreclosure Value"** means, in relation to any Property, the purchase price of such Property or (as applicable) the most recent valuation of such Property, as disclosed to the Borrower by the relevant debtor under the related Relevant Home Loan.

**"Original Market Value"** means, in relation to any Property, the Original Foreclosure Value.

**"Price Indexed Valuation"** means, in relation to any Property and as of any Asset Cover Test Calculation Date, the Original Market Value of that Property increased or decreased as appropriate by the increase or decrease in the Index since the date of the Original Market Value.

**"Relevant Home Loan"** means, with respect to a given Asset Cover Test Date, any Home Loan granted as Borrower Collateral Security as of the most recent Asset Cover Test Calculation Date and excluding Home Loans which have become Ineligible Home Loans

**"A2"** is equal to the sum of all unadjusted Home Loan Outstanding Principal Amounts of all Relevant Home Loans minus the Applicable Deemed Reductions (as defined above) of all such Relevant Home Loans multiplied by the applicable Asset Percentage, whereby:

**"Asset Percentage"** means (i) 92.5 per cent. (92.5%) or (ii) such lower percentage figure as is determined on quarterly basis by the Issuer Calculation Agent pursuant to the relevant terms of the Borrower Collateral Security Agreement.

For the purpose of the calculation of the Asset Percentage referred to in (ii) above, the Issuer Calculation Agent will calculate, on a quarterly basis, the Weighted Average Frequency of Foreclosure ("**WAFF**") and the Weighted Average Loss Severity ("**WALS**") (and/or such figures calculated in accordance with such alternative methodologies as agreed with S&P) for all Relevant Home Loans or for a random sample of the same or as otherwise agreed by S&P. The WAFF and WALS (or other relevant figures) so calculated will be incorporated by the Issuer Calculation Agent into one (1) or more cash flow models approved by S&P. Such models, which test the credit enhancement required in various cash flow scenarios, will indicate, on the basis of the latest WAFF and WALS figures (or other agreed relevant figures), the Asset Percentage needed in order to provide credit enhancement to cover all such cash flow scenarios. Save where otherwise agreed with S&P, the Asset Percentage will be adjusted in accordance with the various methodologies prescribed by S&P provided that the Asset Percentage may not, at any time, exceed 92.5 per cent. (92.5%).

**"B"** is equal to the aggregate amount of cash standing to the credit of the Cash Collateral Account as of the most recent Asset Cover Test Calculation Date, as reported by the Borrower in the relevant Asset Report.

**"C"** is equal to the aggregate value outstanding under all Substitution Assets (the "**Aggregate Substitution Asset Amount (ASAA)**") granted as Borrower Collateral Security provided that, the amount of the Aggregate Substitution Asset Amount (ASAA) (whatever such amount is at any Asset Cover Test date) shall in any event account only for up to twenty per cent. (20%) of the Adjusted Aggregate Asset Amount (AAAA) for the purposes hereof. The Aggregate Substitution Asset Amount (ASAA) shall be reported by the Borrower in the relevant Asset Report. Substitution Assets will be valued on the last Business Day of the calendar month immediately preceding each Asset Cover Test Date and be taken into account for their mark-to-market value at a discount based on a methodology agreed with the Rating Agencies.

**"D"** is equal to the aggregate value outstanding under all Permitted Investments, as determined by the Issuer Accounts Bank (or the Administrator on its behalf) and reported to the Issuer Calculation Agent pursuant to the Issuer Accounts Bank Agreement. Permitted Investments will be valued on the last Business Day of the calendar month immediately preceding each Asset Cover Test Date and their mark to market value will be discounted based on a methodology agreed with the Rating Agencies.

**"Y"** is equal to (i) zero before any Issuer Hedging Agreement shall be entered into by the Issuer subject to, and in accordance with, the Hedging Strategy and (ii) otherwise, an amount equal to the payments due under the Issuer Hedging Agreements (plus interest thereon) within the period of  $\alpha$  plus two (2) months preceding the relevant Asset Cover Test Date where  $\alpha$  means the period between two (2) interest payment



dates (first day of such period included and last day of such period excluded) under the relevant Issuer Hedging Agreements.

"Z" is equal to:  $WAM * \text{Covered Bond Outstanding Principal Amount} * \text{Carrying Cost}$ , whereby:

"**Carrying Cost**" means 0.50 per cent. (0.50%) or any other percentage agreed by the Borrower subject to prior Rating Affirmation;

"**WAM**" means the greater of (i) the weighted average maturity of all outstanding Series of Covered Bonds as at the relevant Asset Cover Test Date, and (ii) one (1) year.

"**Covered Bond Outstanding Principal Amount**" means, at any Asset Cover Test Date, the aggregate amount of principal (in euro or euro equivalent with respect to Covered Bonds denominated in a Specified Currency) outstanding at such date under all Series of Covered Bonds.

#### *Calculation of the Asset Cover Ratio (R)*

On each Asset Cover Test Date, the Asset Cover Ratio (R) shall be calculated by the Issuer Calculation Agent according to the terms, definitions and calculation formula set forth above.

No later than three (3) Business Days following any Asset Cover Test Date, the Issuer Calculation Agent shall inform the Issuer and the Borrower (with a copy to the Rating Agencies and the Asset Monitor) of its calculation of the Asset Cover Ratio (R).

#### *Non Compliance with Asset Cover Test*

Non compliance with the Asset Cover Test (the "**Non Compliance with Asset Cover Test**") will result if the Asset Cover Test Ratio (R) is strictly less than 1.

#### *Remedies*

Upon Non Compliance with Asset Cover Test on any Asset Cover Test Date, the Borrower shall grant additional or substitute Eligible Assets as Borrower Collateral as necessary to cure such Non Compliance with Asset Cover Test.

A Non Compliance with Asset Cover Test will not constitute an Issuer Event of Default or a Borrower Event of Default. However, it will prevent the Issuer from issuing any further Series as long as it remains unremedied.

#### *Breach of Asset Cover Test*

The failure by the Borrower to cure a Non Compliance with Asset Cover Test occurring on any Asset Cover Test Date prior to the next following Asset Cover Test Date shall constitute a Breach of Asset Cover Test within the meaning of the Borrower Collateral Security Agreement. The Issuer Calculation Agent will promptly inform the Issuer and the Borrower (with a copy to the Rating Agencies and the Asset Monitor) of the occurrence of a Breach of Asset Cover Test. A Breach of Asset Cover Test will result in a Borrower Event of Default within the meaning of, and subject to, the relevant terms of the Borrower Facility Agreement. A Breach of Asset Cover Test will not constitute an Issuer Event of Default but will prevent the Issuer from issuing any further Series.

### **The Pre-Maturity Test**

Compliance with the Pre-Maturity Test requires compliance with the ratings specified below with respect to the Borrower within each relevant Pre-Maturity Test Period.

For the purpose hereof:

**"Pre-Maturity Test Period"** means with respect to any Series of Covered Bonds (which is not a Series of Extendable Maturity Covered Bonds), the period starting from, and including, the two hundred and seventieth (270<sup>th</sup>) day preceding the Final Maturity Date of that Series and ending on, and excluding, such Final Maturity Date.

*Pre-Maturity Ratings Required Levels*

The required ratings with respect to the Borrower (together, the **"Pre-Maturity Ratings Required Levels"**) are at least A-1 (short-term) (S&P) and P-1 (short-term) (Moody's).

*Pre-Maturity Test*

The Issuer Calculation Agent shall test compliance or non compliance by the Borrower with the Pre-Maturity Ratings Required Level subject to, and in accordance with, the relevant terms of the Calculation Services Agreement.

*Non Compliance with Pre-Maturity Test*

If the Borrower fails to have all the Pre-Maturity Ratings Required Levels at any time during any relevant Pre-Maturity Test Period, the Issuer Calculation Agent shall inform the Cash Collateral Provider of the same within three (3) Business Days from such downgrading by written notice (the **"Non Compliance Notice"**) delivered to the Cash Collateral Provider subject to, and in accordance with, the relevant terms of the Cash Collateral Agreement.

The failure all the Pre-Maturity Ratings Required Levels at any time during any relevant Pre-Maturity Test Period will not in itself constitute an Issuer Event of Default nor a Borrower Event of Default.

*Remedies*

If a Non Compliance Notice is received by the Cash Collateral Provider within a Pre-Maturity Test Period, the Cash Collateral Provider shall fund the Cash Collateral Account up to an amount (the **"Cash Collateral Required Funding Amount (CCRFA)"**) calculated by the Issuer Calculation Agent as being an amount equal to:

Covered Bond Principal Amount + Costs

whereby:

**"Costs"** means the aggregate amount of fees, costs, expenses, taxes and other ancillary sums (excluding interest and principal amounts) scheduled to be payable by the Issuer on any Series of Covered Bonds within the relevant Pre-Maturity Test Period.

**"Covered Bond Principal Amount"** means the aggregate amount of principal of Covered Bonds (in euro or euro equivalent with respect to Covered Bonds denominated in a Specified Currency), excluding the aggregate amount of principal of any Series of Extendable Maturity Covered Bonds, the Final Maturity Date of which falls during the relevant Pre-Maturity Test Period.

*Breach of Pre-Maturity Test*

The failure by the Cash Collateral Provider to fund into the Cash Collateral Account the relevant Cash Collateral Required Funding Amount (CCFRA) within thirty (30) Business Days from the receipt of a Non Compliance Notice (as defined above) shall constitute a Breach of Pre-Maturity Test within the meaning of the Cash Collateral Agreement.

A Breach of Pre-Maturity Test will result in a Borrower Event of Default within the meaning of, and subject to, the relevant terms of the Borrower Facility Agreement. A Breach of Pre-Maturity Test will not constitute an Issuer Event of Default.

### The Amortisation Test

The following terms shall have the following definitions:

"**Amortisation Test Date**" means the twentieth (20<sup>th</sup>) day following each Amortisation Test Calculation Date or such earlier date as the Administrator and the Issuer Calculation Agent shall specify (or, if such day is not a Business Day, the immediately preceding Business Day). The Administrator and the Issuer Calculation Agent shall be required to use their best efforts in each month to ensure that each Amortisation Test Date is as soon as reasonably practicable after the relevant Amortisation Test Calculation Date;

"**Amortisation Test Calculation Period**" means, in relation to any Amortisation Test Date, the one-month period ending on, and including, the Amortisation Test Calculation Date which was within the preceding calendar month; and

"**Amortisation Test Calculation Date**" means the last day of the calendar month in which a Borrower Enforcement Notice is delivered and the last day of each subsequent calendar month.

Compliance with the Amortisation Test requires compliance with the amortisation ratio RA specified below (the "**Amortisation Ratio (RA)**"). Such compliance is tested by the Issuer Calculation Agent from time to time throughout the period following the enforcement of a Borrower Event of Default subject to, and in accordance with Condition 5 (f) and the Calculation Services Agreement.

#### *The Amortisation Ratio*

"**RA**" means the following ratio which shall be at least equal to 1 at each Amortisation Test Date:

$$RA = \left[ \frac{TAAA'}{ACBOPA} \right]$$

whereby:

"**Aggregate Covered Bond Outstanding Principal Amount (ACBOPA)**" means, at any Amortisation Test Date, the aggregate amount of principal (in euro or euro equivalent with respect to Covered Bonds denominated in a Specified Currency) outstanding at such date under all Covered Bonds.

"**Transferred Aggregate Asset Amount (TAAA')**" means, at any Amortisation Test Date:

$$(TAAA') = A' + B + C + D + E - Z$$

whereby:

"**A'**" is equal to the sum of all Transferred Home Loan Outstanding Principal Amounts of all Home Loans, title to which has been transferred to the Issuer upon enforcement of the Borrower Collateral Security following the enforcement of a Borrower Event of Default (each, a "**Relevant Transferred Home Loan**"), as such Transferred Home Loan Outstanding Principal Amounts will be calculated on the relevant Amortisation Test Calculation Date, whereby:

"**Home Loan Outstanding Principal Amount**" means, with respect to each Relevant Transferred Home Loan, the amount of principal outstanding at the relevant Amortisation Test Date under such Relevant Transferred Home Loan;

"**Relevant Transferred Home Loan**" means, with respect to a given Amortisation Test Date, any Home Loan granted as Borrower Collateral Security provided that title to such Home Loan has been transferred to the Issuer upon enforcement of the Borrower Collateral Security following the enforcement of a Borrower Event of Default; and

"**Transferred Home Loan Outstanding Principal Amount**" means, with respect to each Relevant Transferred Home Loan, the Home Loan Outstanding Principal Amount of such Relevant Transferred Home Loan as of the relevant Amortisation Test Calculation Date multiplied by M, where for all the Relevant Transferred Home Loans that are less than 3 months in arrears, M

= 1 and for all the Relevant Transferred Home Loans that are 3 months or more in arrears,  $M = 0.7$ .

"B", "C", "D" and "Z" have the meaning ascribed to such terms, and shall be determined, on each relevant Amortisation Test Date, subject to, and in accordance with, the terms and formula described in "**The Asset Cover Test**" above.

"E" is equal to the aggregate amount of principal and interest payments, distributions, indemnities, insurance and other proceeds, payments under any Home Loan Security and other sums received during the applicable Amortisation Test Calculation Period by the Issuer from the debtors or other relevant entities under the Borrower Collateral Security Assets whose title has been transferred to the Issuer following enforcement of the Borrower Collateral Security, as the same shall be reported by the Issuer Calculation Agent as of each Amortisation Test Calculation Date subject to, and in accordance with, the relevant terms of the Calculation Services Agreement.

#### *Calculation of the Amortisation Ratio*

On each Amortisation Test Date, the Amortisation Ratio (RA) shall be calculated by the Issuer Calculation Agent according to the terms, definitions and calculation formula set forth above.

No later than three (3) Business Days following any Amortisation Test Date, the Issuer Calculation Agent shall inform the Issuer (with a copy to the Rating Agencies and the Asset Monitor) of its calculation of the Amortisation Ratio (RA).

#### *Non Compliance with Amortisation Test*

A "**Non Compliance with Amortisation Test**" will result if the Amortisation Ratio (RA) is less than 1.

A Non Compliance with Amortisation Test will not constitute an Issuer Event of Default. However, it will prevent the Issuer from issuing any further Series.

#### *Breach of Amortisation Test*

The failure by the Issuer to cure a Non Compliance with Amortisation Test occurring on any Amortisation Test Date prior to the next following Amortisation Test Date shall constitute a "**Breach of Amortisation Test**". The Issuer Calculation Agent will inform promptly the Issuer, each relevant Representative and the Issuer Security Agent (with a copy to the Rating Agencies and the Asset Monitor) of the occurrence of a Breach of Amortisation Test.

A Breach of Amortisation Test will result in an Issuer Event of Default within the meaning of the Terms and Conditions.

### **The Calculation Services Agreement**

This section sets out the main material terms of the Calculation Services Agreement.

#### *Background*

The "**Calculation Services Agreement**" refers to the agreement dated on or about the Signing Date and entered into between (i) the Issuer, in its capacity as "Lender" and (ii) HSBC France, in its capacity as "Issuer Calculation Agent" (the "**Issuer Calculation Agent**").

### *Purpose*

Under the Calculation Services Agreement, the Issuer appoints HSBC France as its servicer for the purposes of any calculation and determinations to be made under the Programme Documents (but excluding all calculation and determinations to be made with respect to the Covered Bonds, such calculations and determinations to be made on behalf of the Issuer by the Calculation Agent under the Issuer Agency Agreement). The Issuer Calculation Agent will (in its capacity as such) always act in the best and exclusive interest of the Issuer.

### *Duties of the Issuer Calculation Agent*

Pursuant to the Calculation Services Agreement, the Issuer Calculation Agent will *inter alia* undertake:

- (a) all and any calculation in relation to the Borrower Facility Agreement, including, but not limited to, any interest and principal amounts and the effective global rate (*taux effectif global*);
- (b) all and any calculation in relation to the Borrower Collateral Security Agreement, including, but not limited to, the Asset Cover Test (see "**Asset Monitoring**");
- (c) all and any calculation in relation to the Cash Collateral Agreement, including, but not limited to, the Pre-Maturity Test (see "**Asset Monitoring**"); and
- (d) all and any calculation in relation to the Amortisation Test (see "**Asset Monitoring**").

### *Substitution and Agency*

The Issuer Calculation Agent may not assign its rights and obligations under the Calculation Services Agreement but will have the right to be assisted by, to appoint, or to substitute for itself, any third party in the performance of certain or all its tasks under the Calculation Services Agreement, provided that:

- (a) the Issuer Calculation Agent has given written notice of the exercise of that right to the Issuer;
- (b) the Issuer Calculation Agent remains liable to the Issuer for the proper performance of those tasks and, with respect to the Issuer only, the relevant third party has expressly waived any right to any contractual claim against the Issuer; and
- (c) the relevant third party has undertaken to comply with all obligations binding upon the Issuer Calculation Agent under the Calculation Services Agreement.

### *Fees*

In consideration of the services provided by the Issuer Calculation Agent to the Issuer under the Calculation Services Agreement, the Issuer will pay to the Issuer Calculation Agent a servicing fee computed subject to, and in accordance with, the provisions of the Calculation Services Agreement.

### *Representations, warranties and undertakings*

The Issuer Calculation Agent has made customary representations and warranties and undertakings to the Issuer, such representations and warranties being given on the execution date of the Calculation Services Agreement and continuing until the Service Termination Date.

### *Indemnities*

Pursuant to the Calculation Services Agreement, the Issuer Calculation Agent undertakes to hold harmless and fully and effectively indemnify the Issuer against all actions, proceedings, demands, damages, costs, expenses (including legal fees), claims, losses, prejudice or other liability, which the Issuer may sustain or incur as a consequence of the occurrence of any default by the Issuer Calculation Agent in the performance of any of its obligations under the Calculation Services Agreement.

*Resignation of the Issuer Calculation Agent*

The Issuer Calculation Agent will not resign from the duties and obligations imposed on it as Issuer Calculation Agent pursuant to the Calculation Services Agreement, except:

- (a) upon a determination that the performance of its duties under the Calculation Services Agreement will no longer be permissible under applicable law; and
- (b) in the case where the Issuer does not comply with any of its material obligations under the Calculation Services Agreement and fails to remedy the situation within one hundred and eighty (180) days from the receipt by the Issuer of a notice from the Issuer Calculation Agent,

such resignation being effective (i) on the date upon which the event in paragraph (a) above occurs; or (ii) one hundred and eighty (180) days after the date of delivery of the notice referred to in paragraph (b) above.

*Issuer Calculation Agent's Defaults*

Issuer Calculation Agent's Defaults will occur upon *inter alia* the occurrence of the following events:

- (a) any material representation or warranty made by the Issuer Calculation Agent is or proves to have been incorrect or misleading in any material respect when made, and the same is not remedied (if capable of remedy) within sixty (60) Business Days after the Issuer has given notice thereof to the Issuer Calculation Agent or (if sooner) the Issuer Calculation Agent has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;
- (b) the Issuer Calculation Agent fails to comply with any of its material obligations under the Calculation Services Agreement unless such breach is capable of remedy and is remedied within sixty (60) Business Days after the Issuer has given notice thereof to the Issuer Calculation Agent or (if sooner) the Issuer Calculation Agent has knowledge of the same, provided that the Issuer, at its discretion, certifies that it is prejudicial to the interests of the holders of the relevant Covered Bonds;
- (c) an Insolvency Event occurs in respect of the Issuer Calculation Agent; or
- (d) at any time it is or becomes unlawful for the Issuer Calculation Agent to perform or comply with any or all of its material obligations under the Calculation Services Agreement or any or all of its material obligations under the Calculation Services Agreement are not, or cease to be, legal, valid and binding.

*Issuer Calculation Agent Rating Trigger Event*

If an Issuer Calculation Agent Rating Trigger Event occurs, the Issuer Calculation Agent will notify the Issuer in writing of the occurrence of the Issuer Calculation Agent Rating Trigger Event within five (5) Business Days from the date upon which it becomes aware of such event and this will constitute a termination event under the Calculation Services Agreement.

For such purposes, "**Issuer Calculation Agent Rating Trigger Event**" means the event in which the long-term senior unsecured, unsubordinated and unguaranteed debt obligations of the Issuer Calculation Agent become rated below BBB by S&P or Baa2 by Moody's.

*Termination*

Issuer Calculation Agent Termination Events under the Calculation Services Agreement will include the following events:

- (a) the occurrence and continuation of any Issuer Calculation Agent's Default;
- (b) the occurrence of the Issuer Calculation Agent Rating Trigger Event;

- (c) the occurrence of a Borrower Event of Default; or
- (d) the resignation of the Issuer Calculation Agent.

If an Issuer Calculation Agent Termination Event occurs and is continuing, the Issuer shall terminate the Calculation Services Agreement by delivery of a written Notice of Termination to the Issuer Calculation Agent. Upon receipt by the Issuer Calculation Agent of the Notice of Termination, the Calculation Services Agreement will terminate with effect on a Service Termination Date applicable to the Issuer Calculation Agent.

Upon the relevant Service Termination Date, the Issuer will replace HSBC France as Issuer Calculation Agent with a substitute entity (the "**Substitute Issuer Calculation Agent**"), the choice of which shall be subject to prior Rating Affirmation.

Notwithstanding the Service Termination Date, the Issuer Calculation Agent will continue to be bound by all its obligations under the Calculation Services Agreement until the appointment of the Substitute Issuer Calculation Agent is effective. The Issuer Calculation Agent undertakes to act in good faith to assist any Substitute Issuer Calculation Agent.

#### *Limited Recourse – Non Petition*

The Calculation Services Agreement includes "Limited Recourse" and "Non petition" provisions, as described in "**Issuer's Activities – Limited Recourse**" and "**Issuer's Activities - Non-Petition**".

#### *Amendment*

No amendment, modification, alteration or supplement shall be made to the Calculation Services Agreement without prior Rating Affirmation if the same materially and adversely affects the interests of the Issuer or the Bondholders.

For the avoidance of doubt, the Calculation Services Agreement may be amended, modified, altered or supplemented without prior Rating Affirmation:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to evidence or effect the transition of any party to the Calculation Services Agreement to any successor;
- (c) to add to the undertakings and other obligations of the Issuer Calculation Agent under the Calculation Services Agreement; or
- (d) to comply with any mandatory requirements of applicable laws and regulations.

#### *Governing Law – Jurisdiction*

The Calculation Services Agreement shall be governed by, and construed in accordance with, French law. The Issuer and the Issuer Calculation Agent have agreed to submit any dispute that may arise in connection with the Calculation Services Agreement to the jurisdiction of the competent courts of Paris.

### **The Asset Monitor Agreement**

#### *Background*

The "**Asset Monitor Agreement**" refers to the agreement dated on or prior to the Signing Date and made between (i) the Issuer, (ii) HSBC France as the Issuer Calculation Agent or, as the applicable, the "Administrator", (iii) KPMG Audit plc as Asset Monitor (the "**Asset Monitor**") and (iv) BNP Paribas Securities Services as the Issuer Security Agent. Under the Asset Monitor Agreement, KPMG Audit plc has been appointed as Asset Monitor by the Issuer to carry out, subject to due receipt of the information to be provided by the Issuer Calculation Agent to the Asset Monitor, various testing and notification duties in

relation to the calculations performed by the Calculation Agent in relation to the Asset Cover Test and the Amortisation Test subject to and in accordance with the terms of the Asset Monitor Agreement.

*Services of the Asset Monitor*

If the Asset Cover Test Date immediately preceding an anniversary of the Signing Date falls prior to the occurrence of a Borrower Event of Default, and subject to receipt of the information to be provided to it by the Issuer Calculation Agent in relation to the calculations performed by the Issuer Calculation Agent regarding the relevant Asset Cover Test, the Asset Monitor will test the arithmetic accuracy of the calculations performed by the Issuer Calculation Agent in relation to the Asset Cover Test on the Asset Cover Test Date immediately preceding an anniversary of the Signing Date, as applicable, with a view to reporting on the arithmetic accuracy or otherwise of such calculations.

On each Amortisation Test Date and subject to receipt of the information to be provided to it by the Issuer Calculation Agent in relation to the calculations performed by the Issuer Calculation Agent regarding the relevant Amortisation Test, the Asset Monitor will test the arithmetic accuracy of the calculations performed by the Issuer Calculation Agent in relation to the Amortisation Test on the relevant Amortisation Test Date, with a view to reporting on the arithmetic accuracy or otherwise of such calculations.

Upon the occurrence of a Calculation Monitoring Rating Trigger Event and for so long as such Calculation Monitoring Rating Trigger Event is continuing, or, if the Asset Monitor has been notified of the occurrence of a Non-Compliance with Asset Cover Test or of a Non-Compliance with Amortisation Test (see section "**Asset Monitoring**"), and subject to receipt of the information to be provided to the Asset Monitor, the Asset Monitor shall conduct the tests of the Issuer Calculation Agent's calculations referred to above, as applicable, in respect of every Asset Cover Test Date or Amortisation Test Date, as applicable.

For the purposes of this section, "**Calculation Monitoring Rating Trigger Event**" means the event in which the long-term senior unsecured, unsubordinated and unguaranteed debt obligations of HSBC France become rated below BBB by S&P or Baa2 by Moody's.

If the tests conducted by the Asset Monitor in accordance with the provisions above reveal arithmetic errors in the relevant calculations performed by the Issuer Calculation Agent such that:

- the Asset Cover Test had been failed on the relevant Asset Cover Test Date (where the Issuer Calculation Agent had recorded it as being satisfied); or
- the Amortisation Test had been failed on the relevant Amortisation Test Date (where the Issuer Calculation Agent had recorded it as being satisfied),

and subject to receipt of the information to be provided to the Asset Monitor, for a period of six (6) months thereafter, the Asset Monitor shall conduct the tests of the Issuer Calculation Agent's calculations referred to above, in respect of every Asset Cover Test Date or each Amortisation Test Date, as applicable, occurring during such six (6) month period.

The Asset Monitor shall notify the Issuer, in writing, of the relevant calculations performed by the Issuer Calculation Agent and of the results of its tests of the accuracy of the Issuer Calculation Agent's calculations. If the calculations performed by the Administrator have not been performed correctly, the Asset Monitor will report the correct calculation of the Asset Cover Test or Amortisation Test, as applicable. The Issuer shall forward any notifications and reports received from the Asset Monitor to the parties to the Asset Monitor Agreement (with a copy to the Rating Agencies), promptly upon receipt of such notifications and reports.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it is true and correct and is complete and not misleading and the Asset Monitor is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy or completeness of such information.



*Termination*

The Issuer may, at any time but only with the prior written consent of the Issuer Security Agent, terminate the appointment of the Asset Monitor upon providing the Asset Monitor with sixty (60) days' prior written notice, provided that such termination may not be effected unless and until a replacement has been found by the Issuer (such replacement to be approved by the Issuer Security Agent unless the replacement is an accountancy firm of international 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 from its appointment under the Asset Monitor Agreement upon providing the Issuer and the Issuer Security Agent (copied to the Rating Agencies) with sixty (60) days' prior written notice. If a replacement asset monitor has not been found by the Issuer within sixty (60) days of notice of resignation by the Asset Monitor, the Asset Monitor shall immediately use its best endeavours to appoint a replacement (such replacement to be approved by the Issuer Security Agent if the replacement is an accountancy firm of international standing) which agrees to perform the duties of the Asset Monitor (or substantially similar duties) which are provided for in the Asset Monitor Agreement.

*Fees*

Under the terms of the Asset Monitor Agreement, the Issuer will pay to the Asset Monitor a fee for the tests to be performed by the Asset Monitor.

*Limited Recourse – Non Petition*

The Asset Monitor Agreement includes "Limited Recourse" and "Non petition" provisions, as described in "**Issuer's Activities – Limited Recourse**" and "**Issuer's Activities - Non-Petition**".

*Amendment*

Except as further described under the Asset Monitor Agreement, any material amendment to the Asset Monitor Agreement shall be subject to prior Rating Affirmation.

*Governing Law – Jurisdiction*

The Asset Monitor Agreement shall be governed by, and construed in accordance with, English law. Each party to the Asset Monitor irrevocably submits to the exclusive jurisdiction of English courts in any action or proceeding arising out of or relating to the Asset Monitor Agreement, and irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined by such courts.

## CASH FLOW

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds and the expression "Bondholders" includes any holder of such Covered Bonds, in the following section.*

### Cash Management

Pursuant to the Administrative Agreement, the Administrator will assist the Issuer in operating its bank accounts, the management and investment of its available cash in Permitted Investments in accordance with the relevant Permitted Investments rules, and any other matters in relation to the management of its bank accounts and funds so as to ensure that the Issuer will at all times comply with the provisions of the Programme Documents.

Pursuant to the Administrative Agreement and, subject to and in accordance with the Terms and Conditions, the Administrator will invest any cash standing from time to time to the credit of the Issuer Cash Accounts pending application in accordance with the Priority Payment Orders (see "**Cash Flow - Priority Payment Orders**"), in instruments which qualify as Permitted Investments (see "**The Issuer – The Administrative Agreement**").

### Issuer Accounts

Available Funds of the Issuer will be from time to time credited and debited by the Administrator on behalf of the Issuer into the Issuer Cash Accounts opened in the books of the Issuer Accounts Bank (see "**The Issuer – The Issuer Accounts Bank Agreement**" for a further description of the Issuer Accounts).

For the purposes hereof:

"**Available Funds**" means:

- (a) in the absence of service of a Borrower Enforcement Notice (and whether an Issuer Enforcement Notice has been served to the Fiscal Agent and the Issuer by the relevant Representative or not):
  - (i) payment proceeds from the Borrower under the Borrower Facility;
  - (ii) cash from Permitted Investments (if any) standing to the credit of the Issuer General Account; and
  - (iii) payment proceeds from the Issuer Hedging Agreements and Borrower Hedging Agreements (if any) (excluding, for the avoidance of doubt, sums received as collateral under the Issuer Hedging Agreements and the Borrower Hedging Agreements);
- (b) following the service of a Borrower Enforcement Notice and enforcement of the Borrower Collateral Security (and whether an Issuer Enforcement Notice has been served to the Fiscal Agent and the Issuer by the relevant Representative or not):
  - (i) payment proceeds, whether in interest, principal or otherwise, received by the Issuer following service of a notice to any or all debtors under the Home Loans mentioning the new payment instructions to be observed by the same with respect to the payment of sums due under the Home Loans and/or the related Asset Contractual Documentation standing to the credit of the Issuer General Account;
  - (ii) insurance proceeds and other proceeds (other than the proceeds mentioned in (i) above) received by the Issuer under the Home Loans and standing to the credit of the Issuer General Account;
  - (iii) payment proceeds, whether in interest, principal or otherwise, received by the Issuer from the debtors under the Substitution Assets standing to the credit of the Issuer General Account;

- (iv) proceeds from disposal of, transfer, sale or refinancing (by way of securitisation or otherwise) of the Home Loans and Substitution Assets and standing to the credit of the Issuer General Account;
- (v) proceeds from the enforcement of any Home Loan Security (if any) standing to the credit of the Issuer General Account;
- (vi) cash from Permitted Investments (if any) standing to the credit of the Issuer General Account;
- (vii) cash standing to the credit of the Cash Collateral Account;
- (viii) payment proceeds from the Issuer Hedging Agreements and Borrower Hedging Agreement(s) (if any) (excluding, for the avoidance of doubt, sums received as collateral under the Issuer Hedging Agreements and the Borrower Hedging Agreement(s)); and
- (ix) cash standing to the credit of the Share Capital Proceeds Account.

### Priority Payment Orders

#### *Pre-Enforcement Priority Payment Order*

In the absence of service by the Administrator to the Borrower of a Borrower Enforcement Notice and in the absence of service by the relevant Representative of an Issuer Enforcement Notice, on any Payment Date and (as applicable) Final Maturity Date of each relevant series of Covered Bonds, the Administrator (on behalf of the Issuer) will give the appropriate instructions to the Issuer Accounts Bank to debit the then Available Funds from the relevant Issuer Cash Accounts and (as the case may be) the relevant Issuer Securities Accounts (other than the Issuer General Account) and shall credit the same into the Issuer General Account. The Administrator (on behalf of the Issuer) shall then give the appropriate instructions on such date to the Issuer Accounts Bank and the Paying Agent to apply the Available Funds of the Issuer to the following payments owed by the Issuer on such date, in the following order of priority (the "**Pre-Enforcement Priority Payment Order**"):

- (i) **first**, in or towards payment or discharge *pari passu* and *pro rata* of the following amounts then due and payable by the Issuer: (i) the Issuer's liability, if any, to taxation, and (ii) any costs, expenses, fees, remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to any stock exchange and other listing entities where the Covered Bonds are listed, any clearing systems entities where the Covered Bonds are cleared, HSBC France (with respect to any insurance premium, regulatory, professional and legal fees, costs and other expenses paid by HSBC France on behalf of the Issuer and to be repaid by the Issuer to HSBC France subject to, and in accordance with, the relevant terms of the *convention d'externalisation et de mise à disposition de moyens*), the Administrator, the Issuer Calculation Agent, the Asset Monitor, the Issuer Accounts Bank, the Paying Agents, the Permanent Dealers, the other Dealers (if any), the Issuer's Auditors, the Representatives, the Issuer Security Agent and the Rating Agencies in respect of the monitoring fees (together, the "**Senior Administrative and Tax Cost**");
- (ii) **secondly**, in or towards payment or discharge *pari passu* and *pro rata* of any and all amounts then due and payable by the Issuer, if any, under the Issuer Hedging Agreements and the Borrower Hedging Agreement(s) (other than Hedging Termination Costs) (together, the "**Hedging Costs**");
- (iii) **thirdly**, in or towards payment or discharge *pari passu* and *pro rata* of any and all Interest Amounts then due and payable by the Issuer under the relevant series of Covered Bonds;
- (iv) **fourthly**, in or towards payment or discharge *pari passu* and *pro rata* of any and all principal amounts then due and payable by the Issuer under the relevant series of Covered Bonds;
- (v) **fifthly**, only after and subject to the full repayment of any outstanding Covered Bonds, in or towards payment or discharge *pari passu* and *pro rata* of any and all amounts then due and payable by the Issuer, if any, in respect of any payments to be made by the Issuer following an early termination of the Issuer Hedging Agreements or Borrower Hedging Agreement(s) as a result of an event of default under the same in respect of which the relevant hedge counterparty of the Issuer is the defaulting

party or following any termination event of the same in respect of which the hedge counterparty of the Issuer is the affected party (together, the "**Hedging Termination Costs**"); and

- (vi) **sixthly** (or fifthly prior to full repayment of any outstanding Covered Bonds), in or towards payment *pari passu* and *pro rata* of any and all amounts then due and payable by the Issuer with respect to (i) any dividend to be then distributed to the Issuer's shareholders, and (ii) interest, principal and other payments then due and payable under the Subordinated Loan.

*Controlled Post-Enforcement Priority Payment Order*

In the event of service by the Administrator (on behalf of the Issuer) to the Borrower of a Borrower Enforcement Notice and thereafter for so long as no Issuer Enforcement Notice has been served to the Issuer by the relevant Representative, on any Payment Date and (as applicable) Final Maturity Date of each relevant Series, the Administrator (on behalf of the Issuer) will give the appropriate instructions to the Issuer Accounts Bank to debit the then Available Funds from the relevant Issuer Cash Accounts (and as the case may be the relevant Issuer Securities Accounts) (other than the Issuer General Account) and shall credit the same into the Issuer General Account. The Administrator (on behalf of the Issuer) shall then give the appropriate instructions on such date to the Issuer Accounts Bank and the Paying Agent to apply the Available Funds of the Issuer to the following payments owed by the Issuer on such date, in the following "**Controlled Post-Enforcement Priority Payment Order**":

- (i) **first**, in or towards payment or discharge *pari passu* and *pro rata* of the Senior Administrative and Tax Costs then due and payable by the Issuer;
- (ii) **secondly**, in or towards payment or discharge *pari passu* and *pro rata* of any and all Hedging Costs then due and payable by the Issuer under the Issuer Hedging Agreements and the Borrower Hedging Agreement(s) (other than Hedging Termination Costs);
- (iii) **thirdly**, in or towards payment or discharge *pari passu* and *pro rata* of any and all Interest Amounts then due and payable by the Issuer under the relevant series of Covered Bonds;
- (iv) **fourthly**, in or towards payment or discharge *pari passu* and *pro rata* of any and all principal amounts then due and payable by the Issuer under the relevant series of Covered Bonds;
- (v) **fifthly**, only after and subject to the full repayment of any outstanding Covered Bonds, in or towards payment or discharge *pari passu* and *pro rata* of any and all Hedging Termination Costs then due and payable by the Issuer, if any; and
- (vi) **sixthly**, (a) only after and subject to the full repayment of any outstanding Covered Bonds, in or towards payment *pari passu* and *pro rata* of any and all amounts then due and payable by the Issuer with respect to any and all enforcement proceeds surplus amounts remaining after enforcement of the Borrower Collateral Security subject to, and in accordance with, the relevant terms of the Borrower Collateral Security Agreement; and (b) only after and subject to the full repayment of any outstanding Covered Bonds and sums referred to in (a) above, in or towards payment *pari passu* and *pro rata* of any and all amounts then due and payable by the Issuer to any third parties (with respect to any dividend already voted and to be then distributed to the Issuer's shareholders, and interest, principal and other payments then due and payable under the Subordinated Loan).

*Accelerated Post-Enforcement Priority Payment Order*

In the event of service by any relevant Representative of an Issuer Enforcement Notice (whether a Borrower Enforcement Notice shall have been served to the Borrower by the Administrator or not) to the Fiscal Agent and the Issuer (with a copy to the Issuer Security Agent and to the Rating Agencies), the Issuer Security Agent (on behalf of the Beneficiaries and upon instructions of such relevant Representative) will promptly and no later than three (3) Business Days after receipt by the Issuer of such Issuer Enforcement Notice give the appropriate instructions to the Issuer Accounts Bank to debit the then Available Funds from all the Issuer Accounts (other than the Issuer General Account) and shall credit the same into the Issuer General Account. The Issuer Security Agent (on behalf of the Beneficiaries and upon instructions of such relevant Representative) shall then give the appropriate instructions on such date to the Issuer Accounts Bank and the Paying Agent to apply the Available Funds of the Issuer to the following

payments owed by the Issuer on such date, in the following "**Accelerated Post-Enforcement Priority Payment Order**":

- (i) **first**, in or towards payment or discharge *pari passu, pro rata* and in full of all Senior Administrative and Tax Costs then due and payable by the Issuer and remaining unpaid at such date;
- (ii) **secondly**, after and subject to the full repayment of any and all sums referred to in (i) above, in or towards payment or discharge *pari passu, pro rata* and in full of any and all sums then due and payable by the Issuer, if any, under the Issuer Hedging Agreements and the Borrower Hedging Agreement(s) (other than Hedging Termination Costs);
- (iii) **thirdly**, after and subject to the full repayment of any and all sums referred to in (i) and (ii) above, in or towards payment or discharge *pari passu, pro rata* and in full of any and all Interest Amounts then due and payable by the Issuer under the relevant series of Covered Bonds;
- (iv) **fourthly**, after and subject to the full repayment of any and all sums referred to in (i) to (iii) above, in or towards payment or discharge *pari passu, pro rata* and in full of any and all principal amounts then due and payable by the Issuer under the relevant series of Covered Bonds;
- (v) **fifthly**, after and subject to the full repayment of any and all sums referred to in (i) to (iv) above, in or towards payment or discharge *pari passu, pro rata* and in full of any and all Hedging Termination Costs then due and payable by the Issuer; and
- (vi) **sixthly**, after and subject to the full repayment of any and all sums referred to in (i) to (v) above, (a) as applicable, in or towards payment *pari passu* and *pro rata* of any and all amounts then due and payable by the Issuer with respect to any and all enforcement proceeds surplus amounts remaining after enforcement of the Borrower Collateral Security subject to, and in accordance with, the relevant terms of the Borrower Collateral Security Agreement; and (b) only after and subject to the full repayment of any sums referred to in (a) above, in or towards payment *pari passu* and *pro rata* of any and all amounts then due and payable by the Issuer to any third parties (with respect to any dividend already voted and to be then distributed to the Issuer's shareholders, and interest, principal and other payments then due and payable under the Subordinated Loan),

the Pre-Enforcement Priority Payment Order, the Controlled Post-Enforcement Priority Payment Order and the Accelerated Post-Enforcement Priority Payment Order being, together, the "**Priority Payment Orders**" (provided that each of the Pre-Enforcement Priority Payment Order, the Controlled Post-Enforcement Priority Payment Order and the Accelerated Post-Enforcement Priority Payment Order shall be individually referred to herein as a "**Priority Payment Order**").

## ORIGINATION OF THE HOME LOANS

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds and the expression "Bondholders" includes any holder of such Covered Bonds, in the following section.*

The large majority of home loans originated by sales persons within HSBC France are originated pursuant to the rules described below.

### Pre-acceptance controls

In the first stage of the underwriting process, certain initial checks are performed on each prospective borrower. For each existing customer, HSBC France's internal behavioural score (Basle II notation, using a scale from 1 to 10) is noted. In addition, for both existing customers and new-to-bank applicants, records are also requested from the following credit bureaus:

- (i) The French National Database on Household Credit Repayment Incidents (*Fichier des Incidents de Remboursement des Crédits aux Particuliers*), a central administration for consumer loans and home loans which is regulated by Banque de France; and
- (ii) The Central Cheque Register (*Fichier Central des Chèques*), a central administration for cheques held by the Banque de France.

If any prospective borrower or co-borrower is registered as having previously defaulted on their obligations under any loan or account, or if he or she has an internal behavioural score of greater than 7, the application is declined.

If not, the relationship manager reviews the prospective borrower's income and expenses and collects information about the home to be financed. Prospective borrowers will be asked to provide proof of income, which may take the form of their last three payslips and, in some circumstances, their most recent year-end payslip and tax notice. In the case of existing customers, the relationship manager will also review activity on their existing accounts. Information and, where applicable, documentation will also be requested describing the property to be acquired, the amount requested to be financed, the net personal contribution or down payment, the type of loan requested and loan features, and the type of security (mortgage, *Crédit Logement* guarantee or third party guarantee). If a *Crédit Logement* guarantee is sought, a separate application process is commenced.

### Scoring

For each home loan, an automated application scoring model is used to assess the application. The model currently in place has been in use since in late 2004 and is tested and calibrated at least twice each year.

Positive bureau information and bureau scores are not available in France. The main drivers of the model are:

- (i) socio-demographic information such as age, marital status, number of dependants, time at employer and profession;
- (ii) financial information such as the applicant's debt ratio and spending capacity, taking into account the applicant's personal circumstances;
- (iii) characteristics of the loan, such as the amount of the down payment, the term of the loan and any security or guarantees received; and
- (iv) in the case of existing HSBC France customers, past loan and account history as indicated by the internal behavioural score described in "**Pre-acceptance controls**", above.

These characteristics are weighted according to their expected predictive power and an application score is then calculated. An expected loss given default (“LGD”) is also calculated, primarily (but not solely) based on the security or guarantees to be received. The application score and LGD are inputted into a decision tree, which takes into account, amongst other things, the applicant’s debt-to-income ratio, the term of the loan and the amount of the down payment. On this basis, the application is graded "Very good", "Good", "Neutral", "Poor quality" or "Reject".

### **Acceptance**

The final decision to grant or reject a loan is always made by a member of HSBC France staff with the requisite level of authority. Depending on the final grade of the application described above and the amount of the loan, amongst other things, the application decision will be made by the relationship manager on his or her own. If the application is beyond the relationship manager’s authority, the decision will be made by either the director of the relevant branch or HSBC France’s central retail underwriting department.

### **Pre-funding controls**

If accepted, the home loan request file is transmitted to the back office for processing. The back office checks that all of the documents necessary for the funding of the home loan have been provided, the home loan complies with any applicable legal formalities, the information provided with respect to the customer and the property is consistent. The back office also liaises with the relevant notary public. The home loan offer may only be issued to the client once all the necessary documents have been obtained and the required conditions have been met. Upon the return of the offer by the client, the back offices check the validity of the acceptance (signatures, dates, etc.) and proceed with the funding of the home loan to the notary public.

### **Servicing**

The servicing of the home loans—including acceptance of full or partial repayment, renegotiations of rates, rescheduling of principal repayments, and the like—is the responsibility of relationship managers or directors of branches, according to their decision-making powers and levels of authority, and carried out by the back office. Key loan documents (including home loan offers, loan guarantees, copies of mortgage agreements and life insurance policies) are scanned and archived with a service provider.

### **Delinquent loans**

The relevant branch is responsible for notifying the back office of overdue payments, which processes the overdue payment and sends a reminder letter to the client. Upon the first overdue payment, the borrower’s internal behavioural score is changed to 8.2. If the borrower misses three consecutive payments, or fails to clear any arrears within six months, the loan is automatically designated as “doubtful” and the back office files a declaration to the *Fichier National des Incidents de Remboursement des Crédits aux Particuliers* of the *Banque de France*.

If the doubtful loan is guaranteed by *Crédit Logement*, the loan file is sent to *Crédit Logement*, which becomes responsible for servicing the home loan and is required to begin making the guaranteed payments to HSBC France within one month. For the first 24 months, *Crédit Logement* can elect either to satisfy only the customer’s contractual monthly payments or to pay all amounts outstanding under the loan on an accelerated basis. After 24 months, *Crédit Logement* is required to reimburse HSBC France for all amounts then outstanding under the loan (to the extent that the loan is fully guaranteed).

If the doubtful loan is not guaranteed by *Crédit Logement*, the client’s file is jointly managed by the branch and the regional credit department (*pole crédit*). The assistance of the "Prevention Department" (*cellule Prévention – DAJF Réseau –PRAD*) of HSBC France may also be sought. Efforts are made to clear the arrears without litigation. If these efforts are unsuccessful, all amounts owing under the home loan are accelerated and the matter is transmitted to HSBC France’s Litigation Department (*DAJF Contentieux/Recouvrement*), which sits within HSBC France’s Legal Department. This department is responsible for collecting proceeds by enforcing the mortgages, insurance and other security interest and guarantees securing the repayment of the loan.

## THE HEDGING STRATEGY

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will include German law and French law Covered Bonds and the expression "Bondholders" includes any holder of such Covered Bonds, in the following section.*

The present section describes the hedging strategy (the "**Hedging Strategy**") to be implemented by the Issuer upon the occurrence of a Hedging Rating Trigger Event (as defined below) and/or any Borrower Event of Default (as described in Section "**The Borrower and the Borrower Facility Agreement – The Borrower Facility Agreement**"), as applicable.

*Hedging strategy before the occurrence of a Hedging Rating Trigger Event and/or any Borrower Event of Default*

The Covered Bonds may be denominated in currencies which differ from the currencies of the Borrower Collateral Security Assets and may bear interest at rates which differ from the interest rates applicable to the Borrower Collateral Security Assets. Prior to a Borrower Event of Default, the Issuer will not be exposed to any interest or currency mismatch risks because the terms and conditions of each Series of Covered Bonds (including as to amount, interest rate, interest periods, calculation of principal and interest, payment dates and currency) will be identical to the terms and conditions of the Borrower Advance which it funds (see "**The Borrower Facility Agreement**"). If a Borrower Event of Default occurs, and as a result the Borrower Collateral Security is enforced and title to the Borrower Collateral Security Assets is transferred to the Issuer, the Issuer will then be exposed to interest and currency mismatches between the Borrower Collateral Security Assets and the Covered Bonds.

Before the enforcement of the Borrower Collateral Security and in the absence of any Hedging Rating Trigger Event, HSBC France will hedge interest rate and currency risks arising from the mismatch between the Borrower Collateral Security Assets and the Covered Bonds in accordance with its usual strategies and practices. The Issuer will have no obligation to hedge any interest rate or currency risk prior to a Hedging Rating Trigger Event.

*Hedging Strategy upon the occurrence of a Hedging Rating Trigger Event*

The Hedging Strategy (as further described in the Hedging Approved Form Letter) requires that, upon the occurrence of a Hedging Rating Trigger Event, hedging transactions (the "**Hedging Transactions**") will be entered into under the following three (3) sets of hedging agreements (the "**Hedging Agreements**"):

- (i) one or more agreements (the "**Issuer Hedging Agreement(s) – Borrower Collateral Security**") between the Issuer and one or more Eligible Hedging Provider(s) (as defined below) in order to hedge any currency and/or interest rate risk borne by the Issuer in respect of the Borrower Collateral Security Assets. The Hedging Transactions entered into under the Issuer Hedging Agreement(s) – Borrower Collateral Security will swap the payments to be received under the Borrower Collateral Security Assets to one (1) month EURIBOR or any other Permitted Index (as defined below);
- (ii) one or more agreements (the "**Issuer Hedging Agreement(s) – Covered Bonds**" and, together with the Issuer Hedging Agreement(s) – Borrower Collateral Security, the "**Issuer Hedging Agreements**") between the Issuer and one or more Eligible Hedging Provider(s) in order to hedge any currency and/or interest rate risk borne by the Issuer in connection with any Series of Covered Bonds. The Hedging Transactions entered into under the Issuer Hedging Agreement(s) – Covered Bonds will swap the Issuer's obligations under each Series of Covered Bonds to Euro / one (1) month EURIBOR or the Permitted Index agreed in respect of the Hedging Transactions entered into under the Issuer Hedging Agreement(s) – Borrower Collateral Security; and



- (iii) one or more agreements (the "**Borrower Hedging Agreement(s)**") between the Borrower and the Issuer, which will constitute a back-to-back agreement in respect of the Issuer Hedging Agreements. Under the Hedging Transactions entered into under the Borrower Hedging Agreement(s) (the "**Borrower Hedging Transaction(s)**"), the Issuer will receive amounts equal to its payment obligations under the Issuer Hedging Transactions and will pay amounts equal to the amounts it receives under the Issuer Hedging Transactions. The Borrower Hedging Agreement(s) will transfer to the Borrower the effect of the Issuer Hedging Agreement(s) and related Hedging Transaction(s) (the "**Issuer Hedging Transaction(s)**") until a Borrower Event of Default occurs.

The Issuer Hedging Agreements and the Borrower Hedging Agreement(s) will be substantially in the relevant Approved Form (or, when legally required, its equivalent under the FBF (*Fédération Bancaire Française*) standard form) and in substance acceptable to the Rating Agencies, and the effective date of the Hedging Agreements and relevant Hedging Transactions will be the date of such Hedging Rating Trigger Event.

The Issuer and the Borrower may from time to time, and at any time, enter into a side agreement (each, a "**Hedging Side Agreement**") with respect to any Series of Covered Bonds and with respect to the Borrower Collateral Security, substantially in the relevant Approved Forms. The purpose of any Hedging Side Agreement in respect of any Series of Covered Bonds or the Borrower Collateral Security shall be for the Issuer and the Borrower to agree in advance the hedging parameters applicable to such Series of Covered Bonds or the Borrower Collateral Security, as the case may be. Pursuant to the terms of each Hedging Side Agreement, the Issuer shall agree that, should a Hedging Rating Trigger Event occur, the relevant Issuer Hedging Agreement(s) – Covered Bonds, the Issuer Hedging Agreement(s) – Borrower Collateral Security and the related Issuer Hedging Transaction(s) to be entered into by the Issuer in respect of such Series of Covered Bonds or Borrower Collateral Security, as the case may be, shall be on terms agreed in such Hedging Side Agreement.

In accordance with the Hedging Strategy, the hedging parameters of each Issuer Hedging Agreement and each Borrower Hedging Agreement shall be on arm's length market terms. Without prejudice to the foregoing, the margins under the Issuer Hedging Agreements will be such that the Issuer will receive, under the Issuer Hedging Agreement(s) – Borrower Collateral Security, amounts that equal or exceed the amounts that the Issuer will be required to pay under the Issuer Hedging Agreement(s) – Covered Bonds, together with all other fees and other expenses payable by the Issuer. On a quarterly basis and before any new issue of Covered Bonds, the Issuer Calculation Agent will estimate what such margins would be required to be if a Hedging Rating Trigger Event were to occur, and will communicate these margins to, amongst others, the Issuer and the Rating Agencies.

Depending on the market conditions prevailing at the time the Hedging Agreements are transacted, each Hedging Transaction may be "in the money" or "out of the money" from the Issuer's standpoint. As a result, the Issuer (i) will be required to pay to, or will receive from, the relevant Eligible Hedging Provider(s) under each Issuer Hedging Transaction a premium (*soulte*) and (ii) will receive from, or pay to, the Borrower a corresponding amount under the relevant Borrower Hedging Transaction(s). In accordance with the Calculation Services Agreement, the Issuer Calculation Agent will be required to calculate and communicate to the Issuer (with copy to the Borrower, the Administrator and the Rating Agencies) the amount of each such premium (*soulte*).

In any case, all sums to be received by the Issuer under the Issuer Hedging Transactions as from the occurrence of a Borrower Event of Default (and thus the termination of the Borrower Hedging Agreement(s) as described in paragraph "**Hedging Strategy upon the occurrence of a Borrower Event of Default**" below) until the Final Maturity Date of the last Series of Covered Bonds shall exceed at any payment date under the Issuer Hedging Transactions and in compliance with the financial conditions referred to above, all sums to be paid by the Issuer under such Issuer Hedging Transactions, together with any costs and expenses relating thereto, if any.

If notwithstanding the payment of the premiums (*soulttes*) referred above, the Issuer still has to bear costs and expenses when it negotiates and/or enters into any Hedging Agreements and/or related Hedging Transaction to comply with any of the conditions referred to above, the Borrower has undertaken to pay any such costs and expenses.

Each Hedging Agreement will provide that all amounts to be paid by the Issuer under such Hedging Agreement will be paid according to the relevant Priority Payment Order, as described in Condition 15 of the Terms and Conditions. In particular, upon the termination of a Hedging Agreement, the Issuer or the Borrower or any relevant Eligible Hedging Provider(s), as applicable, may be liable to pay any hedging termination costs to the other party in accordance with the provisions of the relevant Hedging Agreement.

Such hedging termination costs, when required to be paid by the Issuer and provided that the amount of such costs has not been reduced to zero (0) in accordance with the provisions of the relevant Hedging Agreement, shall be subordinated to payments under the Covered Bonds if resulting from an event of default in respect of which the relevant hedge counterparty of the Issuer is the defaulting party or from any termination event in respect of which the hedge counterparty of the Issuer is the affected party, as described in Section "**Cash Flow – The Issuer Priority Payment Orders**".

Any failure by the Issuer (or the Administrator on its behalf) to enter into (a) appropriate Issuer Hedging Agreements and related Issuer Hedging Transactions with Eligible Hedging Provider(s) or (b) Borrower Hedging Agreement(s) and related Borrower Hedging Transaction(s) with the Borrower, in each case within thirty (30) calendar days from the date of occurrence of the relevant Hedging Rating Trigger Event, will constitute an Issuer Event of Default (see "**Terms and Conditions of the French law Covered Bonds**") and a Borrower Event of Default under the Borrower Facility Agreement. Any failure by the Borrower (a) to enter into appropriate Borrower Hedging Agreement(s) and related Borrower Hedging Transaction(s) with the Issuer, within thirty (30) calendar days from the date of occurrence of the relevant Hedging Rating Trigger Event or (b) to pay any costs and expenses referred to above, will constitute a Borrower Event of Default under the Borrower Facility Agreement.

Pursuant to the terms of the Hedging Agreements, in the event that the relevant ratings of an Eligible Hedging Provider(s) (or its respective guarantor, as applicable) (the "**Hedging Provider**") is or are downgraded by a Rating Agency below the required ratings specified in the relevant Hedging Agreement and, where applicable, the relevant Hedging Provider will, in accordance with and pursuant to the terms of the relevant Hedging Agreement, be required to take certain remedial measures which may include one (1) or more of the following: (i) providing collateral for its obligations under the relevant Hedging Agreement; (ii) arranging for its obligations under the relevant Hedging Agreement to be transferred to a replacement hedging provider with the ratings required by the Rating Agencies (as specified in the relevant Hedging Agreement); (iii) procuring another entity with the ratings required by the relevant Rating Agency (as specified in the relevant Hedging Agreement) to become co-obligor in respect of its obligations under the relevant Hedging Agreement; and/or (iv) taking such other actions as the relevant Hedging Provider may agree with the relevant Rating Agency.

Each Issuer Hedging Agreement may be terminated in accordance with certain termination events and events of default. An Issuer Event of Default will not constitute a termination event under any Issuer Hedging Agreement.

The Borrower Hedging Agreement may be terminated in accordance with certain termination events and events of default. In particular, a Borrower Event of Default will constitute a termination event under the Borrower Hedging Agreement but shall not constitute a termination event under the Issuer Hedging Agreements.

*Hedging Strategy upon the occurrence of a Borrower Event of Default*

Upon the occurrence of a Borrower Event of Default, and the subsequent transfer in favour of the Issuer of title to the Home Loans (and related Home Loans Security) following an enforcement of the Borrower Collateral Security:

- (a) the Issuer will maintain its rights and obligations under the existing Issuer Hedging Agreement(s);
- (b) the Borrower Hedging Agreement(s) will be immediately terminated.

For the purposes of this section "**The Hedging Strategy**":

"**Approved Form**" means a 1992 (Multicurrency - Cross Border) or 2002 ISDA Master Agreement (including its schedule), credit support document and confirmation governed thereby or, when legally required, a 2001 or 2007 FBF Master Agreement relating to transactions on forward financial instruments (including its schedule), collateral annex and confirmation governed thereby, in a form agreed by the Issuer and the Borrower pursuant to the Hedging Approved Form Letter or as otherwise agreed subject to prior Rating Affirmation.

"**Eligible Hedging Provider**" means a financial institution which meets the following conditions:

- such financial institution is permitted under any applicable and relevant law to enter into derivative contracts with French residents; and

- (i) the rating of its senior unsecured, unsubordinated and unguaranteed debt obligations is at least a Hedging Required Rating, or (ii) the rating of the senior unsecured, unsubordinated and unguaranteed debt obligations of its guarantor under the relevant Hedging Agreement is at least a Hedging Required Rating, or (iii) this financial institution has provided collateral for its obligations under the relevant Hedging Agreement and taken any remedial action as agreed with the relevant Rating Agencies.

**"Hedging Approved Form Letter"** means the letter agreement dated on or about the Signing Date entered into between HSBC Covered Bonds (France) and HSBC France in order to implement the Hedging Strategy of the Issuer and pursuant to which the Issuer and the Borrower agree the Approved Form of the Hedging Agreements.

**"Hedging Rating Trigger Event"** means the event in which the senior unsecured, unsubordinated and unguaranteed debt obligations of HSBC France become rated below A-1(short term) by S&P or P-1 (short term) or A2 (long term) by Moody's.

**"Hedging Required Rating"** means, as regards any Eligible Hedging Provider or, as applicable, its guarantor under the relevant Hedging Agreement in relation to the hedging of currency risks, interest risks and other risks, A-1 (short-term) by S&P and P-1 (short-term) and A2 (long-term) by Moody's.

**"Permitted Index"** means one (1) month EURIBOR or such other index agreed by the Issuer, subject to prior Rating Affirmation.

**FORM OF FINAL TERMS**

*(This form of Final Terms will only apply to the French law Covered Bonds. The form of final terms applicable to the German law Covered Bonds is included in the Agency Agreement)*

**Final Terms dated [ ● ]**

[LOGO, if document is printed]

**HSBC COVERED BONDS (France)**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]  
under the € 8,000,000,000 Covered Bond Programme

Issue Price: [ ● ] per cent.

[Name(s) of Dealer(s)]

## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 7 December 2010 [and the supplement to the Base Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**").

This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement to the Base Prospectus] [is] [are] available for viewing on the website of the Luxembourg Stock Exchange (www.bourse.lu) at least during a period of twelve (12) months from the date of the Base Prospectus, and during normal business hours at the registered office of the Issuer and at the specified office of the Paying Agent(s) where copies may be obtained. [In addition

<sup>2</sup>, the Base Prospectus [and the supplement to the Base Prospectus] [is] [are] available for viewing [on/at] [●].]

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated [●]] ([together] the "**Original Base Prospectus**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated 7 December 2010 [and the supplement to the Base Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Original Base Prospectus and are attached hereto. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms, the Original Base Prospectus and the Base Prospectus dated 7 December 2010 [and the supplement to the Base Prospectus dated [●]]. The Base Prospectus dated 7 December 2010 [and the supplement to the Base Prospectus] [is] [are] available for viewing on the website of the Luxembourg Stock Exchange (www.bourse.lu) at least during a period of twelve (12) months from the date of the Base Prospectus, [and] during normal business hours at, and copies may be obtained from, the registered office of the Issuer and at the specified office of the Paying Agent(s). [In addition<sup>3</sup>, the Conditions, the Base Prospectus dated 7 December 2010 [and the supplement to the Base Prospectus] [are] available for viewing [on/at] [●].]

*[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 subparagraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive, the publication of which would in turn trigger the investors' right to withdraw their acceptances within a forty-eight (48)-hour time period.]*

- |    |                               |  |
|----|-------------------------------|--|
| 1. | <b>Issuer:</b>                | HSBC Covered Bonds (France)  |
| 2. | [(i)] <b>Series Number:</b>   | [●]  |
|    | [(ii)] <b>Tranche Number:</b> | [●]  |
|    |                               | (If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible.)] |

<sup>2</sup> If the Covered Bonds are admitted to trading on a Regulated Market other than the Luxembourg Stock Exchange.

<sup>3</sup> If the Covered Bonds are admitted to trading on a Regulated Market other than the Luxembourg Stock Exchange.

3. **Specified Currency or Currencies:** [ ● ]
4. **Aggregate Nominal Amount of Covered Bonds:** [ ● ]  
 [(i) Series: [ ● ]  
 [(ii) Tranche: [ ● ]]
5. **Issue Price:** [ ● ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
6. **Specified Denominations:** [ ● ] (*one (1) denomination only for Dematerialised Covered Bonds*) (*Not less than €50,000 or its equivalent in other currency at the Issue Date, when the Covered Bonds are admitted to trading on a Regulated Market in circumstances which require the publication of a prospectus under the Prospectus Directive*)<sup>4</sup>
7. (i) **Issue Date:** [ ● ]  
 (ii) **Interest Commencement Date:** [*Specify*/Issue Date/Not Applicable]
8. **Final Maturity Date:** [*Specify date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year*]  
**Extended Final Maturity Date:** [Applicable/Not Applicable] [*If applicable specify date*]
9. **Interest Basis:** [[ ● ] per cent. Fixed Rate]  
 [[*EURIBOR, EONIA, LIBOR, CMS, TEC or other*] +/- [ ● ] per cent. Floating Rate]  
 [Zero Coupon]  
 [Index Linked Interest]  
 [Other (*specify*)]  
 (*further particulars specified below*)
10. **Redemption/Payment Basis:** [Redemption at par]<sup>5</sup>  
 [Index Linked Redemption]  
 [Dual Currency]  
 [Partly Paid]  
 [Instalment]  
 [Other (*specify*)]  
 (*further particulars specified below*)
11. **Change of Interest or Redemption/Payment Basis:** [*Specify details of any provision for convertibility of Covered Bonds into another interest or redemption/ payment basis*]

<sup>4</sup> Covered Bonds denominated in Sterling in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitute a contravention of section 19 of FSMA and having a maturity of less than one year must have a minimum denomination of Sterling 100,000 (or its equivalent in other currencies).

<sup>5</sup> If the Final Redemption Amount is different than one hundred per cent. (100%) of the nominal value, the Covered Bonds will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply. This form of Final Terms has been annotated to indicate where the key additional requirements of Annex XII are dealt with. Note that some regulatory authorities may require the inclusion of information or placeholders addressing Paragraph 5 of Annex XII even though (noting that such information is not required by Annex XIII) the denomination of the Covered Bonds is €50,000 or more. Where Annex XII is not applicable but income on the Covered Bonds is linked to an underlying, nevertheless consider including disclosure in relation to the underlying.

12. **Put/Call Options:** [Bondholder Put]  
[Issuer Call]  
[(further particulars specified below)]  
[other option: specify details]
13. (i) **Status of the Covered Bonds:** Senior
- (ii) **Date of Board approval for issuance of Covered Bonds obtained:** [●]
14. **Method of distribution:** [Syndicated/Non-syndicated]

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

15. **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 / monthly / other (specify)] in arrear]
- (ii) **Interest Payment Date(s):** [●] in each year [where applicable: adjusted pursuant to the [specify applicable Business Day Convention]]
- (iii) **Fixed Coupon Amount[(s)]:** [●] per [●] in Specified Denomination
- (iv) **Broken Amount(s):** [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]
- (v) **Day Count Fraction:** [30/360 / Actual/Actual (ICMA/ISDA) / other]
- (vi) **[Determination Dates:** [●] in each year  
(insert regular Interest Payment Dates, ignoring Issue Date or Final Maturity Date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]
- (vii) **Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds:** [Not Applicable/give details]
16. **Floating Rate Covered Bond Provisions:** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) **Interest Period(s):** [●]
- (ii) **Specified Interest Payment Dates:** [●]
- (iii) **First Interest Payment Date:** [●]
- (iv) **Interest Period Date:** [●] [Interest Payment Date / Other (specify)]
- (v) **Business Day Convention:** [Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]  
[Insert "unadjusted" if the application of the

*relevant Business Day Convention is not intended to affect the Interest Amount]*

- (vi) Business Centre(s) (Condition 6(a)): [ ● ]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (give details)]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): [ ● ]
- (ix) Screen Rate Determination: [Applicable/Not Applicable]
- Benchmark: [ ● ] *(specify Benchmark [EURIBOR, EONIA, LIBOR, CMS, TEC or other] and months [e.g. EURIBOR 3 months]) (additional information if necessary)*
  - Relevant Time: [ ● ]
  - Interest Determination Date(s): [ ● ]
  - Primary Source: [Specify relevant screen page or "Reference Banks"]
  - Reference Banks (if Primary Source is "Reference Banks"): [Specify four]
  - Relevant Financial Centre: [The financial centre most closely connected to the benchmark - specify if not Paris]
  - Representative Amount: [Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]
  - Effective Date: [Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]
  - Specified Duration: [Specify period for quotation if not duration of Interest Accrual Period]
- (x) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [ ● ]
  - Designated Maturity: [ ● ]
  - Reset Date: [ ● ]
  - ISDA Definitions : [2000 ISDA Definitions/2006 ISDA Definitions]
- (xi) Margin(s): [ +/- ] [ ● ] per cent. per annum
- (xii) Minimum Rate of Interest: [Not Applicable/[ ● ] per cent. per annum]



- (xiii) Maximum Rate of Interest: [Not Applicable/[●] per cent. per annum]
- (xiv) Day Count Fraction: [●]
- (xv) Fall back provisions, rounding provisions, denominator 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: [●]
- 17. Zero Coupon Covered Bond Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Amortisation Yield: [●] per cent. per annum
- (ii) Day Count Fraction: [●]
- (iii) Any other formula/basis of determining amount payable: [●]
- 18. Index-Linked Interest Covered Bond/other variable-linked interest Covered Bond Provisions<sup>6</sup>:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula/other variable: [give or annex details]
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): [●][give name and address]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Interest Determination Date(s): [●]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [Need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (vi) Interest or Calculation Period(s): [●]
- (vii) Specified Interest Payment Dates: [●]

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<sup>6</sup> If the Final Redemption Amount is different than one hundred per cent. (100%) of the nominal value, the Covered Bonds will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply. This form of Final Terms has been annotated to indicate where the key additional requirements of Annex XII are dealt with. Note that some regulatory authorities may require the inclusion of information or placeholders addressing Paragraph 5 of Annex XII even though (noting that such information is not required by Annex XIII) the denomination of the Covered Bonds is €50,000 or more. Where Annex XII is not applicable but income on the Covered Bonds is linked to an underlying, nevertheless consider including disclosure in relation to the underlying.

- |            |  |  |
|------------|--|--|
| (viii)     | Business Day Convention:   | [Floating Rate Business Day Convention/<br>Following Business Day Convention/Modified<br>Following Business Day Convention/Preceding<br>Business Day Convention/other ( <i>give details</i> )] |
| (ix)       | Business Centre(s):  | [ ● ]  |
| (x)        | Minimum Rate of Interest:  | [Not Applicable/[ ● ] per cent. per annum]   |
| (xi)       | Maximum Rate of Interest:  | [Not Applicable/[ ● ] per cent. per annum]   |
| (xii)      | Day Count Fraction:  | [ ● ]  |
| <b>19.</b> | <b>Dual Currency Covered Bond Provisions<sup>7</sup>:</b>  | [Applicable/Not Applicable]<br><i>(If not applicable, delete the remaining sub-<br/>paragraphs of this paragraph)</i>  |
| (i)        | Rate of Exchange/Method of<br>calculating Rate of Exchange:  | <i>[give details]</i>  |
| (ii)       | Party, if any, responsible for calculating<br>the principal and/or interest due (if not<br>the Calculation Agent): | [ ● ] <i>[give name and address]</i>   |
| (iii)      | Provisions applicable where calculation<br>by reference to Rate of Exchange<br>impossible or impracticable:        | <i>[Need to include a description of market<br/>disruption or settlement disruption events and<br/>adjustment provisions]</i>  |
| (iv)       | Person at whose option Specified<br>Currency(ies) is/are payable:  | [ ● ]  |
| (v)        | Day Count Fraction:  | [ ● ]  |

## PROVISIONS RELATING TO REDEMPTION

- |            |  |   |
|------------|--|---|
| <b>20.</b> | <b>Call Option:</b>  | [Applicable/Not Applicable]<br><i>(If not applicable, delete the remaining sub-<br/>paragraphs of this paragraph)</i> |
| (i)        | Optional Redemption Date(s):   | [ ● ]   |
| (ii)       | Optional Redemption Amount(s) of<br>each Covered Bond and method, if any,<br>of calculation of such amount(s): | [ ● ] per Covered Bond of [ ● ] specified<br>denomination   |
| (iii)      | If redeemable in part:   |   |
|            | (a) Minimum Redemption Amount:   | [ ● ]   |
|            | (b) Maximum Redemption Amount:   | [ ● ]   |

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<sup>7</sup> If the Final Redemption Amount is different than one hundred per cent. (100%) of the nominal value, the Covered Bonds will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply. This form of Final Terms has been annotated to indicate where the key additional requirements of Annex XII are dealt with. Note that some regulatory authorities may require the inclusion of information or placeholders addressing Paragraph 5 of Annex XII even though (noting that such information is not required by Annex XIII) the denomination of the Covered Bonds is €50,000 or more. Where Annex XII is not applicable but income on the Covered Bonds is linked to an underlying, nevertheless consider including disclosure in relation to the underlying.

- (iv) Option Exercise Date [ ● ]
- (v) Notice period<sup>8</sup>: [ ● ]
- 21. Put Option:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ● ]
- (ii) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s): [ ● ] per Covered Bond of [ ● ] specified denomination
- (iii) Option Exercise Date [ ● ]
- (iv) Notice period<sup>9</sup>: [ ● ]
- 22. Final Redemption Amount of each Covered Bond<sup>10</sup>:** [[ ● ] per Covered Bond of [ ● ] specified denomination / Specified Denomination/Other *(Specify)*]
- In cases where the Final Redemption Amount is Index-Linked or other variable-linked:
- (i) Index/Formula/variable: *[give or annex details]*
- (ii) Party responsible for calculating the Final Redemption Amount (if not the Calculation Agent): [ ● ] *[give name and address]*
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [ ● ]
- (iv) Determination Date(s): [ ● ]
- (v) Provisions for determining Final Redemption Amount where calculation

<sup>8</sup> If setting notice periods which are different to those provided in the terms and conditions, consider the practicalities of distribution of information through intermediaries, for example clearing systems, as well as any other notice requirements which may apply, for example as between the Issuer and the Fiscal Agent.

<sup>9</sup> If setting notice periods which are different to those provided in the terms and conditions, consider the practicalities of distribution of information through intermediaries, for example clearing systems, as well as any other notice requirements which may apply, for example as between the Issuer and the Fiscal Agent.

<sup>10</sup> If the Final Redemption Amount is different than one hundred per cent. (100%) of the nominal value, the Covered Bonds will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply. This form of Final Terms has been annotated to indicate where the key additional requirements of Annex XII are dealt with. Note that some regulatory authorities may require the inclusion of information or placeholders addressing Paragraph 5 of Annex XII even though (noting that such information is not required by Annex XIII) the denomination of the Covered Bonds is €50,000 or more. Where Annex XII is not applicable but income on the Covered Bonds is linked to an underlying, nevertheless consider including disclosure in relation to the underlying.

- by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [ ● ]
- (vi) Payment Date: [ ● ]
- (vii) Minimum Final Redemption Amount: [ ● ]
- (viii) Maximum Final Redemption Amount: [ ● ]
- 23. Redemption by Instalments:** [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Instalment Amount(s): [ ● ]
- (ii) Instalment Date(s): [ ● ]
- (iii) Other terms relating to Redemption by Instalments: [Not Applicable/give details]
- 24. Early Redemption Amount:**  
Early Redemption Amount(s) of each Covered Bond payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same and/or any other terms (if required or if different from that set out in Condition 7): [ ● ]
- GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**
- 25. Form of Covered Bonds:** [Dematerialised Covered Bonds/ Materialised Covered Bonds] (Materialised Covered Bonds are only in bearer form)  
[Delete as appropriate]
- (i) Form of Dematerialised Covered Bonds: [Not Applicable / if Applicable specify whether bearer form (*au porteur*) / registered form (*au nominatif*)]
- (ii) Registration Agent: [Not Applicable/if applicable give name and address] (Note that a Registration Agent must be appointed in relation to Fully Registered Dematerialised Covered Bonds only)
- (iii) Temporary Global Certificate: [Not Applicable/Temporary Global Certificate exchangeable for Definitive Materialised Covered Bonds on [ ● ] (the "Exchange Date"), being forty (40) days after the Issue Date subject to postponement as specified in the Temporary Global Certificate]

26. **Financial Centre(s) or other special provisions relating to payment dates for the purposes of Condition 8(g):** [Not Applicable/Give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 15 (ii), 16(iv) and 18(ix) relate]
27. **Talons for future Coupons or Receipts to be attached to Definitive Materialised Covered Bonds (and dates on which such Talons mature):** [Yes/No/Not Applicable. If yes, give details] (Only applicable to Materialised Covered Bonds)
28. **Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment:** [Not Applicable/give details]
29. **Details relating to Instalment Covered Bonds: amount of each instalment, date on which each payment is to be made:** [Not Applicable/give details]
30. **Redenomination, renominatisation and reconventioning provisions:** [Not Applicable/The provisions [in Condition 2(d)] [annexed to these Final Terms] apply]
31. **Consolidation provisions:** [Not Applicable/The provisions [in Condition 16(b)] [annexed to these Final Terms] apply]
32. **Other final terms:** [Not Applicable/give details]  
(When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

#### DISTRIBUTION

33. (i) **If syndicated, names of Managers:** [Not Applicable/give names]
- (ii) **[Date of subscription agreement:** [●]<sup>11</sup>]
- (iii) **Stabilising Manager(s) (if any):** [Not Applicable/give name]

<sup>11</sup> Required only for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

34. **If non-syndicated, name of Dealer:** [Not Applicable/*give name*]
35. **Additional selling restrictions:** [Not Applicable/*give details*]
36. **U.S. selling restrictions:** [The Issuer is Category 1 for the purposes of Regulation S under the United States Securities Act of 1933, as amended.]  
[TEFRA C/ TEFRA D/ TEFRA not Applicable]  
(*TEFRA are not applicable to Dematerialised Covered Bonds*)

#### GENERAL

The aggregate principal amount of Covered Bonds issued has been translated into Euro at the rate of [●] per cent. producing a sum of: [●]

#### [PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the [*specify relevant regulated market*] of the Covered Bonds described herein pursuant to the Euro 8,000,000,000 Covered Bond Programme of HSBC Covered Bonds (France).]

#### RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [*Relevant third party information*] has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]<sup>12</sup>

Signed on behalf of HSBC Covered Bonds (France):

By: .....

Duly authorised

<sup>12</sup> Include if third party information is provided, for example in compliance with Annex XII of the Prospectus Directive Regulation in relation to an index of its components, an underlying security or the issuer of an underlying security.

## PART B – OTHER INFORMATION

### 1. ISSUE SPECIFIC RISK FACTORS

*[Not Applicable / Insert any risk factors that are material to these Covered Bonds being admitted to trading in order to assess the market risk associated with these Covered Bonds and that may affect the Issuer's ability to fulfil its obligations under the Covered Bonds which are not covered under "Risk Factors" in the Base Prospectus. If any such additional risk factors need to be included consideration should be given as to whether they constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

### 2. LISTING AND ADMISSION TO TRADING

- |       |  |  |
|-------|--|--|
| (i)   | Listing(s):  | [Official List of the Luxembourg Stock Exchange - other ( <i>specify</i> )/None]   |
| (ii)  | (a) Admission to trading:  | [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [ <i>specify relevant regulated market</i> ] with effect from [●].][Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [ <i>specify relevant regulated market</i> ] with effect from [●].] [Not Applicable]<br><i>(Where documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)</i>  |
|       | (b) Regulated Markets or equivalent markets on which, to the knowledge of the Issuer, securities of the same class of the Covered Bonds to be admitted to trading are already admitted to trading: | [●]  |
| (iii) | Estimate of total expenses related to admission to trading:  | [●]  |
| (iv)  | Additional publication of Base Prospectus and Final Terms:   | [●] <i>(See paragraph 10 of the section "General Information" of this Base Prospectus which provides that the Base Prospectus will be published on the website of the Luxembourg Stock Exchange at least during a period of twelve (12) months from the date of the Base Prospectus and that the Final Terms related to Covered Bonds on any Regulated Market will be published on the website of the Luxembourg Stock Exchange. Please provide for additional methods of publication in respect of an admission to trading on a regulated market other than the Luxembourg Stock Exchange.)</i> |

### 3. RATINGS

Ratings: The Covered Bonds to be issued have been rated:

[S & P: [ ● ]]

[Moody's: [ ● ]]

[[Other]: [ ● ]]

*(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 4. [NOTIFICATION]

The *Commission de Surveillance du Secteur Financier*, which is the Luxembourg competent authority for the purposes of the Prospectus Directive [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 5. [THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST]

*If advisors are mentioned in these Final Terms, specify the capacity in which the advisors have acted.*

*Specify other information mentioned in the Final Terms which has been audited or reviewed by auditors and where auditors have produced a report. Insert the report or, with permission of the competent authority, a summary of the report.*

*Where a statement or report attributed to a person as an expert is included in these Final Terms in respect of the Issuer or the Covered Bonds, provide such person's name, business address, qualifications and material interest if any in the Issuer. If the report has been produced at the Issuer's request a statement to that effect that such statement or report is included, in the form and context in which it is included, with the consent of that person who has authorised the contents of that part in respect of the Issuer or the Covered Bonds.*

*Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.*

*In addition, the Issuer shall identify the source(s) of the information.]*

### 6. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement: "Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer."

*[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*



**7. [REASONS FOR THE OFFER,] ESTIMATED NET PROCEEDS AND TOTAL EXPENSES<sup>13</sup>**

[(i) Reasons for the offer: [●]

*(See "Use of Proceeds" wording in Base Prospectus – if reasons for offer different from general corporate purposes will need to include those reasons here.)]*

[(ii) Estimated net proceeds: [●]

*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses, state amount and sources of other funding.)*

[(iii) Estimated total expenses: [●]]<sup>14</sup>

*(If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above)*

**8. [FIXED RATE COVERED BONDS ONLY – YIELD**

Indication of yield: [●].

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

**9. [INDEX-LINKED OR OTHER VARIABLE-LINKED COVERED BONDS ONLY – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING<sup>15</sup>**

*[Need to include details where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.*

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

**10. [DUAL CURRENCY COVERED BONDS ONLY – PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT<sup>16</sup>**

*[Need to include details where past and future performance and volatility of the relevant rate[s] can be obtained, the underlying on which it is based and of the method used to relate the two, a clear and*

<sup>13</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies. See footnote no. 8 above.

<sup>14</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies. See footnote no. 8 above.

<sup>15</sup> For derivative securities to which Annex XII to the Prospectus Directive Regulation applies, please complete instead paragraph 11 below relating to explanation of effect on value of investment, return on derivatives securities and information concerning the underlying.

<sup>16</sup> For derivative securities to which Annex XII to the Prospectus Directive Regulation applies, please complete instead paragraph 11 below relating to explanation of effect on value of investment, return on derivatives securities and information concerning the underlying.

*comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.*

*(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

**11. [DERIVATIVES ONLY – EXPLANATION OF EFFECT ON VALUE OF INVESTMENT, RETURN ON DERIVATIVES SECURITIES AND INFORMATION CONCERNING THE UNDERLYING SETTLEMENT PROCEDURES FOR DERIVATIVE SECURITIES**

*[Need to include a description of the settlement procedures of the derivative securities.]*

**RETURN ON DERIVATIVES SECURITIES**

Return on derivative securities: *[Description of how any return on derivative securities takes place]*

Payment or delivery date: [ ● ]

Method of calculation: [ ● ]

**INFORMATION CONCERNING THE UNDERLYING**

The exercise price or the final reference price of the underlying: [ ● ]

A statement setting out the type of the underlying and details of where information on the underlying can be obtained:

- an indication where information about the past and the further performance of the underlying and its volatility can be obtained [ ● ]
- where the underlying is a security: [Applicable/Not Applicable]

the name of the issuer of the security: [ ● ]

the ISIN (International Security Identification Number) or other such security identification code: [ ● ]

- where the underlying is an index: [Applicable/Not Applicable]

the name of the index and a description of the index if it is composed by the issuer. If the index is not composed by the issuer, where information about the index can be obtained: [ ● ]

- where the underlying is an interest rate: [Applicable/Not Applicable]

a description of the interest rate: [ ● ]

- others: [Applicable/Not Applicable]

where the underlying does not fall within the categories specified above the Final Terms shall contain equivalent information: [ ● ]

- where the underlying is a basket of underlyings: [Applicable/Not Applicable]

disclosure of the relevant weightings of each underlying in the basket: [ ● ]

A description of any market disruption or settlement disruption events that affect the

underlying: [●]  
 Adjustment rules with relation to events concerning the underlying.<sup>17</sup> [●]

## OTHER

Name and address of Calculation Agent: [●]  
 [Information on taxes on the income from the Covered Bonds withheld at source in the country where admission to trading (other than in Luxembourg) is sought: [●]]

## 12. [POST ISSUANCE INFORMATION

The Issuer will not provide any post-issuance transaction information regarding securities to be admitted to trading and the performance of the underlying collateral, except if required by any applicable laws and regulations.<sup>18</sup>

The Issuer will not provide any post-issuance information, except if required by any applicable laws and regulations.<sup>19</sup>

*[If post-issuance information is to be reported, specify what information will be reported and where such information can be obtained.]*

## 13. [TERMS AND CONDITIONS OF THE OFFER<sup>20</sup>

### CONDITIONS, OFFER STATISTICS, EXPECTED TIMETABLE AND ACTION REQUIRED TO APPLY FOR THE OFFER

Offer Price [Issue Price] *[specify the expected price at which the securities will be offered or the method of determining the price and the process for its disclosure. Indicate the amount of any expenses and taxes specifically charged to the subscriber or purchaser]*

Conditions to which the offer is subject: [Not Applicable/give details]

Total amount of the issue/offer; if the amount is not fixed, description of the arrangements and time for announcing to the public the amount of the offer: [Not Applicable/give details]

The time period, including any possible amendments, during which the offer will be open and description of the application process: [Not Applicable/give details]

Description of the application process: [Not Applicable/give details]

A description of the possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants: [Not Applicable/give details]

<sup>17</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.  
<sup>18</sup> Required for asset backed securities to which Annex VIII to the Prospectus Directive Regulation applies.  
<sup>19</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.  
<sup>20</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

Details of the minimum and/or maximum amount of application: [Not Applicable/*give details*]

Method and time limits for paying up and delivering the Covered Bonds: [Not Applicable/*give details*]

Manner and date on which results of the offer are to be made public: [Not Applicable/*give details*]

Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: [Not Applicable/*give details*]

#### 14. [PLAN OF DISTRIBUTION AND ALLOTMENT<sup>21</sup>

The various categories of prospective investors to which the securities are offered. If the offer is being made simultaneously in the markets of two (2) or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche: [●]

Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made:] [●]

#### 15. [PRICING<sup>22</sup>

Indication of the expected price at which the securities will be offered or the method of determining the price and the process for its disclosure. Indicate the amount of any expenses and taxes specifically charged to the subscriber or purchaser:] [●]

#### 16. [PLACING AND UNDERWRITING<sup>23</sup>

Name and address of the coordinator(s) of the global offer and of single parts of the offer and, to the extent known to the issuer or to the offeror, of the placers in the various countries where the offer takes place: [●]

Entities agreeing to underwrite the issue on a firm commitment basis, and entities agreeing to place the issue without a firm commitment or under 'best efforts' arrangements. Where not all of the issue is underwritten, a statement of the portion not covered:] [●]

#### 17. OPERATIONAL INFORMATION

ISIN Code: [●]

Common Code: [●]

Depositories:

<sup>21</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

<sup>22</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

<sup>23</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

- (i) Euroclear France to act as Central Depository [Yes/No]
- (ii) Common Depository for Euroclear Bank and Clearstream Banking, *société anonyme* [Yes/No]
- Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/*give name(s) and number(s) and address(es)*]
- Delivery: Delivery [against/free of] payment
- Names and addresses of initial Paying Agent(s): BNP Paribas Securities Services  
Corporate Trust Services  
Les Grands Moulins de Pantin  
9 rue du Débarcadère  
93500 Pantin  
France
- Names and addresses of additional Paying Agent(s) (if any): [●]

## TAXATION

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will only include French law Covered Bonds, in the following section.*

*The following is a summary limited to certain tax considerations in France and in the Grand-Duchy of Luxembourg relating to the payments made in respect of the Covered Bonds that may be issued under the Programme and specifically contains information on taxes on the income from the securities withheld at source. This summary is based on the laws in force in France and in the Grand Duchy of Luxembourg as of the date of this Base Prospectus and as applied by the tax authorities, all of which are subject to changes or to different interpretation. It does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Covered Bonds. Each prospective holder or beneficial owner of Covered Bonds should consult its tax advisor as to the tax consequences of any investment in or ownership and disposal of the Covered Bonds in light of its particular circumstances.*

### 1. EU Savings Directive

On 3 June 2003, the European Union adopted the Directive 2003/48/EC regarding the taxation of savings income in the form of interest payments (the "**Directive**"). The Directive requires Member States as from 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income within the meaning of the Directive made by a paying agent located within its jurisdiction to (or, under certain circumstances, to the benefit of) a beneficial owner (within the meaning of the Directive) resident in another Member State, except that Luxembourg and Austria will instead impose a withholding system for a transitional period unless the beneficiary of the interest payment elects for the exchange of information.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a paying agent, the Issuer will be required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

For these purposes, the term "paying agent" is defined widely and includes in particular any economic operator who is responsible for making interest payments, within the meaning of the Directive, for the immediate benefit of individuals.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive they may amend or broaden the scope of the requirements described above.

### 2. French Taxation

#### 2.1. French Withholding Tax

##### ***Covered Bonds issued as from 1 March 2010***

Following the introduction of the French "*loi de finances rectificative pour 2009 n° 3*" (no. 2009-1674 dated 30 December 2009) (the "**Law**"), payments of interest and other revenues made by the Issuer with respect to Covered Bonds issued on or after 1 March 2010 (other than Covered Bonds (described below) which are assimilated (*assimilables*) for the purpose of French law) and form a single series with Covered Bonds issued before 1 March 2010 having the benefit of Article 131 *quater* of the French General Tax Code) will not be subject to the withholding tax set out under Article 125 A III of the French General Tax

Code unless such payments are made outside France in a non-cooperative State or territory (*Etat ou territoire non coopératif*) within the meaning of Article 238-0 A of the French General Tax Code (a "**Non-Cooperative State**"). If such payments under the Covered Bonds are made in a Non-Cooperative State, a 50% withholding tax will be applicable (subject to certain exceptions and to the more favourable provisions of any applicable double tax treaty) by virtue of Article 125 A III of the French General Tax Code.

Furthermore, interest and other revenues on such Covered Bonds will no longer be deductible from the Issuer's taxable income, as from the fiscal years starting on or after 1 January 2011, if they are paid or accrued to persons established in a Non-Cooperative State or paid in such a Non-Cooperative State. Under certain conditions, any such non-deductible interest and other revenues may be recharacterised as constructive dividends pursuant to Article 109 of the French General Tax Code, in which case such non-deductible interest and other revenues may be subject to the withholding tax set out under Article 119 *bis* of the French General Tax Code, at a rate of 25% or 50%.

Notwithstanding the foregoing, the Law provides that neither the 50% withholding tax nor the non-deductibility will apply in respect of a particular issue of Covered Bonds if the Issuer can prove that the principal purpose and effect of such issue of Covered Bonds was not that of allowing the payments of interest or other revenues to be made in a Non-Cooperative State (the "**Exception**"). Pursuant to the ruling (*rescrit*) no. 2010/11 (FP and FE) of the *Direction générale des impôts* dated 22 February 2010, an issue of Covered Bonds will benefit from the Exception without the Issuer having to provide any proof of the purpose and effect of such issue of Covered Bonds if such Covered Bonds are:

- (i) offered by means of a public offer within the meaning of Article L.411-1 of the French Monetary and Financial Code or pursuant to an equivalent offer in a State or territory other than a Non-Cooperative State. For this purpose, an "equivalent offer" means any offer requiring the registration or submission of an offer document by or with a foreign securities market authority; or
- (ii) admitted to trading on a regulated market or on a French or foreign multilateral securities trading system provided that such market or system is not located in a Non-Cooperative State, and the operation of such market is carried out by a market operator or an investment services provider, or by such other similar foreign entity, provided further that such market operator, investment services provider or entity is not located in a Non-Cooperative State; or
- (iii) admitted, at the time of their issue, to the operations of a central depository or of a securities clearing and delivery and payments systems operator within the meaning of Article L.561-2 of the French Monetary and Financial Code, or of one or more similar foreign depositories or operators provided that such depository or operator is not located in a Non-Cooperative State.

***Covered Bonds issued before 1 March 2010 and Covered Bonds which are assimilated (assimilables for the purpose of French law) with Covered Bonds issued before 1 March 2010***

Payments of interest and other revenues with respect to (i) Covered Bonds issued (or deemed issued) outside France as provided under Article 131 *quater* of the French General Tax Code, before 1 March 2010 and (ii) Covered Bonds which are assimilated (*assimilables* for the purpose of French law) and form a single series with such Covered Bonds, will continue to be exempt from the withholding tax set out under Article 125 A III of the French General Tax Code.

Covered Bonds issued before 1 March 2010, whether denominated in Euro or in any other currency, and constituting *obligations* under French law, or *titres de créances négociables* within the meaning of rulings (*rescrits*) no. 2007/59 (FP) and 2009/23 (FP) of the *Direction générale des impôts* dated 8 January 2008 and 7 April 2009, respectively, or other debt securities issued under French or foreign law and considered by the French tax authorities as falling into similar categories, are deemed to be issued outside the Republic of France for the purpose of Article 131 *quater* of the French General Tax Code, in accordance with Circular 5 I-11-98 of the *Direction générale des impôts* dated 30 September 1998 and the aforementioned rulings (*rescrits*) no. 2007/59 (FP) and 2009/23 (FP).

In addition, interest and other revenues paid by the Issuer on Covered Bonds issued before 1 March 2010 (or Covered Bonds issued after 1 March 2010 and which are to be assimilated (*assimilables* for the purpose of French law) and form a single series with such Covered Bonds) will not be subject to the withholding tax set out in Article 119 *bis* of the French General Tax Code solely on account of their being paid in a Non-Cooperative State or accrued or paid to persons established or domiciled in a Non-Cooperative State.

## **2.2. Directive**

The Directive has been implemented in French law by Article 242 *ter* of the French General Tax Code (*Code général des impôts*) and Articles 49 I *ter* to 49 I *sexies* of the Schedule III to the French General Tax Code (*Code général des impôts*). Article 242 *ter* of the French General Tax Code (*Code général des impôts*), imposes on paying agents based in France an obligation to report to the French tax authorities certain information with respect to interest payments made to beneficial owners domiciled in another Member State, including, among other things, the identity and address of the beneficial owner and a detailed list of the different categories of interest paid to that beneficial owner.

## **3. Luxembourg Taxation**

The Directive has been implemented in Luxembourg law by Act of 21 June 2005.

### **3.1. Individuals**

#### *Luxembourg residents*

A ten per cent. (10%) withholding tax has been introduced, as from 1 January 2006, on interest payments made by Luxembourg paying agents (defined in the same way as in the Directive) to Luxembourg individual residents. Only interest accrued after 1 July 2005 falls within the scope of this withholding tax. Income (other than interest) from investment funds and from current accounts, provided that the interest rate is not higher than 0.75%, are exempt from the withholding tax. Furthermore, interest which is accrued once a year on savings accounts (short and long term) and which does not exceed €250 per person and per paying agent is exempted from the withholding tax.

This withholding tax represents the final tax liability for the Luxembourg individual resident taxpayers.

#### *Luxembourg non-residents*

Subject to the application of the Directive and the applicable laws, there is no withholding tax on payments of interest (including accrued but unpaid interest) made to Luxembourg non-resident Bondholders.

Under the Directive and the applicable laws, a Luxembourg based paying agent (within the meaning of the Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) a beneficial owner (within the meaning of the Directive) resident in another Member State unless the beneficiary of the interest payments elects for the exchange of information. The same regime applies to payments to beneficial owners (within the meaning of the Directive) resident in certain dependent territories.

The withholding tax rate was initially fifteen per cent. (15%) until 30 June 2008, increasing steadily to twenty per cent. (20%) as from 1 July 2008 and to thirty-five per cent. (35%) as from 1 July 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain other countries.

### **3.2. Corporations**

There is no withholding tax for Luxembourg resident and non-resident corporations Bondholders on payments of interest (including accrued but unpaid interest).



## SUBSCRIPTION AND SALE

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will only include French law Covered Bonds and the expression "Bondholders" includes any holder of such French law Covered Bonds, in the following section.*

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 7 December 2010 between the Issuer, the Arranger and the Permanent Dealer (the "**Dealer Agreement**"), the Covered Bonds will be offered by the Issuer to the Permanent Dealer. However, the Issuer has reserved the right to sell Covered Bonds directly on its own behalf to Dealers that are not the Permanent Dealer. The Covered Bonds may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer(s). The Covered Bonds may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Covered Bonds to be issued in syndicated Tranches that are jointly and severally underwritten by two (2) or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Covered Bonds subscribed by it. The Issuer has agreed to reimburse the Arranger for its expenses incurred in connection with the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Covered Bonds. The Dealers have agreed to indemnify the Issuer against certain liabilities in connection with the offer and sale of the Covered Bonds. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Covered Bonds in certain circumstances prior to payment for such Covered Bonds being made to the Issuer.

### Selling Restrictions

#### General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers in particular following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Covered Bonds to which it relates or in a supplement to this Base Prospectus.

Each Dealer has agreed that it will comply, to the best of its knowledge, with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes this Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefore.

#### European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (each, a "**Relevant Implementation Date**") it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds (except for German law Covered Bonds) to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than € 43,000,000; and (3) an annual net turnover of more than € 50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Covered Bonds to the public**" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The qualification of German law Covered Bonds, in particular their qualification as securities within the meaning of the implementing measures to the Prospectus Directive, may vary among the different Member States of the European Economic Area. Therefore, each Dealer represents and agrees and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of German law Covered Bonds to the public in that Relevant Member State unless in compliance with the laws applicable in that Relevant Member State to German law Covered Bonds.

#### **United States of America**

The Covered Bonds have not been and will not be registered under the Securities Act, and subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons as defined under Regulation S. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell the Covered Bonds of any identifiable Tranche within the United States, except as permitted by the Dealer Agreement.

Materialised Covered Bonds having a maturity of more than one (1) year 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.

In addition, until forty (40) days after the commencement of the offering of any identifiable Tranche, an offer or sale of 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.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Covered Bonds outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Covered Bonds, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

#### **France**

Each of the Dealers and the Issuer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, any Covered Bonds to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Base Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds and such

offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*), all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French Monetary and Financial Code (*Code monétaire et financier*).

This Base Prospectus, prepared in connection with the Covered Bonds to be issued under the Programme, has not been submitted to the clearance procedures of the *Autorité des marchés financiers*.

### **United Kingdom**

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) in relation to any Covered Bonds which have a maturity of less than one (1) year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than 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 who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

### **Japan**

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the "FIEA") and each of the Dealers has represented and agreed that it will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident in Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act No. 228 of 1949, as amended), or to others for re-offering or resale, directly or indirectly in Japan or to a resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **The Netherlands**

Each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Covered Bonds other than to persons who trade or invest in securities in the conduct of a profession or business which includes banks, stock brokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises.

### **Italy**

This Base Prospectus has not been, nor will be, published in the Republic of Italy in connection with the offering of Covered Bonds and such offering of Covered Bonds has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("Consob") in the Republic of Italy pursuant to Legislative Decree no. 58 of 24 February 1998 as amended (the "Financial Services Act") and to Consob Regulation no. 11971 of 14 May 1999, as amended (the "Issuers Regulation") and, accordingly, no Covered Bond may be offered, sold, transferred or delivered, and will not be offered, sold, transferred or delivered, directly or indirectly, in an offer to the public in the Republic of Italy, nor may, or will, copies

of this Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined in Article 34-ter, paragraph 1(b) of the Issuers Regulation; or
- (b) in other circumstances which are exempted from the rules on offers to the public pursuant to, and in compliance with, the conditions set out in Article 100 of the Financial Services Act and its implementing regulations, including Article 34-ter, first paragraph, of the Issuers Regulation.

Any offer, sale, transfer or delivery of Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must, and will, be effected in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations and, in particular, will be made:

- (a) by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Consob Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**"); and
- (b) in compliance with any other notification requirement or limitation which may be, from time to time, imposed by Consob, the Bank of Italy and/or any other Italian authority.

Any investor purchasing Covered Bonds in the offering is solely responsible for ensuring that any offer or resale of Covered Bonds it purchased in the offering occurs in compliance with applicable Italian laws and regulations. No person resident or located in the Republic of Italy other than the original addressees of this Base Prospectus may rely on this Base Prospectus, its content or any other document relating to the Covered Bonds.

## **Germany**

Each of the Dealers and the Issuer has represented and agreed that it will offer or sell, directly or indirectly, any Covered Bonds to the public in Germany in compliance with the provisions of the German Securities Prospectus Act (*Wertpapier-Prospektgesetz*) and the German Sales Prospectus Act (*Wertpapier-Verkaufprospektgesetz*), as applicable.

## GENERAL INFORMATION

*For the avoidance of doubt, it is specified that the expression "Covered Bonds" will only include French law Covered Bonds and the expression "Bondholders" includes any holder of such French law Covered Bonds, in the following section, except as otherwise specified.*

- (1) This Base Prospectus has been approved by the CSSF, as competent authority in Luxembourg for the purposes of the Prospectus Directive.
- (2) The Issuer has obtained all necessary corporate and other consents, approvals and authorisations in France in connection with the update of the Programme. Any issuance of Covered Bonds under the Programme, to the extent that such Covered Bonds constitute *obligations* under French law, requires the prior authorisation of the board of directors (*conseil d'administration*) of the Issuer, which may delegate its power to any member of the board of directors (*conseil d'administration*) of the Issuer, to the managing director (*directeur général*) of the Issuer, or with the latter's agreement to any vice managing director (*directeur général délégué*) of the Issuer (if any) or to any other person.
- (3) There has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2009.
- (4) The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceeding which is pending or threatened of which the Issuer is aware) during a period covering at least the previous twelve (12) months which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer.
- (5) Save as disclosed in this Base Prospectus, there are no material contracts that are not entered into in the ordinary course of the Issuer's business which could result in any Affiliate being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to Bondholders in respect of the Covered Bonds being issued.
- (6) Application may be made for Covered Bonds to be accepted for clearance through Euroclear France (115 rue Réaumur, 75081 Paris cedex 02, France) and/or Euroclear (boulevard du Roi Albert II, 1210 Bruxelles, Belgique) and Clearstream, Luxembourg (42 avenue JF Kennedy, 1855 Luxembourg, Luxembourg). The Common Code and the International Securities Identification Number (ISIN) or the identification number for any other relevant clearing system for each Series of Covered Bonds will be set out in the relevant Final Terms.
- (7) KPMG Audit, 1, cours Valmy, 92923 Paris La Défense Cedex, France, (duly authorised as Commissaires aux comptes) have been appointed as Commissaire aux comptes to the Issuer as from 16 December 2004 and have audited and rendered unqualified audit reports on the non-consolidated financial statements of the Issuer for the fiscal years ended 2008 and 2009. BDO France - Léger & associés, 52, rue La Boétie, 75008 Paris, France, (duly authorised as Commissaires aux comptes) have been appointed as Commissaire aux comptes to the Issuer as from 20 June 2008 and have audited and rendered an unqualified audit report on the non-consolidated financial statements of the Issuer for the fiscal year ended 2009.
- (8) The Issuer does not intend to provide post-issuance transaction information regarding the Covered Bonds to be admitted to trading and the performance of the underlying collateral, except if required by any applicable laws and regulations.
- (9) The Issuer does not produce consolidated financial statements.
- (10) This Base Prospectus will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) during a period of at least twelve (12) months from the date of this Base Prospectus. The Final Terms related to Covered Bonds admitted to trading on any Regulated Market of the EEA in accordance with the Prospectus Directive will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) during a period of at least twelve (12) months from the date of this Base Prospectus.

In addition, should the Covered Bonds be admitted to trading on a Regulated Market of the EEA other than the Regulated Market of the Luxembourg Stock Exchange in accordance with the Prospectus Directive, the Final Terms related to those Covered Bonds will provide whether this Base Prospectus and the relevant Final Terms will be published on the website of (x) the Regulated Market of the Member State of the EEA where the Covered Bonds have been admitted to trading or (y) the competent authority of the Member State of the EEA where the Covered Bonds have been admitted to trading.

- (11) So long as Covered Bonds (including German law Covered Bonds) are capable of being issued under the Programme, copies of the following documents will, when published, be available during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer and at the specified office of the Paying Agent(s):
- (a) the *statuts* of the Issuer;
  - (b) the audited non-consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2008 and 31 December 2009;
  - (c) the Agency Agreement (which includes the form of the *Lettre Comptable*, the Temporary Global Certificates, the Definitive Materialised Covered Bonds, the Coupons, the Receipts, the Talons, the Terms and Conditions of the German law Covered Bonds and the form of Assignment of the German law Covered Bonds);
  - (d) the Issuer Accounts Pledge Agreement and the Receivables Pledge Agreement;
  - (e) Final Terms for Covered Bonds that are listed on the Official List of the Luxembourg Stock Exchange and traded on the Regulated Market of the Luxembourg Stock Exchange or any other Regulated Market in the EEA;
  - (f) a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus;
  - (g) all reports, letters and other documents, historical financial information, valuations and statements prepared by any expert at the Issuer's request any part of which is included or referred to in this Base Prospectus.

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**Arranger:**

**HSBC France**

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**Permanent Dealer:**

**HSBC France**

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**Fiscal Agent, Principal Paying Agent, Paris Paying Agent and Calculation Agent  
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Corporate Trust Services  
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