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Bradford &amp; Bingley plc

**Bradford & Bingley plc***(incorporated with limited liability in England and Wales)***€10 billion****Covered Bond Programme**

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

**Bradford & Bingley Covered Bonds LLP***(a limited liability partnership incorporated in England and Wales)*

Under this €10 billion covered bond programme (the **Programme**), Bradford & Bingley plc (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below).

Bradford & Bingley Covered Bonds LLP (the **LLP**) has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Portfolio (as defined below) and its other assets. Recourse against the LLP under its guarantee is limited to the Portfolio and such assets.

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €10 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under *Summary of the Programme* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular (as defined below) to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

Application has been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme during the period of 12 months from the date of this Offering Circular to be listed on the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under *Terms and Conditions of the Covered Bonds*) of Covered Bonds will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Covered Bonds to be listed on the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Programme provides that Covered Bonds may be listed on such other or further stock exchange(s) as may be agreed between the Issuer, the LLP, the Bond Trustee (as defined below) and the relevant Dealer(s). The Issuer may also issue unlisted Covered Bonds.

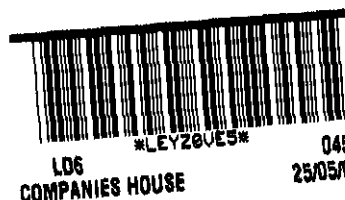
The Issuer and the LLP may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds intended to be listed on the Luxembourg Stock Exchange) a supplemental Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

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

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

**Arrangers for the Programme****Citigroup****HSBC****Dealers****ABN AMRO****Barclays Capital****Citigroup****HSBC**

The date of this Offering Circular is 21st May, 2004.



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

None of the Dealers, the Bond Trustee or the Security Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers, the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer and the LLP in connection with the Programme. Neither the Dealers nor the Bond Trustee nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer and the LLP in connection with the Programme.

No person is or has been authorised by the Issuer, the LLP, any of the Dealers, the Bond Trustee or the Security Trustee to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the LLP, any of the Dealers, the Bond Trustee or the Security Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Covered Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the LLP, the Seller (as defined below), any of the Dealers, the Bond Trustee or the Security Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the LLP. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, the LLP, the Seller, any of the Dealers, the Bond Trustee or the Security Trustee to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and/or the LLP and/or the Seller is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date indicated in the document containing the same. The Dealers, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer, the LLP or the Seller during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Covered Bonds.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the LLP, the Seller, the Dealers, the Bond Trustee and the Security Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the LLP, the Seller, the Dealers, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Covered Bonds in the United States, the United Kingdom, Japan, The Netherlands, the Republic of Italy and Germany, see *Subscription and Sale*.

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

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

**In connection with the issue and distribution of any Tranche of Covered Bonds, the Dealer (if any) disclosed as the stabilising manager in the applicable Pricing Supplement or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Covered Bonds of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the stabilising manager or any of its agents to do this. Such stabilising, if commenced, shall be carried out in accordance with all applicable laws and regulations, may be discontinued at any time and must be brought to an end after a limited period.**

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

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

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

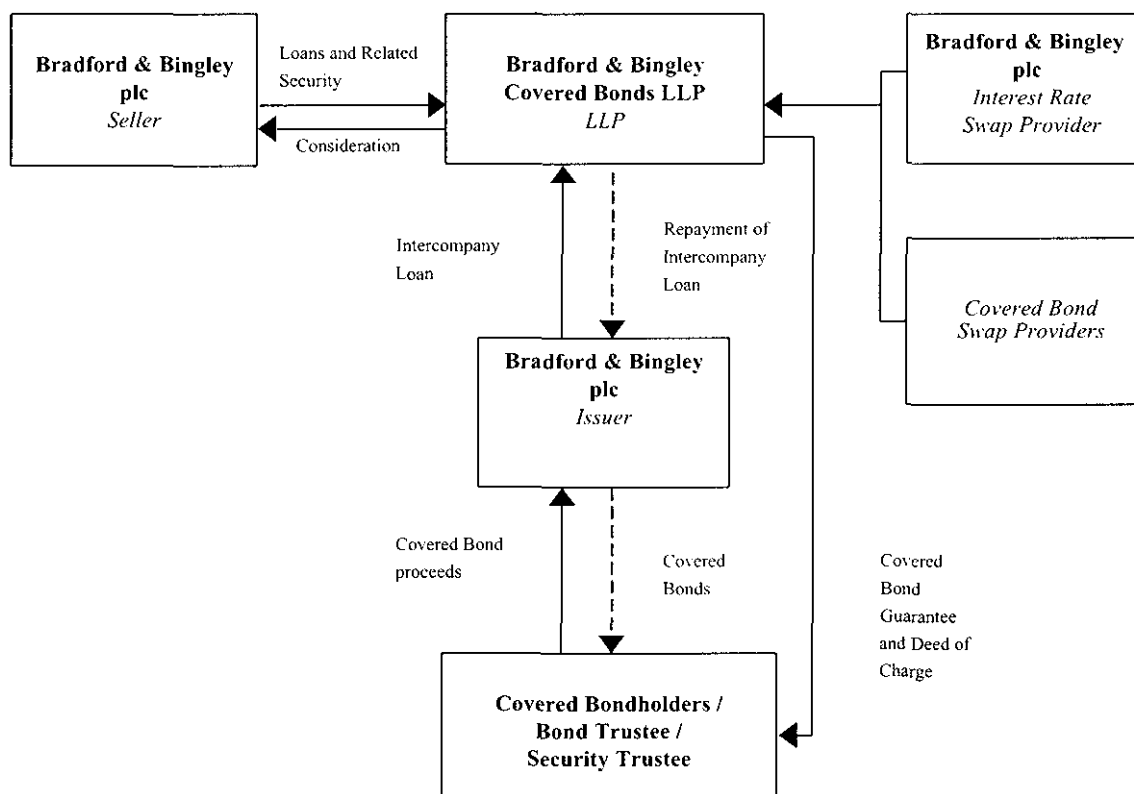
The Issuer and the LLP will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference (other than the Issuer's audited annual and unaudited interim financial statements, in relation to which, see below) unless such documents have been modified or superseded as specified above. Requests for such documents should be directed either to the Issuer or the LLP, at their respective offices set out at the end of this Offering Circular. The Issuer's audited annual and unaudited interim financial statements are available online, without charge, from [www.bbg.co.uk](http://www.bbg.co.uk). In addition, such documents (including the Issuer's audited annual and unaudited interim financial statements) will be available free of charge from the principal office in Luxembourg of Dexia Banque International à Luxembourg (the **Luxembourg Listing Agent**) for Covered Bonds listed on the Luxembourg Stock Exchange. The Issuer and the LLP will, in connection with the listing of the Covered Bonds on the Luxembourg Stock Exchange, so long as any Covered Bond remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer or the LLP which is not reflected in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Covered Bonds to be listed on the Luxembourg Stock Exchange.

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

## STRUCTURE OVERVIEW

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

### Structure Diagram



### Structure Overview

- Programme:** Under the terms of the Programme, the Issuer will issue Covered Bonds to Covered Bondholders on each issue date (each, an **Issue Date**). The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.
- Intercompany Loan Agreement:** Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to the gross proceeds of each Series or, as applicable, Tranche of Covered Bonds. The Term Advances will not be repaid by the LLP until all amounts payable under the corresponding Series of Covered Bonds have been repaid in full by the Issuer. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP under the Intercompany Loan Agreement will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee.
- Covered Bond Guarantee:** Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following the occurrence of an Issuer Event of Default, the service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional and

unsubordinated obligations of the LLP, secured as provided in the Deed of Charge. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee will be limited to the assets of the LLP from time to time. Payments made by the LLP under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable (each as defined below).

- *The proceeds of Term Advances:* The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, after swapping the same into Sterling under the relevant Covered Bond Swap Agreement) (i) to purchase the Initial Portfolio and each New Portfolio, consisting of Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement and/or (ii) subject to complying with the Asset Coverage Test (as defined below) to make a Capital Distribution to any Member by way of distribution of that Member's equity in the LLP in an amount equal to the Term Advance (or the Sterling Equivalent thereof) and/or any part thereof; and/or (iii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (iv) if an existing Series, or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to such existing Series or Tranche; and/or (v) to deposit all or part of the proceeds into the GIC Account. To protect the value of the Portfolio under the terms of the LLP Deed, the LLP and the Seller (in its capacity as a Member of the LLP) will be obliged to ensure that the Asset Coverage Test (as described below) will be satisfied on each Calculation Date.
- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the LLP on any Transfer Date will be a combination of (i) a cash payment paid by the LLP to the Seller; and/or (ii) the Seller being treated as having made a Capital Contribution to the LLP in an amount equal to the difference between the Current Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP in respect of such Loans; and/or (iii) the right of the Seller (pursuant to and in accordance with the LLP Deed) to receive a share of the LLP Income Profits and amounts (if any) standing to the credit of the Members' reserve from time to time.
- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the Portfolio, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.
- *Cashflows:* Prior to service of a Notice to Pay on the LLP under the Covered Bond Guarantee the LLP will:
  - apply Available Revenue Receipts to pay interest due on the Term Advances and/or to make certain payments to the Members in accordance with their respective entitlements to income under the LLP Deed, but only after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses, amounts due to the Interest Rate Swap Providers, amounts due to the Covered Bond Swap Providers, amounts to be credited (if any) to the Reserve Fund and interest due and payable on the Term Advances). For further details of the Pre-Acceleration Revenue Priority of Payments, see *Cashflows* below; and
  - apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of certain items ranking higher in the relevant Pre-Acceleration Principal Priority of Payments. For further details of the Pre-Acceleration Principal Priority of Payments, see *Cashflows* below.

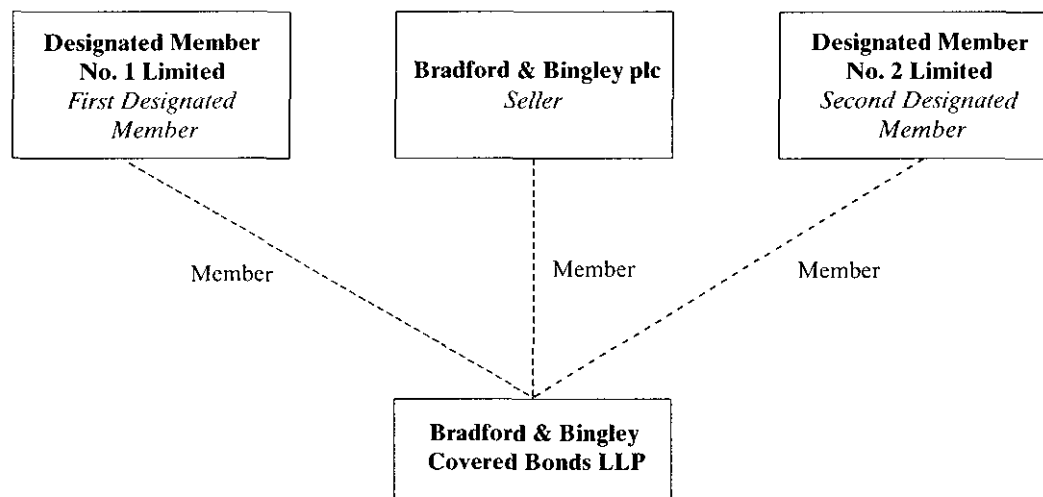
Following service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice on the LLP) the LLP will use all monies (other than Third Party Amounts) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the LLP in the Guarantee Priority of Payments. In such circumstances, the Members of the LLP, including the Seller, will only be entitled to receive any remaining income of the LLP after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP, the Covered Bonds will become immediately due and repayable (if not already immediately due and payable following the occurrence of an Issuer Event of Default) and the Bond Trustee will then have a claim against the LLP under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds and the security created by the LLP over the Charged Property will become enforceable. Any moneys recovered by the Security Trustee from realisation of the Charged Property following enforcement of the security created by the LLP in accordance with the Deed of Charge will be distributed according to the Post-Enforcement Priority of Payments, as to which see *Cashflows* below.

- *Asset Coverage:* The Programme provides that the assets of the LLP are subject to an asset coverage test in respect of the Covered Bonds. Accordingly, for so long as Covered Bonds remain outstanding, the LLP and the Seller (in its capacity as a Member of the LLP) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding from time to time. If the same has not been remedied on or before the next Calculation Date, a breach of the Asset Coverage Test will constitute an Issuer Event of Default, which will entitle the Bond Trustee to serve an Issuer Acceleration Notice on the Issuer and upon the service of such notice, the Bond Trustee shall serve a Notice to Pay on the LLP under the Covered Bond Guarantee.
- *Amortisation Test:* In addition, following service of a Notice to Pay on the LLP (but prior to an LLP Event of Default and service of an LLP Acceleration Notice) and for so long as Covered Bonds remain outstanding, the LLP and the Seller (in its capacity as a Member) must ensure that on each Calculation Date following an Issuer Event of Default the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding from time to time. The Cash Manager will test the Amortisation Test on each Calculation Date following an Issuer Event of Default and service of a Notice to Pay on the LLP. A breach of the Amortisation Test will constitute an LLP Event of Default, which will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP declaring the Covered Bonds immediately due and repayable and entitle the Security Trustee to enforce the Security over the Charged Property.
- *Extendable obligations under the Covered Bond Guarantee:* An Extended Final Maturity Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Pricing Supplement. This means that if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the LLP on or before the Extension Determination Date (for example because following the service of a Notice to Pay on the LLP, the LLP has or will have insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds), then payment of the unpaid amount pursuant to the Covered Bond Guarantee shall be automatically deferred and shall become due and payable one year later on the Extended Final Maturity Date (subject to any applicable grace period). However, any amount representing the Final Redemption Amount (as defined below) due and remaining unpaid on the Extension Determination Date may be paid by the LLP 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 the Original Due for Payment Date and on the Extended Final Maturity Date in accordance with Condition 3(a).
- *Servicing:* Bradford & Bingley plc (in its capacity as Servicer), has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which the Servicer has agreed to provide administrative services in respect of the Loans and their Related Security sold by Bradford & Bingley plc (in its capacity as Seller) to the LLP.
- *Third Party Member:* A third party (not being a member of the Bradford & Bingley Group) may become a Member of the LLP, subject to meeting certain conditions precedent including, but not limited to, written confirmation from the Rating Agencies that this would not adversely affect the then current ratings of all outstanding Covered Bonds.

- *Further Information:* For a more detailed description of the transactions summarised above relating to the Covered Bonds, see, amongst other relevant sections of this Offering Circular, *Summary of the Programme, Terms and Conditions of the Covered Bonds, Summary of the Principal Documents, Credit Structure, Cashflows and The Portfolio*, below.

#### **Ownership Structure of Bradford & Bingley Covered Bonds LLP**



- As at the Programme Date the Members of the LLP are the Issuer and the Designated Members.
- Any Third Party Member that wishes to make a contribution to the LLP and become a Member of the LLP will be required first to accede to, *inter alia*, the LLP Deed, provided that, the Rating Agencies have confirmed in writing that the accession of any Third Party Member as a Member to the LLP Deed will not adversely affect the then current ratings of the Covered Bonds.
- Other than in respect of those decisions reserved to the Members, the Management Board (comprised of, as at the Programme Date, directors and/or employees of the Seller and the Designated Members) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP.

## SUMMARY OF THE PROGRAMME

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

- Issuer:** Bradford & Bingley plc
- For a more detailed description of the Issuer, see *The Issuer*, below.
- The LLP:** Bradford & Bingley Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC306627). The Members of the LLP on the Programme Date are the Seller and the Designated Members. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and Substitution Assets and to provide, and if necessary, make payments under the Covered Bond Guarantee. The LLP will hold the Portfolio in accordance with the terms of the Transaction Documents.
- The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following the occurrence of an Issuer Event of Default, the service of an Issuer Acceleration Notice on the Issuer and the service on the LLP of a Notice to Pay. The obligations of the LLP under such guarantee and the other Transaction Documents to which it is a party are secured by the assets from time to time of the LLP and recourse against the LLP is limited to such assets.
- For a more detailed description of the LLP, see *The LLP*, below.
- Seller:** Bradford & Bingley plc, which is in the business of originating and acquiring residential mortgage loans and conducting other banking activities.
- For a more detailed description of Bradford & Bingley plc, see *The Issuer*, below.
- Servicer:** Pursuant to the terms of the Servicing Agreement, Bradford & Bingley plc has been appointed to service, on behalf of the LLP, the Loans and Related Security sold by the Seller.
- Cash Manager:** Bradford & Bingley plc has also been appointed to, *inter alia*, provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test and the Amortisation Test pursuant to the terms of the Cash Management Agreement.
- Issuing and Principal Paying Agent and Agent Bank:** Citibank N.A., London Branch, acting through its offices at 5 Carmelite Street, London EC4Y 0PA has been appointed pursuant to the Agency Agreement as issuing and principal paying agent and agent bank.
- Bond Trustee:** Citicorp Trustee Company Limited, having its registered office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed to act as Bond Trustee

on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, *inter alia*, the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the terms of the Trust Deed.

**Security Trustee:**

Citicorp Trustee Company Limited, having its registered office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself and the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders, the Receiptholders and the Couponholders)), the Issuer, the Seller, the Servicer, the Account Bank, the GIC Provider, the Stand-by Account Bank, the Stand-by GIC Provider, the Corporate Services Providers, the Cash Manager, the Swap Providers, the Paying Agents, the Calculation Agent, the Luxembourg Paying Agent and any other person which becomes a Secured Creditor (the **Secured Creditors**) under the Deed of Charge.

**Asset Monitor:**

KPMG Audit Plc, having its registered office at 8 Salisbury Square, London EC4Y 8BB has been appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.

**Covered Bond Swap Providers:**

Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay) by entering into the Covered Bond Swap Agreements with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of such Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to put in place other arrangements to maintain the then current ratings of the Covered Bonds (which may include obtaining a guarantee of its obligations from an appropriately rated guarantor or providing collateral for its obligations).

**Interest Rate Swap Provider:**

Bradford & Bingley plc (in its capacity as the Interest Rate Swap Provider) has agreed to act as swap provider to the LLP to hedge possible variances between the rates of interest payable on the Loans sold by the Seller to the LLP and three-month LIBOR by entering into the Interest Rate Swap with the LLP and the Security Trustee under the Interest Rate Swap Agreement. In the event that the ratings of the Interest Rate Swap Provider fall below a specified ratings level, the Interest Rate Swap Provider will be required to put in place other arrangements to maintain the then current ratings of the Covered Bonds (which may include obtaining a guarantee of its obligations from an appropriately rated guarantor or providing collateral for its obligations).

For a more detailed description of the Interest Rate Swap Provider, see *The Issuer*, below.

<b>GIC Provider:</b>	National Westminster Bank plc has agreed to act as GIC Provider to the LLP pursuant to the terms of the Guaranteed Investment Contract.
<b>Account Bank:</b>	National Westminster Bank plc has agreed to act as Account Bank to the LLP pursuant to the terms of the Bank Account Agreement.
<b>Stand-by GIC Provider:</b>	Citibank N.A., London Branch, acting through its offices at 5 Carmelite Street, London EC4Y 0PA has agreed to act as Stand-by GIC Provider to the LLP pursuant to the terms of the Stand-by Guaranteed Investment Contract.
<b>Stand-by Account Bank:</b>	Citibank N.A., London Branch, acting through its offices at 5 Carmelite Street, London EC4Y 0PA has agreed to act as Stand-by Account Bank to the LLP pursuant to the terms of the Stand-by Bank Account Agreement and, in certain circumstances giving rise to the termination of the Bank Account Agreement, will perform the duties set out in the Stand-by Bank Account Agreement.
<b>First Designated Member:</b>	Designated Member No. 1 Limited (the <b>First Designated Member</b> ), a special purpose vehicle incorporated in Jersey as a private limited company (registered no. 86839). The First Designated Member is 100 per cent. owned by Holdings.
<b>Holdings:</b>	Ivybond Holdings Limited ( <b>Holdings</b> ), a special purpose vehicle incorporated in Jersey as a private limited company (registered no. 86840). A trustee (the <b>Share Trustee</b> ) holds all of the shares of Holdings on trust for general charitable purposes.
<b>Jersey Share Trustee:</b>	Structured Finance Management Offshore Limited, having its registered office at 47 Esplanade, St. Helier, Jersey JE1 0BD.
<b>Jersey Corporate Services Provider:</b>	Structured Finance Management Offshore Limited, (the <b>Jersey Corporate Services Provider</b> ) having its registered office at 47 Esplanade, St. Helier, Jersey JE1 0BD, has been appointed to provide certain corporate services to Holdings and the First Designated Member pursuant to the Jersey Corporate Services Agreement.
<b>Second Designated Member:</b>	Designated Member No. 2 Limited (the <b>Second Designated Member</b> ), and, together with the First Designated Member, the <b>Designated Members</b> ), a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 05058582). SFM Corporate Services Limited, having its registered office at Blackwell House, Guildhall Yard, London EC2V 5AE, holds all the shares of the Second Designated Member on trust for general charitable purposes.
<b>UK Share Trustee</b>	SFM Corporate Services Limited, having its registered office at Blackwell House, Guildhall Yard, London EC2V 5AE.
<b>UK Corporate Services Provider:</b>	Structured Finance Management Limited (the <b>UK Corporate Services Provider</b> and, together with the Jersey Corporate Services Provider, the <b>Corporate Services Providers</b> ), having its registered office at Blackwell House, Guildhall

Yard, London EC2V 5AE, has been appointed to provide certain corporate services to the Second Designated Member pursuant to the UK Corporate Services Agreement (together with the Jersey Corporate Services Agreement, the **Corporate Services Agreements**).

**Third Party Member:**

Any third party (not being a member of the Bradford & Bingley Group) who (subject to meeting certain conditions precedent set out in the LLP Deed including, but not limited to, written confirmation from the Rating Agencies that their joining would not adversely affect the then current ratings of all outstanding Covered Bonds) becomes a Member of the LLP (a **Third Party Member**).

**Description:**

Covered Bond Programme.

**Arrangers:**

Citigroup Global Markets Limited  
HSBC Bank plc

**Dealers:**

ABN AMRO Bank N.V.  
Barclays Capital  
Citigroup Global Markets Limited  
HSBC Bank plc

and any other Dealers appointed from time to time in accordance with the Programme Agreement.

**Certain Restrictions:**

Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see *Subscription and Sale*).

**Programme Size:**

Up to €10 billion (or its equivalent in other currencies) outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

**Distribution:**

Covered Bonds may be distributed outside the United States to persons other than U.S. persons (as such terms are defined in Regulation S under the Securities Act) by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in *Subscription and Sale*, below.

**Specified Currencies:**

Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Pricing Supplement).

**Redenomination:**

The applicable Pricing Supplement may provide that certain Covered Bonds may be redenominated in euro. If so, the redenomination provisions will be set out in the applicable Pricing Supplement.

**Maturities:**

Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Pricing

Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

**Issue Price:**

Covered Bonds may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

**Form of Covered Bonds:**

The Covered Bonds will be issued in bearer form, see *Form of the Covered Bonds*.

**Fixed Rate Covered Bonds:**

Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Pricing Supplement).

**Floating Rate Covered Bonds:**

Floating Rate Covered Bonds will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., (**ISDA**) and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Pricing Supplement).

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds.

**Index Linked Covered Bonds:**

Payments of principal in respect of Index Linked Redemption Covered Bonds or of interest in respect of Index Linked Interest Covered Bonds will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Pricing Supplement).

**Other provisions in relation to Floating Rate Covered Bonds and Index Linked Interest Covered Bonds:**

Floating Rate Covered Bonds and Index Linked Interest Covered Bonds may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Pricing Supplement). Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).

**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 the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Pricing Supplement).

**Zero Coupon Covered Bonds:**

Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment, as described in Condition 5(j).

**Redemption:**

The applicable Pricing Supplement relating to each Tranche of Covered Bonds will indicate either that the relevant Covered Bonds of such Tranche cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or if it becomes unlawful for any Term Advance to remain outstanding or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the Covered Bondholders, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Pricing Supplement).

The applicable Pricing Supplement may provide that Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

**Extendable Obligations under the Covered Bond Guarantee:**

The applicable Pricing Supplement may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) shall be deferred until the Extended Final Maturity Date provided that, any amount representing the amount due on the Final Maturity Date as set out in the relevant Pricing Supplement (the **Final Redemption Amount**) due and remaining unpaid on the date falling three Business Days after the expiry of seven days from (and including) the Final Maturity Date of the relevant Series of Covered Bonds (the **Extension Determination Date**) may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Extension Determination Date (for example, because following service of a Notice to Pay on the LLP, the LLP has or will have insufficient moneys to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in

sufficient time to pay in part the Final Redemption Amount, such partial repayment shall be made as described in Condition 4(g). Interest will continue to accrue and be payable on any unpaid amount up to the Extended Final Maturity Date in accordance with Condition 4 and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Original Due for Payment Date and Extended Final Maturity Date.

**Denomination of Covered Bonds:**

Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Pricing Supplement save that the minimum denomination of each Covered Bond will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

**Taxation:**

All payments in respect of the Covered Bonds will be made without withholding or deduction for or on account of taxes imposed by any Tax Jurisdiction, subject as provided in Condition 6. In the event that any such withholding or deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 6, be required to pay additional amounts to cover the amounts so deducted. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 6.

**Cross Default:**

Each Series of Covered Bonds will cross accelerate as against the LLP at the same time but will not otherwise contain a cross default provision.

**Status of the Covered Bonds:**

The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future, unsecured, and unsubordinated obligations of the Issuer, from time to time outstanding.

**Covered Bond Guarantee:**

Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that an Issuer Event of Default occurs, an Issuer Acceleration Notice is served on the Issuer and a Notice to Pay is served on the LLP or, if earlier, an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon the service of an LLP Acceleration Notice. The obligations of the LLP under its guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.

**Listing:**

Application has been made for Covered Bonds issued under the Programme to be listed on the Luxembourg Stock

Exchange. The Covered Bonds may also be listed, quoted and/or traded on or by such other or further competent listing authority(ies), stock exchange(s) and/or quoted system(s) as may be agreed between the Issuer and the relevant Dealer(s) in relation to each Series.

Unlisted Covered Bonds may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Covered Bonds are to be listed, quoted and/or traded and, if so, on or by which competent listing authority(ies) or stock exchange(s) and/or quotation system(s).

**Governing Law:**

The Covered Bonds will be governed by, and construed in accordance with, English law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds in the United States, the United Kingdom, Japan, The Netherlands, the Republic of Italy and Germany. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds, see *Subscription and Sale*.

## INVESTMENT CONSIDERATIONS

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

### General Investment Considerations

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

The Issuer is liable to make payments when due on the Covered Bonds. The obligations of the Issuer under the Covered Bonds are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations.

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a written demand to pay under the Covered Bond Guarantee (a **Notice to Pay**) or, if earlier, following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The occurrence of an Issuer Event of Default does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts due under the Covered Bond Guarantee would constitute an LLP Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable) and the obligations of the LLP under the Covered Bond Guarantee and entitle the Security Trustee to enforce the Security.

#### *Obligations under the Covered Bonds*

The Covered Bonds will not represent an obligation or be the responsibility of any of the Dealers, the Bond Trustee, the Security Trustee or any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer and the LLP. The Issuer and the LLP will be liable solely in their corporate capacity for their obligations in respect of the Covered Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

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

Covered Bonds issued under the Programme (save in respect of the first issue of Covered Bonds) will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share equally in the security granted by the LLP under the Deed of Charge. If an Issuer Event of Default occurs, all Covered Bonds of all Series will accelerate at the same time as against the Issuer (following service of an Issuer Acceleration Notice) but (following service on the LLP of a Notice to Pay) will be subject to and entitled to, payments on the due dates thereof by the LLP under the Covered Bond Guarantee. If an LLP Event of Default occurs then, following service of an LLP Acceleration Notice, all Covered Bonds of each Series will accelerate at the same time as against the Issuer (if not already accelerated following an Issuer Event of Default) and all corresponding obligations of the LLP under the Covered Bond Guarantee will accelerate at the same time as against the LLP. In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect existing Covered Bondholders:

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after converting the same into Sterling if necessary) (i) to acquire Loans and their Related Security from the Seller and/or (ii) (subject to complying with the Asset Coverage Test) to make a return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (**Capital Distribution**) to any Member (other than the Designated Members) by way of distribution of that Member's equity in the LLP in an amount equal to the Term Advance (or the Sterling Equivalent thereof) or part thereof; and/or (iii) to acquire Substitution Assets up to the prescribed limit, and/or (iv) if an existing Series, or Tranche of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to such Series or Tranche and/or (v) to deposit all or part of such proceeds into the GIC Account; and

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

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

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

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

***Extendable obligations under the Covered Bond Guarantee***

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds are not paid in full by the LLP on or before the Extension Determination Date, then payment of such Guaranteed Amounts shall be automatically deferred. This will occur (subject to no LLP Event of Default having occurred) if the Pricing Supplement for a relevant Series of Covered Bonds (the **relevant Series of Covered Bonds**) provides that such Covered Bonds are subject to an extended final maturity date on which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date (the **Extended Final Maturity Date**).

To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient moneys available to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds, the LLP shall make partial payment of the relevant Final Redemption Amount in accordance with the Guarantee Priority of Payments and as described in Conditions 4(g) and 5(a). Payment of all unpaid amounts shall be deferred automatically until the applicable Extended Final Maturity Date provided that, any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date. The LLP is not required to notify the Covered Bondholders of such automatic deferral. The Extended Final Maturity Date will fall one year after the Final Maturity Date. Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 and the LLP will pay Guaranteed Amounts, constituting Scheduled Interest on each Original Due for Payment Date and the Extended Final Maturity Date. In these circumstances, except where the LLP has failed to apply money in accordance with the Guarantee Priority of Payments, failure by the LLP to make payment in respect of the Final Redemption Amount on the Final Maturity Date (subject to any applicable grace period) (or such later date within the applicable grace period) shall not constitute an LLP Event of Default. However, failure by the LLP to pay the Guaranteed Amounts corresponding to the Final Redemption Amount on or the balance thereof or prior to the Extended Final Maturity Date and/or Guaranteed Amounts constituting Scheduled Interest on any Scheduled Payment Date will (subject to any applicable grace periods) be an LLP Event of Default.

Furthermore, in relation to all Guaranteed Amounts constituting Scheduled Interest due and payable on each Scheduled Payment Date falling after the Original Due for Payment Date up to (and including) the Extended Final Maturity Date, as provided in the relevant Pricing Supplement, the LLP may pay such Scheduled Interest pursuant to the Floating Rate set out in the applicable pricing supplement, notwithstanding that the relevant Covered Bond was a Fixed Rate Covered Bond as at its relevant Issue Date.

In addition, following the service of a Notice to Pay on the LLP, the Interest Payment Dates and Interest Periods may change as set out in the relevant Pricing Supplement.

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

There is not, at present, an active and liquid secondary market for the Covered Bonds, and there can be no assurance that a secondary market for the Covered Bonds will develop. If a secondary market develops, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield.

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

The ratings assigned to the Covered Bonds address:

- the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date; and
- the likelihood of ultimate payment of principal in relation to Covered Bonds on (i) the Final Maturity Date thereof or (ii) if the Covered Bonds are subject to an Extended Final Maturity Date in respect of the Covered Bond Guarantee in accordance with the applicable Pricing Supplement, on the Extended Final Maturity Date thereof.

The expected ratings of the Covered Bonds will be set out in the relevant Pricing Supplement for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, *inter alia*, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

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

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

- provided that:
  - (i) the Bond Trustee is of the opinion that such modification will not be materially prejudicial to the interests of any of the Covered Bondholders;
  - (ii) the Security Trustee is of the opinion that such modification is not materially prejudicial to the interests of any of the Secured Creditors (other than the Seller) (in which respect the Security Trustee may (without further enquiry) rely upon the consent in writing of any such Secured Creditor (other than Covered Bondholders) as to the absence of material prejudice to the interests of such Secured Creditor) or, if it is not of that opinion in relation to any such Secured Creditor or any such Secured Creditor (other than Covered Bondholders) acting reasonably has informed the Security Trustee in writing that such modification will be materially prejudicial to its interests, such Secured Creditor has given its written consent to such modification; and
  - (iii) the Security Trustee has not been informed in writing by any Secured Creditor (other than Covered Bondholders) acting reasonably that such Secured Creditor will be materially prejudiced thereby (other than a Secured Creditor who has given its written consent as aforesaid) or which in the opinion of the Bond Trustee and the Security Trustee are made to correct a manifest error or of a formal, minor or technical nature or are made to comply with mandatory provisions of law.

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

Any Programme Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice following an Issuer Event of Default or any Programme Resolution to direct the Bond Trustee to serve an LLP Acceleration Notice following an LLP Event of Default and any direction to the Bond Trustee or the Security Trustee to take any enforcement action must be passed at a single meeting of the holders of all Covered Bonds of all Series then outstanding.

### ***European Monetary Union***

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

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

### ***Changes of law***

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

### ***Insolvency Act 2000***

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

A "small" company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £5.6 million, (ii) its balance sheet total is not more than £2.8 million and (iii) the number of employees is not more than 50. The position as to whether or not a company is a "small" company may change from time to time and consequently no assurance can be given that the LLP will not, at any given time, be determined to be a "small" company. The United Kingdom Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of Covered Bondholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (i) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment" (also defined but generally a rated, listed or traded bond) and (ii) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign

currency) of at least £10 million. While the LLP is expected to fall within one of the exceptions there is no guidance as to how the legislation will be interpreted and the Secretary of State for Trade and Industry may by regulation modify the exceptions. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of Covered Bondholders. Correspondingly, if the LLP is determined to be a "small" company and determined not to fall within one of the exceptions, then certain actions in respect of the LLP may, for a period, be prohibited by the imposition of a moratorium.

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

On 15th September, 2003, the corporate insolvency provisions of the Enterprise Act 2002 came into force, amending certain provisions of the Insolvency Act 1986 (the **Insolvency Act**). These provisions introduced significant reforms to corporate insolvency law. In particular, the reforms restrict the right of the holder of a floating charge to appoint an administrative receiver (unless an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company had the ability to block the appointment of an administrator by appointing an administrative receiver, who would act primarily in the interests of the floating charge holder.

The provisions of the Insolvency Act were applied to limited liability partnerships by the Limited Liability Partnerships (LLP) Act 2000 (the **LLPA 2000**) but subject to the amendments set out in the Limited Liability Partnership Regulations 2001. As the corporate insolvency provisions of the Enterprise Act 2002 take effect by amending the Insolvency Act, many of the changes which were effected by the Enterprise Act 2002 (including the restrictions on the appointment of an administrative receiver) will also apply to the LLP. However, pursuant to paragraph 3(3) of the Enterprise Act 2002 (Commencement No. 4 and Transitional Provisions and Savings) Order 2003, the former administration provisions in Part II of the Insolvency Act continue to apply to limited liability partnerships and the new administration provisions referred to below do not yet have effect in relation to the LLP. The DTI has indicated, in response to oral enquiries, that it intends to extend the new administration provisions, with suitable modifications, to limited liability partnerships although no time period has yet been given in this regard.

The Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. These provisions apply to the LLP as if it were a company. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as the Security) which form part of a capital market arrangement (as defined in the Insolvency Act), which would include the issue of covered bonds, and which involves indebtedness of at least £50,000,000 (or, when the relevant security document (being in respect of the transactions described in this Offering Circular, the Deed of Charge) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50,000,000) and the issue of a capital market investment (also defined in the Insolvency Act but generally a rated, listed or traded bond). The Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this Offering Circular, will not be detrimental to the interests of the Covered Bondholders.

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating charge holder, the directors or the relevant company itself. These provisions do not currently apply to the LLP and changes would have to be made to the provisions (and, in particular, the use therein of the expression "director") in order for them to apply to a limited liability partnership. The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the directors or the company or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating charge holder does not respond to the directors' or company's notice of intention to appoint, the directors' or, as the case may be, the company's appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court-based procedure) by appointing an administrative receiver prior to the appointment of the administrator being completed.

The new administration provisions of the Insolvency Act give primary emphasis to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. The purpose of realising property to make a distribution to secured creditors is secondary. As noted above, these new

administration provisions do not currently apply to the LLP. If the provisions were to be applied to limited liability partnerships, no assurance could be given that the primary purposes of the new provisions would not conflict with the interests of Covered Bondholders were the LLP ever subject to administration.

In addition to the introduction of a prohibition on the appointment of an administrative receiver as set out above, section 176A of the Insolvency Act provides that any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a "prescribed part" of the company's "net property" available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. These provisions apply to the LLP as if it were a company. The company's "net property" is defined as the amount of the chargor's property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preferential creditors or in respect of the expenses of the liquidation or administration. The "prescribed part" is defined in the Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50 per cent. of the first £10,000 of floating charge realisations plus 20 per cent. of the floating charge realisations thereafter, provided that such amount may not exceed £600,000.

This obligation does not apply if the net property is less than a prescribed minimum and the relevant officeholder is of the view that the cost of making a distribution to unsecured creditors would be disproportionate to the benefits. The relevant officeholder may also apply to court for an order that the provisions of section 176A of the Insolvency Act should not apply on the basis that the cost of making a distribution would be disproportionate to the benefits.

Floating charge realisations upon the enforcement of the Security may be reduced by the operation of these "ring fencing" provisions up to a maximum of £600,000.

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

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

#### **Investment Considerations Relating to the Issuer**

##### ***Economic Activity in the United Kingdom***

The Issuer's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, the state of the economy and market interest rates at the time. As the Issuer currently conducts the majority of its business in the United Kingdom, its performance is influenced by the level and cyclical nature of business activity in the United Kingdom, which is in turn impacted by both domestic and international economic and political events. There can be no assurance that a weakening in the United Kingdom economy will not have a material effect on the Issuer's future results.

#### **Investment Considerations Relating to the LLP**

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

Following service of an Issuer Acceleration Notice on the Issuer, a Notice to Pay will be served by the Bond Trustee on the LLP. However, a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds will not automatically result in the service of an Issuer Acceleration Notice. The Bond Trustee may, but is not obliged to, serve an Issuer Acceleration Notice unless and until requested or directed by all Series of Covered Bondholders then outstanding in accordance with Condition 8(a).

Following service of a Notice to Pay on the LLP under the terms of the Covered Bond Guarantee the LLP will only be obliged to pay Guaranteed Amounts as and when the same are Due for Payment on each Scheduled Payment Date provided that, in the case of any amounts representing the Final Redemption Amount due and remaining unpaid as at the Original Due for Payment Date, the LLP may pay such amounts on any Interest Payment Date thereafter, up to (and including) the Extended Final Maturity Date. Such Guaranteed Amounts will be paid subject to and in accordance with the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. In these circumstances the LLP will not be obliged to pay any other amounts in respect of the Covered Bonds which become payable for any other reason.

Payments by the LLP will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. Prior to service on the LLP of an LLP Acceleration Notice, the LLP will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or compound interest which may accrue on or in respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 6.

Subject to any grace period, if the LLP fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other LLP Event of Default occurs, then the Bond Trustee may accelerate the obligations of the LLP under the Covered Bond Guarantee by service of an LLP Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 6). Following service of an LLP Acceleration Notice, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement of the Security shall be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the Deed of Charge, and Covered Bondholders will receive amounts from the LLP on an accelerated basis. If an LLP Acceleration Notice is served on the LLP then the Covered Bonds may be repaid sooner or later than expected or not at all.

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

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

By subscribing for Covered Bond(s), each Covered Bondholder will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

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

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice on the Issuer, all amounts payable under the Covered Bonds will be accelerated by the Bond Trustee as against the Issuer following which a Notice to Pay will be served by the Bond Trustee on the LLP. The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on (i) the realisable value of Selected Loans and their Related Security in the Portfolio, (ii) the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof, (iii) amounts received from the Swap Providers and (iv) the receipt by it of credit balances and interest on credit balances on the GIC Account and, if applicable, the Stand-by GIC Account. The LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If an LLP Event of Default occurs and the Security created by or pursuant to the Deed of Charge is enforced, the proceeds of enforcement of the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

If, following enforcement of the Security constituted by or pursuant to the Deed of Charge, the Secured Creditors have not received the full amount due to them pursuant to the terms of the Transaction Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

Covered Bondholders should note that the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is greater than the aggregate Principal Amount Outstanding (or, where applicable, the Sterling Equivalent thereof) of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there being a shortfall (although there is no assurance of this). The LLP and the Seller (in its capacity as Member) must ensure that following the occurrence of an Issuer Event of Default, the Amortisation Test is met on each Calculation Date and a breach of the Amortisation Test will constitute an LLP Event of Default and will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP (see *Summary of the Principal Documents — LLP Deed — Asset Coverage Test and Credit Structure — Asset Coverage Test*).

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

The LLP has entered into agreements with a number of third parties, which have agreed to perform services for the LLP. In particular, but without limitation, the Servicer has been appointed to service Loans in the Portfolio sold to the LLP and the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the LLP. In the event that any of these parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if the Servicer has failed to adequately administer the Loans, this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described in the following two investment considerations.

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement, then the LLP and/or the Security Trustee will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer may be required to be authorised under the FSMA once mortgage administration becomes a regulated activity. The ability of a substitute servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Portfolio or any part thereof, and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, if the Servicer ceases to be assigned a long-term, unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by Fitch of at least BBB- or ceases to be assigned a short-term, unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least A-2 (the **Minimum Ratings**) it will use reasonable efforts to enter into a master servicing agreement with a third party who is so rated.

The Servicer has no obligation to advance payments if the Borrowers fail to make any payments in a timely fashion. Covered Bondholders will have no right to consent to or approve of any actions taken by the Servicer under the Servicing Agreement.

Neither the Security Trustee nor the Bond Trustee is obliged in any circumstances to act as the Servicer or to monitor the performance by the Servicer of its obligations.

#### ***Reliance on Swap Providers***

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or rates of interest which track a base rate) and three-month LIBOR, the LLP has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. In addition, to provide a hedge against interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP on the outstanding Term Advances or (following service on the LLP of a Notice to Pay) under the Covered Bond Guarantee in respect of the Covered Bonds the LLP will enter into a Covered Bond Swap Agreement where required

in respect of a Series of Covered Bonds (such Covered Bond Swap Agreements together with the Interest Swap Agreements, the **Swap Agreements** and each a **Swap Agreement**) with a Covered Bond Swap Provider (together with the Interest Swap Providers, the **Swap Providers** and each a **Swap Provider**).

If the LLP fails to make timely payments of amounts due under any Swap Agreement, then it will (unless otherwise stated in the relevant Swap Agreement) have defaulted under that swap. A Swap Provider is (unless otherwise stated in the relevant Swap Agreement) only obliged to make payments to the LLP as long as the LLP complies with its payment obligations under the relevant Swap Agreement. In circumstances where non-payment by the LLP under a Swap Agreement does not result in a default under that Swap, the Swap Provider may be obliged to make payments to the LLP pursuant to the Swap Agreement as if payment had been made by the LLP. Any amounts not paid by the LLP to a Swap Provider may in such circumstances incur additional amounts of interest by the LLP, which would rank *pari passu* with amounts due on the Covered Bonds. If the Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on the payment date under the Swap Agreements, the LLP will be exposed to changes in the relevant currency exchange rates to Sterling and to any changes in the relevant rates of interest. At any time on or after the Programme Date, subject to Rating Agency confirmation that the then current ratings of the Covered Bonds would not be adversely affected, the LLP may hedge only part of the possible variances between the rates of interest payable on the Loans and LIBOR for three-month sterling deposits. In such circumstances the LLP will be exposed to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the Intercompany Loan or the Covered Bond Guarantee.

If a Swap terminates, then the LLP may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the LLP will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the LLP will be able to enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by the Rating Agencies. In addition the swaps may provide that notwithstanding the swap counterparty ceasing to be assigned the requisite ratings and the failure by the swap counterparty to take the remedial action set out in the relevant swap agreement, the LLP may not terminate the swap until a replacement swap counterparty has been found. There can be no assurance that the LLP will be able to enter into a replacement swap agreement with a replacement swap counterparty with the requisite ratings.

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

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

With respect to any Covered Bond Swaps, the LLP will pay a monthly amount, on each **LLP Payment Date**, to each Covered Bond Swap Provider by reference to LIBOR three-month Sterling deposits. Each Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to twelve months until amounts are due and payable by the LLP under the Covered Bond Guarantee (after the service of a Notice to pay on the LLP). If a Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with the LLP's payment obligations under the Covered Bond Guarantee. Hence, the difference in timing between the obligations of the LLP and the Covered Bond Swap Providers under the Covered Bond Swaps may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

***Limited description of the Portfolio***

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

- the Seller selling Loans and their Related Security (or types of loans, which are of a type that have not previously been comprised in the Portfolio (**New Types of Loans**) and their Related Security) to the LLP; and
- the Seller repurchasing Loans and their Related Security in accordance with the Mortgage Sale Agreement.

However, each Loan will be required to meet the Eligibility Criteria and to conform with the Representations and Warranties set out in the Mortgage Sale Agreement, see *Summary of the Principal Documents — Mortgage Sale Agreement — Sale by the Seller of Loans and Related Security* (although the Eligibility Criteria and Representations and Warranties may change in certain circumstances, see *The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or other Secured Creditors' prior consent* above). In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding and the Cash Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

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

The LLP may purchase Loans and their Related Security governed by Northern Irish law or Scots law and relating to Northern Irish or Scottish properties, as the case may be, in the future. The consent of Covered Bondholders will not be obtained in relation to any changes required to the Transaction Documents in order to include Northern Irish loans or Scottish loans in the Portfolio. However, any necessary modifications to the Transaction Documents to enable the sale of such Northern Irish or Scottish Loans will require the consent of the Security Trustee.

#### ***Fixed charges may take effect under English law as floating charges***

Pursuant to the terms of the Deed of Charge, the LLP will purport to grant fixed charges over, amongst other things, its interests in the English Mortgage Loans and their Related Security, the Substitution Assets and its rights and benefits in the LLP Accounts and all Authorised Investments purchased from time to time.

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the LLP (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the Charged Property for the security to be said to "fix" over those assets. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets. In particular, the expenses of any winding up or administration, and the claims of any preferential creditors, would rank ahead of the claims of the Security Trustee in this regard. The Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the United Kingdom tax authorities). However, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the LLP has agreed in the Transaction Documents not to have any employees.

In addition, any administrative receiver, administrator or liquidator appointed in respect of the LLP will be required to set aside the prescribed percentage or percentages of the floating charge realisations in respect of the floating charges contained in the Deed of Charge (as described in more detail above under *Changes in Law — Enterprise Act 2002*).

#### ***Maintenance of Portfolio***

**Asset Coverage Test:** Pursuant to the terms of the Mortgage Sale Agreement, the Seller will agree to use all reasonable efforts to transfer Loans and their Related Security to the LLP in order to ensure (but without any guarantee) that the Portfolio is in compliance with the Asset Coverage Test. In consideration thereof, the Seller will receive a combination of (i) a cash payment paid by the LLP and/or (ii) be treated as having made a **Capital Contribution** (being, in relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of cash capital contribution and capital contribution in kind as determined on each Calculation Date in accordance with the LLP Deed (in an amount up to the difference between the Current Balance of the Loans sold by the Seller to the LLP as at the relevant Transfer Date and the cash payment (if any) paid by the LLP for such Loans) and (iii) a right of the Seller (pursuant to and in accordance with the LLP Deed) to receive a share of the LLP Income Profits (as defined below) and amounts (if any) standing to the credit of the Members' reserve from time to time.

Alternatively, Bradford & Bingley plc (in its capacity as Member of the LLP) may make a Capital Contribution made in cash (a **Cash Capital Contribution**) to the LLP pursuant to the LLP Deed in order to ensure that the LLP is in compliance with the Asset Coverage Test. If a breach of the Asset Coverage Test occurs which is not cured on the next Calculation Date this would constitute an Issuer Event of Default. There is no specific recourse by the LLP to the Seller in respect of the failure to sell Loans and their Related Security to the LLP nor is there any specific recourse to Bradford & Bingley plc if it does not make Cash Capital Contributions to the LLP.

*Amortisation Test:* Pursuant to the terms of the LLP Deed, the LLP and Bradford & Bingley plc (in its capacity as Member of the LLP) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to the service of an LLP Acceleration Notice, the Amortisation Test Aggregate Loan Amount is an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding under the Covered Bonds then outstanding. The Amortisation Test is intended to ensure (but without any guarantee) that the assets of the LLP do not fall below a certain threshold which in turn should ensure that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee.

If the collateral value of the Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test or the Amortisation Test, then that may affect the realisable value of the Portfolio or any part thereof (both before and after the occurrence of an LLP Event of Default) and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, failure to satisfy the Amortisation Test on any Calculation Date following an Issuer Event of Default will constitute an LLP Event of Default, thereby entitling the Bond Trustee to accelerate the Covered Bonds against the Issuer and the LLP's obligations under the Covered Bond Guarantee against the LLP subject to and in accordance with the Conditions.

*Timing of the Asset Coverage Test and the Amortisation Test:* Prior to the occurrence of an Issuer Event of Default, the Asset Monitor will test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year on the Calculation Date immediately preceding each anniversary of the Programme Date and more frequently in certain circumstances. Following the occurrence of an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortisation Test, see further *Summary of Principal Documents — Asset Monitor Agreement*. Neither the Bond Trustee nor the Security Trustee shall be responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test or the Amortisation Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

#### ***Sale of Selected Loans and their Related Security following the occurrence of an Issuer Event of Default***

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

There is no guarantee that a buyer will be found to acquire Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained for such Selected Loans, which may affect payments under the Covered Bond Guarantee. However, the Selected Loans may not be sold by the LLP for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to the Final Maturity Date in respect of such Covered Bonds or (if the same is specified as applicable in the relevant Pricing Supplement) the Extended Final Maturity Date under the Covered Bond Guarantee in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Final Maturity Date, the LLP is obliged to sell the Selected Loans for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount.

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

If an **LLP Event of Default** occurs and an LLP Acceleration Notice is served on the LLP, then the Security Trustee will be entitled to enforce the Security created under and pursuant to the Deed of Charge and the proceeds from the realisation of the Charged Property will be applied by the Security Trustee towards payment of all secured obligations in accordance with the **Post-Enforcement Priority of Payments** described in *Cashflows* below.

There is no guarantee that the proceeds of realisation of the Charged Property will be in an amount sufficient to repay all amounts due to the Secured Creditors (including the Covered Bondholders) under the Covered Bonds and the Transaction Documents.

If an LLP Acceleration Notice is served on the LLP then the Covered Bonds may be repaid sooner or later than expected or not at all.

***Factors that may affect the realisable value of the Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee***

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

- representations or warranties not being given by the LLP or (unless otherwise agreed with the Seller) the Seller;
- default by Borrowers of amounts due on their Loans;
- changes to the lending criteria of the Seller;
- the LLP not having legal title to the Loans in the Portfolio;
- set-off risks in relation to some types of Loans in the Portfolio;
- limited recourse to the Seller;
- possible regulatory changes by the Office of Fair Trading, the Financial Services Authority (the FSA) and other regulatory authorities; and
- regulations in the United Kingdom that could lead to some terms of the Loans being unenforceable.

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

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

Following the occurrence of an Issuer Event of Default, service on the Issuer of an Issuer Acceleration Notice and service on the LLP of a Notice to Pay, the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement, see *Summary of the Principal Documents — LLP Deed — Method of Sale of Selected Loans and their Related Security*. In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP may only give warranties or indemnities in respect of those Selected Loans and their Related Security in very limited circumstances for example where the giving of such warranties or indemnities would materially affect the realisable price of the Selected Loans and their Related Security being sold. In addition, there is no assurance that the Seller would give any warranties or representations in respect of the Selected Loans and their Related Security. Any Representations or Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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

Borrowers may default on their obligations due under the Loans for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions,

changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in default by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

The Current Balance of any Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of any calculation of the Asset Coverage Test and the Amortisation Test.

#### ***Third Party Members acceding to the Programme***

A Third Party Member may accede to the Programme and sell or contribute loans and their related security or contribute and/or make a Cash Capital Contribution to the LLP. However, this would only be permitted if certain conditions precedent relating to Third Party Members acceding to the Programme are met, including, but not limited to the Third Party Member acceding to the LLP Deed, where relevant, entering into a separate mortgage sale agreement (pursuant to which the obligation to sell Loans and their Related Security may or may not be on-going) with the LLP and the Rating Agencies confirming in writing that the then current ratings of all outstanding Covered Bonds will not be adversely affected by the accession of any Third Party Member to the Programme. Provided that those conditions (and others) are met, the consent of the Covered Bondholders to the accession of any Third Party Member to the Programme will not be obtained.

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

Each of the Loans originated by the Seller will have been originated in accordance with its Lending Criteria at the time of origination. Each of the Loans sold to the LLP by the Seller, but originated by an Originator (as defined below), will have been originated in accordance with the lending criteria of such Originator at the time of origination. It is expected that the Seller's or the relevant Originator's, as the case may be, Lending Criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, mortgage indemnity guarantee policies, high loan-to-value fees, status of applicants and credit history. In the event of the sale or transfer of any Loans and Related Security to the LLP, the Seller will warrant that (i) such Loans and Related Security as were originated by it, were originated in accordance with the Seller's Lending Criteria applicable at the time of origination and (ii) such loans and Related Security as were originated by an Originator, were originated in accordance with the relevant Originator's lending criteria applicable at the time of origination. The Seller retains the right to revise its Lending Criteria from time to time subject to the terms of the Mortgage Sale Agreement. An Originator may additionally revise its lending criteria at any time. However, if the Lending Criteria or the lending criteria of any Originator change in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

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

The sale by the Seller to the LLP of Loans and their Related Security will take effect by way of an equitable assignment. As a result, legal title to Loans and their Related Security will remain with the Seller or, where the Loans have been originated by an Originator, that Originator. The LLP, however, will have the right to demand that the Seller gives it or procures that the relevant Originator gives it legal title (and this right will be supported by a security power of attorney) to the Loans and the Related Security in the circumstances described in *Summary of the Principal Documents — Mortgage Sale Agreement — Transfer of title to the Loans to the LLP*, and until then the LLP will not give notice of the sale of the Loans and their Related Security to any Borrower or apply to H.M. Land Registry or the Central Land Charges Registry to register or record its equitable interest in the Loans and their Related Security.

Since the LLP has not obtained legal title to the Loans or their Related Security and has not perfected its interest in the Loans and their Related Security by registration of a Notice at H.M. Land Registry, the following risks exist:

- first, if the Seller or, as applicable an Originator sells a Loan and its Related Security, which has already been sold to the LLP, to another person and that person acted in good faith and did not have notice of the interests of the LLP in the Loan and its Related Security, then such person will obtain good title to the Loan and its Related Security, free from the interests of the LLP. If this occurred then the LLP will not have good title to the affected Loan and its Related Security and it will not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the LLP would be likely to be limited to circumstances arising from a breach by the Seller or, as applicable an Originator of its contractual obligations or fraud, negligence or mistake on the part of the Seller or, as applicable an Originator or its respective personnel or agents;
- second, the rights of the LLP may be subject to the rights of the Borrowers against the Seller or, as applicable an Originator, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the Seller or an Originator, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller or relevant Originator; and
- third, unless the LLP has perfected the assignment of the Loans (which it is only entitled to do in certain circumstances), the LLP would not be able to enforce any Borrower's obligations under a Loan or Mortgage itself but would have to join the Seller or the relevant Originator as a party to any legal proceedings.

If any of the risks described in the first two bullet points above were to be realised then the realisable value of the Portfolio or any part thereof and/or the ability of the LLP to make payments under the Covered Bond Guarantee might be affected.

Subject to notice being given to the Borrowers of the assignment of the Loans and their Related Security to the LLP, independent set-off rights which a Borrower has against the Seller or the relevant Originator (such as, for example, set-off rights associated with such Borrower holding deposits with the Seller or the relevant Originator) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with such Loan) will not be affected by that notice and will continue to exist.

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

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

As described in the immediately preceding investment consideration, the sale by the Seller to the LLP of Loans will be given effect by an equitable assignment. As a result, legal title to the Loans and their Related Security sold by the Seller to the LLP will remain with the Seller or, as applicable the relevant Originator. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the Seller or, as applicable the relevant Originator, including rights of set-off existing prior to notification to the Borrowers of the assignment of the Loans. Some of the Loans in the Portfolio may have increased risks of set-off, because the Seller or, as applicable the relevant Originator is required to make payments under them to the Borrowers. For instance:

- under a Flexible Loan, Borrowers are permitted to make larger repayments than are due on a given payment date or draw further amounts under the Loan in some circumstances. Any drawings under Flexible Loans will be funded solely by the Seller or, as applicable the relevant Originator;
- under a delayed cashback loan, the Borrower is entitled to receive a payment from the Seller or, as applicable the relevant Originator as an incentive for entering into the Loan at a specified time following completion of the Loan. Any such payment will be funded solely by the Seller or, as applicable the relevant Originator; and
- under a drawdown loan, the Borrower has the benefit of a facility linked to his or her Mortgage, entitling that Borrower to draw additional funds from time to time up to a specified limit or a specified loan to value ratio. Any such drawing will be funded solely by the Seller or, as applicable the relevant Originator.

New products offered by the Seller or, as applicable the relevant Originator in the future may have similar characteristics involving payments due by the Seller to the Borrower and these may, in due course, form part of the Portfolio.

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

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

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

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

A Borrower may also attempt to set-off against his or her mortgage payments an amount greater than the amount of his or her claim for damages. In that case, the Servicer will be entitled to take enforcement proceedings against the Borrower although the period of non-payment by the Borrower is likely to continue until a judgment or decree is obtained.

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

#### ***Limited recourse to the Seller***

The LLP, the Bond Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Loan or its Related Security and will rely instead on the Representations and Warranties given in the Mortgage Sale Agreement by the Seller in respect of the Loans sold by it to the LLP.

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

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

In addition, the Seller may repurchase Defaulted Loans in the Portfolio sold by it to the LLP, within 20 London Business Days of the Seller becoming aware of the Defaulted Loan in the Portfolio or of receipt by it of a notice from the LLP. The Seller may (but only prior to the occurrence of an Issuer Event of Default) repurchase the relevant Loan or Loans under the relevant Mortgage Account and their Related Security at their Current Balance as at the date of repurchase.

There can be no assurance that the Seller will have the financial resources to repurchase the Loan or Loans under the relevant Mortgage Account and their Related Security. However, if the Seller does not

repurchase those Loans and their Related Security which are in breach of the Representations and Warranties or does not repurchase the relevant Defaulted Loans and their Related Security, then the Current Balance of those Loans will be excluded from the calculation or given a reduced weighting for the purposes of the calculation, as applicable, of the Asset Coverage Test. There is no further recourse to the Seller or the Issuer in respect of a breach of a Representation or Warranty.

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

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

The Financial Services and Markets Act 2000 (the **FSMA**) represents a major overhaul of financial services regulation in the United Kingdom and brought a wide range of financial activities under a single regime of statutory-based regulation. The FSMA is being brought into effect in stages. The first stage (known as **N2**) came into effect on 1st December, 2001. Rules relating to the regulation of mortgages will come into effect on 31st October, 2004 (known as **N(M)**). The scope of mortgage regulation is set out in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI2001/544), as amended (the **Order**).

After **N(M)**, the following activities: (i) entering into as lender; (ii) in certain circumstances administering; (iii) arranging; and (iv) advising on regulated mortgage contracts, together with agreeing to do any of these activities, will be regulated activities under the FSMA.

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

The Seller and each Originator will be required to be authorised to enter into and to administer and, where applicable, advise on regulated mortgage contracts. Brokers will, in certain circumstances, be required to hold authorisation and permission from the FSA to arrange and, where applicable, to advise on regulated mortgage contracts. Failure to comply with the FSMA's authorisation and financial promotion requirements are criminal offences.

However Article 62 of the Order states that a person who is not an authorised person does not carry on the activity of administering a regulated mortgage contract where he arranges for another person, being an authorised person under the FSMA with permission to carry on that activity, to administer the contract or administers the contract himself for a period of not more than one month beginning with the day on which any such arrangement comes to an end. Accordingly, a special purpose vehicle (such as the LLP) will not carry on any regulated activity in relation to regulated mortgage contracts that are administered pursuant to a servicing agreement by an entity having the required authorisation and permission. If such a servicing agreement were to terminate, however, that vehicle would have a period of not more than one month to arrange for mortgage administration to be carried out by a replacement servicer having the required authorisation and permission.

Mortgage contracts entered into before **N(M)** and subsequently varied will not be regulated under these rules. However mortgage contracts that are entered into before **N(M)**, but are subsequently changed such that a new contract is entered into, and contracts entered into after, **N(M)** will be regulated under the new rules.

In October 2003, the FSA published its Mortgages: Conduct of Business Sourcebook (**MCOB**), which sets out its final rules in respect of regulated mortgage activities. These rules cover, amongst other things, pre-contract, start of contract and post-sale disclosures, rules on contract changes, charges, arrears and repossessions and certain pre-origination matters, such as financial promotions, and draft pre-application illustrations. The MCOB is scheduled to come into force on **N(M)**.

In January 2004, the FSA made rules covering the changes the FSA is proposing to make to the FSA Handbook relating to the prudential and authorisation requirements placed on authorised persons in respect of regulated mortgage activities. Also, in January 2004, the FSA made rules regulating and

extending the appointed representatives regime, which currently applies to investment businesses, to cover mortgages and general insurance. The above rules are scheduled to take effect on N(M).

Meanwhile, in the United Kingdom, self-regulation of mortgage business exists under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The Seller currently subscribes to the CML Code. Membership of the CML and compliance with the CML Code are voluntary. The CML Code sets out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30th April, 1998, lender-subscribers to the CML Code may not accept mortgage business introduced by intermediaries who were not registered with (before 1st November, 2000) the Mortgage Code Register of Intermediaries or (on and after 1st November, 2000) the Mortgage Code Compliance Board. Compliance with the CML Code is policed by the Mortgage Code Compliance Board, an independent non-profit making company funded by registered firms. It is expected that this regime will fall away at N(M) when lenders and the promotion and advertisement of certain first legal residential mortgages will be regulated by the FSA under the FSMA.

A court order will be necessary to enforce a mortgage securing a Loan to the extent that the related loan agreement is a "regulated agreement" under the CCA or is to be treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend the loan agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

To avoid dual regulation, Article 90 of the Order states that regulated mortgage contracts under the FSMA will not be regulated by the CCA. This carve-out only affects mortgages entered into on or after N(M). Before N(M), the CCA will continue to be the relevant legislation. A court order under section 126 of the CCA will, however, be necessary to enforce a mortgage securing a regulated mortgage contract that would otherwise be regulated by the CCA.

In December 2003, the Department of Trade and Industry (the **DTI**) published a White Paper proposing amendments to the CCA and to secondary legislation made under it. A number of proposals, set out in a separate consultation document, are intended to come into force in October 2004. These proposals include a requirement to provide certain information to consumers before they enter into a contract and would also amend the information required to be included in contracts in order to make the significant contractual terms more readily available and clearer. A more consistent basis for calculating the APR is specified and changes are made to the advertising regime with a view to promoting clarity and facilitating comparability between different products. Changes are also proposed in relation to amounts payable on early settlement, which will have to be calculated on a specified actuarial basis rather than using the "Rule of 78". It is not yet clear whether or not and to what extent these changes will apply to existing loans, except that it is proposed that the new early settlement rules should apply to existing loans from 31st October, 2006.

The White Paper also proposes other changes to be made by primary legislation at an unspecified time. These include the replacement of the concept of an "extortionate credit bargain", which may be reopened by the courts, with the wider concept of an unfair credit transaction, which would take into account unfair lending practices as well as the cost of the credit. Alternative dispute resolution procedures outside the courts are proposed for consumer credit transactions. The DTI also proposes widening the scope of the legislation by abolishing the £25,000 financial limit for transactions with individuals (although not businesses). In addition, it wishes to reform the licensing regime by strengthening the current test of fitness to hold a licence.

Until the final text of the relevant secondary and primary legislation is available, it is not certain what effect the implementation of the DTI's proposals would have on the Mortgage Loans and the respective businesses and operations.

No assurance can be given that additional regulations from the OFT, the FSA or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments may have a material adverse effect on the Seller, the LLP and/or the Servicer and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio or any part thereof in a timely manner and/or the realisable value of the Portfolio or any part thereof and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due. For example, the DTI are considering the extent to which proposals that reform the law on extortionate credit and that promote fair and responsible lending practices should apply to existing credit arrangements and whether transitional arrangements are necessary. A decision on whether such retrospective and/or transitional arrangements are needed is expected in the near future.

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

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on the harmonisation of the laws, regulations and administrative provisions of the member states concerning credit for consumers and surety agreements entered into by consumers. In its original form, the proposal requires specified requirements to be met and restrictions observed in respect of certain mortgage loan products, including new credit agreements for further drawings under certain flexible mortgages and for further advances and amortisation tables for repayment mortgages. If the proposal comes into force in its original form, mortgage loans which do not comply with these requirements and restrictions may be subject to penalties, potentially including loss of interest and charges by the mortgagee coupled with continuation of the right of repayment in instalments by the borrower. Significantly, in its original form, the proposal provides that it does not apply retrospectively (subject to certain exemptions including in respect of new drawings or further advances made in respect of existing agreements) and does not apply to residential mortgage loans except those which include an equity release component.

There has been significant opposition from the European Parliament to the original form of the proposed directive. The proposed directive may be substantially further amended before it is ultimately brought into effect. On 13th February, 2004, the Committee of Legal Affairs and the Internal Market published the European Parliament's amendments to the proposed draft. There are differences in opinion as to the extent to which mortgage loans should be included in the scope of the directive. The first reading is currently scheduled to be concluded by the end of April 2004. In any event, the proposal is unlikely to come into force before 2006 as the co-decision procedures of the European Parliament and of the Council, from the publication of the proposal to the coming into force of the new consumer credit directive, are likely to take at least two years, and member states would then have a further two years in which to bring national implementing legislation regulations and administrative provisions into force. The DTI is currently in consultation with consumer and industry organisations in relation to the proposal.

Until the final text of the directive is decided and the details of United Kingdom implementing legislation are published, it is not certain what effect the adoption and implementation of the directive would have on the Loans, the Seller, any Originator the LLP, the Servicer or any delegate or sub-servicer (including Mortgage Express in its capacity as Sub-Servicer pursuant to the Intercompany Servicing Agreement (each as defined below)) and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio or any part thereof in a timely manner and/or the realisable value of the Portfolio or any part thereof and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due.

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

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

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

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

For example, if a term of a Loan permitting the lender to vary the interest rate (as the Servicer is permitted to do) is found to be unfair, the Borrower will not be liable to pay the increased rate or, to the extent that the Borrower has paid it, will be able, as against the lender, or any assignee such as the LLP, to claim repayment of the extra interest amounts paid or to set-off the amount of the claim against the amount owing by the Borrower under the Loan. Any such non-recovery, claim or set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

In February 2000, the OFT issued a guidance note on what the OFT considers to be fair terms and unfair terms for interest variation in mortgage contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term is likely to be regarded as unfair under the UTCCR unless the lender (i) notifies the affected borrower in writing at least 30 days before the rate change and (ii) permits the affected borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The Seller has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the Loans or its business. The guidance note has been withdrawn from the OFT website and is currently under review by the OFT and the FSA. The FSA has agreed with the OFT to take responsibility for the enforcement of the UTCCR in mortgage agreements. It is expected that the FSA will issue guidance on interest variation terms in mid-2004. The Issuer does not know the extent to which the FSA might take a different approach to the interest variation terms.

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

No assurance can be given that changes in the UTCCR, if enacted, or changes to guidance on interest variation terms, if adopted, will not have an adverse effect on the Loans, the Seller, any Originator the LLP, the Servicer or any delegate or Sub-Servicer (including Mortgage Express as Sub-Servicer) and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio, or any part thereof, in a timely manner and/or the realisable value of the Portfolio, or any part thereof, and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due.

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

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

#### ***Proposed changes to the Basel Capital Accord***

The Basel Committee has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline and sensitivity to risk. The consultation period on the initial proposals ended in March 2000 and the Basel Committee published its second consultation document, the "New Basel Capital Accord", on 16th January, 2001. The consultation period on the further proposals contained in the New Basel Capital Accord ended on 31st May, 2001. On 1st October, 2002, the Basel Committee launched a comprehensive field test for banks, known as the quantitative impact study, or QIS3, to gauge the impact of its revised proposals on minimum capital

requirements under pillar one of the New Basel Capital Accord before finalisation of the third consultative paper. The survey period ended on 20th December, 2002 and the results were issued on 5th May, 2003. The third consultative paper on the New Basel Capital Accord was issued on 29th April, 2003, with the consultation period ending on 31st July, 2003. The Basel Committee intends to resolve outstanding issues by no later than mid-year 2004, with a view to allow for implementation of the new framework in each country at year-end 2006. If adopted in their current form, the proposals could affect risk weighting of the Covered Bonds in respect of certain investors if those investors are regulated in a manner which will be affected by the proposals. Consequently, prospective investors in the Covered Bonds should consult their own advisers as to the consequences to and effect on them of the potential application of the New Basel Capital Accord proposals. The Issuer and the LLP cannot predict the precise effects of potential changes which might result if the proposals were adopted in their current form.

#### ***Limited Liability Partnerships***

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

## FORM OF THE COVERED BONDS

Each Tranche of Covered Bonds will be in bearer form and will be initially issued in the form of a temporary global covered bond without interest coupons attached (a **Temporary Global Covered Bond**) or, if so specified in the applicable Pricing Supplement (the **applicable Pricing Supplement**), a permanent global covered bond without interest coupons attached (a **Permanent Global Covered Bond** and, together with the Temporary Global Covered Bonds, the **Global Covered Bonds** and each a **Global Covered Bond**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear Bank S.A./N.V. as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Whilst any Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Covered Bonds due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Covered Bond only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Covered Bond of the same Series or (ii) for definitive Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Covered Bonds, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of non-U.S. beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Covered Bond without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (a) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (b) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to Covered Bondholders of each Series in accordance with Condition 12 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (b) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

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

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

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

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

Covered Bonds which are represented by a Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under *Terms and Conditions of the Covered Bonds*), the Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the United States Securities Act of 1933, as amended (the **Securities Act**)) applicable to the Covered Bonds of such Tranche.

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

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP.

## FORM OF PRICING SUPPLEMENT

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

[Date]

### **Bradford & Bingley plc**

#### **Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably and unconditionally guaranteed as to payment of principal and interest by Bradford & Bingley Covered Bonds LLP under the €10 billion Covered Bond Programme**

This document constitutes the Pricing Supplement relating to the issue of Covered Bonds described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [ ], 2004. This Pricing Supplement contains the final terms of the Covered Bonds, is supplemental to and must be read in conjunction with such Offering Circular.

*[The following alternative language applies if the first tranche of an issue, which is being increased, was issued under an Offering Circular 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 Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Covered Bonds and must be read in conjunction with the Offering Circular dated [current date], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

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

- |    |       |  |  |
|----|-------|--|--|
| 1. | (i)   | Issuer:  | Bradford & Bingley plc   |
|    | (ii)  | Guarantor:   | Bradford & Bingley Covered Bonds LLP   |
| 2. | (i)   | Series Number:                                     | [ ]  |
|    | (ii)  | Tranche Number:                                    | [ ]  |
|    |       |  | <i>(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)</i>                  |
| 3. |       | Specified Currency or Currencies:                  | [ ]  |
| 4. |       | Aggregate Nominal Amount:                          |  |
|    | (i)   | Series:  | [ ]  |
|    | (ii)  | Tranche:   | [ ]  |
| 5. | [(i)] | Issue Price:                                       | [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from <i>insert date</i> ] (in the case of fungible issues only, if applicable)] |
|    | (ii)  | Net proceeds:<br>(Required only for listed issues) | [ ]  |

- |     |   |  |
|-----|---|--|
| 6.  | Specified Denominations <sup>1</sup> :  | [ ]  |
| 7.  | (i) Issue Date:   | [ ]  |
|     | (ii) Interest Commencement Date:  | [ ]  |
| 8.  | Final Maturity Date:  | [Fixed rate - specify date/<br>Floating rate - Interest Payment Date<br>falling in or nearest to [specify month]]  |
| 9.  | Extended Final Maturity Date of Guaranteed<br>Amounts corresponding to Final Redemption<br>Amount under the Covered Bond Guarantee: | [Fixed rate - specify date/<br>Floating rate - Interest Payment Date<br>falling in or nearest to [specify month];<br>in each case falling one year after the<br>Final Maturity Date]                                   |
| 10. | Interest Basis:   | [[ ] per cent. Fixed Rate]<br>[[LIBOR/EURIBOR] +/- [ ] per cent.<br>Floating Rate]<br>[Zero Coupon]<br>[Index Linked Interest]<br>[Dual Currency Interest]<br>[specify other]<br>(further particulars specified below) |
| 11. | Redemption/Payment Basis:   | [Redemption at par]<br>[Index Linked Redemption]<br>[Dual Currency Redemption]<br>[Instalment]<br>[Partly Paid]<br>[specify other]   |
| 12. | Change of Interest Basis or Redemption/<br>Payment Basis:   | [Specify details of any provision for<br>change of Covered Bonds into another<br>Interest Basis or Redemption/Payment<br>Basis]  |
| 13. | Call Option:  | [Issuer Call]<br>[(further particulars specified below)]   |
| 14. | (i) Status of the Covered Bonds:  | Senior   |
|     | (ii) Status of the Guarantee:   | Senior   |
| 15. | Listing:  | [Luxembourg/specify other/None]  |
| 16. | Method of distribution:   | [Syndicated/Non-syndicated]  |

1 If Covered Bonds are offered or sold in The Netherlands with a denomination of less than euro 50,000 (or its foreign currency equivalent) then they may only be offered or sold as a block or package having an aggregate value of at least euro 50,000 (or its foreign currency equivalent) or offered or sold to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) and selling restrictions to this effect should be included in the Pricing Supplement.

2 This section relates to interest payable under the Covered Bonds, including under the Covered Bond Guarantee.

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE<sup>2</sup>

17. **Fixed Rate Covered Bond Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: [ ] per cent. per annum [payable  
[annually/semi-annually/quarterly] in arrear]  
*(If payable other than annually, consider amending Condition 3)*
- (ii) Interest Payment Date(s): [[ ] in each year up to and including the Final Maturity Date or the Extended Final Maturity Date, if applicable]/[specify other] subject to amendment in accordance with the Business Day Convention  
*(NB: This will need to be amended in the case of long or short coupons)*
- (iii) Fixed Coupon Amount(s): [ ] per [ ] in nominal amount
- (iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
- (v) Day Count Fraction: [30/360 or Actual/Actual (ISMA) or specify other]
- (vi) Determination Date(s): [ ] in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*  
*NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration*  
*NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA)]*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [None/Give details]
18. **Floating Rate Covered Bond Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period(s)/Specified Interest Payment Date(s): [ ]  
*NB: Specify the Specified Period(s)/Specified Interest Payment Date(s) up to and including the Extended Final Maturity Date, if applicable*
- (ii) Business Day Convention: [Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / specify other]
- (iii) Additional Business Centre(s): [ ]

- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (vi) Screen Rate Determination:  
 –Reference Rate: [ ]  
*(Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement)*  
 –Interest Determination Date(s): [ ]  
*(Second London Business Day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*  
*NB: Specify the Interest Determination Date(s) up to and including the Extended Final Maturity Date, if applicable*  
 –Relevant Screen Page: [ ]  
*(In the case of EURIBOR, if not Moneyline Telerate Page 248 ensure it is a page which shows a composite rate or amend the fall back provisions appropriately){+LIBOR 3750}*
- (vii) ISDA Determination:  
 –Floating Rate Option: [ ]  
 –Designated Maturity: [ ]  
 –Reset Date: [ ]
- (viii) Margin(s): [ +/- ] [ ] per cent. per annum
- (ix) Minimum Rate of Interest: [ ] per cent. per annum
- (x) Maximum Rate of Interest: [ ] per cent. per annum
- (xi) Day Count Fraction: [Actual/365  
 Actual/365 (Fixed)  
 Actual/365 (Sterling)  
 Actual/360  
 30/360  
 30E/360  
 Other]  
*(See Condition 3 for alternatives)*
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Conditions: [ ]

19. **Zero Coupon Covered Bond Provisions<sup>3</sup>** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Accrual Yield: [ ] per cent. per annum
  - (ii) Reference Price: [ ]
  - (iii) Any other formula/basis of determining amount payable: [ ]
  - (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 5(d)(iii) and (j) apply/specify other]  
*(Consider applicable day count fraction if not U.S. dollar denominated)*
20. **Index Linked Interest Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula: [give or annex details]
  - (ii) Calculation Agent responsible for calculating the principal and/or interest due: [ ]
  - (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [ ]
  - (iv) Specified Period(s)/Specified Interest Payment Dates: [ ]
  - (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
  - (vi) Additional Business Centre(s): [ ]
  - (vii) Minimum Rate of Interest: [ ] per cent. per annum
  - (viii) Maximum Rate of Interest: [ ] per cent. per annum
  - (ix) Day Count Fraction: [ ]
21. **Dual Currency Interest Covered Bond Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
  - (ii) Calculation Agent, if any, responsible for calculating the interest payable: [ ]
  - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ]
  - (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

#### PROVISIONS RELATING TO REDEMPTION

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3 Zero Coupon Covered Bonds not to be issued with an Extended Final Maturity Date unless otherwise agreed with the Dealers and the Bond Trustee.

22. **Issuer Call:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*  
☐  
 (i) Optional Redemption Date(s): ☐  
 (ii) Optional Redemption Amount/Net Present Value of each Covered Bond and method, if any, of calculation of such amount(s)/values: NB Optional Redemption Dates must be Interest Payment Dates unless otherwise agreed with the Dealers and the Bond Trustee  
☐ per Covered Bond of ☐ specified denomination  
 (iii) If redeemable in part:  
     (a) Minimum Redemption Amount: ☐  
     (b) Maximum Redemption Amount: ☐  
 (iv) Notice period (if other than as set out in the Conditions): ☐  
*(NB: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee)*
23. Final Redemption Amount of each Covered Bond: [Nominal Amount/specify other/see Appendix]
24. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition 5(d)): ☐

#### **GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

25. Form of Covered Bonds: [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Covered Bonds in definitive form [upon the occurrence of an Exchange Trust upon 60 day's notice]]
- [Temporary Global Covered Bond exchangeable for Covered Bonds in definitive form]
- [Permanent Global Covered Bond exchangeable for Covered Bonds in definitive form]

- |     |   |  |
|-----|---|--|
| 26. | Additional Financial Centre(s) or other special provisions relating to Payment Dates:   | [Not Applicable/give details]<br><i>(Note that this item relates to the place of payment and not Interest Period end dates to which items 18(iii) and 20(vi) relate)</i> |
| 27. | Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):   | [Yes/No. If yes, give details]   |
| 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 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. NB: a new form of Temporary Global Covered Bond and/or Permanent Global Covered Bond may be required for Partly Paid issues]               |
| 29. | Details relating to Instalment Covered Bonds:<br>(i) Instalment Amount(s):<br>(ii) Instalment Date(s):  | [Not Applicable/give details]<br>[Not Applicable/give details]   |
| 30. | Redenomination applicable:  | Redenomination [not] applicable<br><i>(If Redenomination is applicable, specify the terms of the redemption in an annex to the Pricing Supplement)</i>                   |
| 31. | Other terms or special conditions:  | [Not Applicable/give details]  |

#### **DISTRIBUTION**

- |     |   |   |
|-----|---|---|
| 32. | (i) If syndicated, names of Managers:<br>(ii) Stabilising Manager (if any): | [Not Applicable/give names]<br>[Not Applicable/give name] |
| 33. | If non-syndicated, name of relevant Dealer(s):                              | [ ]   |
| 34. | Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:  | [TEFRA D/TEFRA C/TEFRA not applicable]                    |
| 35. | Additional selling restrictions:  | [Not Applicable/give details]                             |

#### **OPERATIONAL INFORMATION**

- |     |  |   |
|-----|--|---|
| 36. | Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): | [Not Applicable/give name(s) and number(s)] |
| 37. | Delivery:  | Delivery [against/free of] payment          |
| 38. | Additional Paying Agent(s) (if any):<br>ISIN:<br>Common Code:  | [ ]<br>[ ]<br>[ ]                           |

## LISTING APPLICATION

This Pricing Supplement comprises the final details required to list the issue of Covered Bonds described herein pursuant to the €10,000,000,000 Covered Bond Programme of Bradford & Bingley plc.

## RESPONSIBILITY

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

Signed on behalf of the Issuer:

Signed on behalf of the LLP:

By:

*Duly authorised*

By:

*Duly authorised*

*If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Covered Bonds as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 3, 4, 5 (except Condition 5(b)), 9, 10, 11, 12 (insofar as such Covered Bonds are not listed or admitted to trade on any stock exchange) or 15, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Covered Bonds of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.*

## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and definitive Covered Bond.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Bradford & Bingley plc (the **Issuer**) constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 21st May, 2004 (the **Programme Date**) made between the Issuer, Bradford & Bingley Covered Bonds LLP as guarantor (the **LLP**) and Citicorp Trustee Company Limited as bond trustee (in such capacity, the **Bond Trustee**, which expression shall include any successor as Bond Trustee) and Citicorp Trustee Company Limited as security trustee (in such capacity, the **Security Trustee**, which expression shall include any successor as Security Trustee).

Save as provided for in Conditions 8 and 13 references herein to the **Covered Bonds** shall be references to the Covered Bonds of this Series and shall mean:

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

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

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

The Pricing Supplement for this Covered Bond (or the relevant provisions thereof) is attached to or endorsed on this Covered Bond and supplements these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Covered Bond. References to the applicable Pricing Supplement are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

The Bond Trustee acts for the benefit of the holders for the time being of the Covered Bonds (the **Covered Bondholders**, which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), and for holders of each other Series of Covered Bonds in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means an issue of Covered Bonds which are identical in all respects (including as to listing) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

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

The security for the obligations of the LLP under the Covered Bond Guarantee and the other Transaction Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a deed of charge (such deed of charge as amended and/or supplemented and/or restated from time to time, the **Deed of Charge**) dated the Programme Date and made between the LLP, the Bond Trustee, the Security Trustee and the other Secured Creditors.

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

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

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the applicable Pricing Supplement and/or the master definitions and construction agreement made between the parties to the Transaction Documents on or about the Programme Date (the **Master Definitions and Construction Agreement**), a copy of each of which may be obtained as described above.

## **1. Form, Denomination and Title**

The Covered Bonds are in bearer form and, in the case of definitive Covered Bonds, serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

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

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

Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in these Conditions are not applicable. Definitive Covered Bonds are issued with Receipts, only in respect of Instalment Covered Bonds, and references to Receipts and Receiptholders in these Conditions are only applicable to such Covered Bonds.

Subject as set out below, title to the Covered Bonds, Receipts and Coupons will pass by delivery. The Issuer, the LLP, the Paying Agents and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Covered Bond, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds are represented by a Global Covered Bond held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (**Euroclear**) and/or Clearstream

Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified together with the amount of such holding) shall be treated by the Issuer, the LLP, the Paying Agents and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, for which purpose the bearer of the relevant Global Covered Bond shall be treated by the Issuer, the LLP, any Paying Agent and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

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

## **2. Status of the Covered Bonds and the Covered Bond Guarantee**

### **(a) Status of the Covered Bonds**

The Covered Bonds and any relative Receipts and Coupons are direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and (subject to any applicable statutory provision) *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

### **(b) Status of the Covered Bond Guarantee**

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the LLP (the **Covered Bond Guarantee**) in the Trust Deed. However, the LLP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amount when the same shall become Due for Payment under the Covered Bonds or the Trust Deed until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and service by the Bond Trustee on the LLP of a Notice to Pay or if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee are direct and (following an Issuer Event of Default, the service of an Issuer Acceleration Notice and the service of a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional and unsubordinated obligations of the LLP, which are secured as provided in the Deed of Charge.

Any payment made by the LLP under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 8) discharge *pro tanto* the obligations of the Issuer under the Covered Bonds, Receipts and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

As security for the LLP's obligations under the Covered Bond Guarantee and the other Transaction Documents to which it is a party, the LLP has granted fixed and floating security over all of its assets under the Deed of Charge in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors).

### 3. Interest

#### (a) Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date. If a Notice to Pay is served on the LLP, the LLP shall pay the Guaranteed Amounts in equivalent amounts to those described above under the Covered Bond Guarantee in respect of the Covered Bonds on each Original Due for Payment Date provided that any Guaranteed Amounts representing interest, paid after the Final Maturity Date shall be paid at such rate and on such dates specified in the relevant Pricing Supplement.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on but excluding such date (**Fixed Coupon Amount**). Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the broken amount specified in the relevant Pricing Supplement (the **Broken Amount**) so specified.

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

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 3(a):

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

In these Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

**Principal Amount Outstanding** means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less (in the case of a Covered Bond other than a Partly Paid Covered Bond) principal amounts received by the relevant Covered Bondholder in respect thereof and plus (in the case of a Partly Paid Covered Bond) principal amounts received by the Issuer from the relevant Covered Bondholder after the relevant Issue Date in respect thereof;

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

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

**(i) Interest Payment Dates**

Each Floating Rate Covered Bond and Index Linked Interest Covered Bond bears interest on its Principal Amount Outstanding (or if it is a Partly Paid Covered Bond, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, the expression **Interest Period** shall mean the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 3(b)(i)(B) above, the **Floating Rate Convention**, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified and defined as such in the applicable Pricing Supplement; and

- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian Dollars or New Zealand Dollars shall be Sydney and Auckland, respectively) or (2) in relation to any Covered Bond denominated or payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open.

(ii) *Rate of Interest*

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

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

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Pricing Supplement under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**) and under which:

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

For the purposes of this sub-paragraph (A), (1) **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions and (2) **Euro-zone** means the region comprising the Member States of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended from time to time.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Agent or the above-mentioned person will be deemed to have discharged its obligations under Condition 4(b)(iv) below in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

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

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

- (1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest

Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

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

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

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

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

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

The Agent will calculate the amount of interest payable on the Floating Rate Covered Bonds or Index Linked Interest Covered Bonds in respect of each Specified Denomination (each an **Interest Amount**) for the relevant Interest Period. Each Interest Amount, unless otherwise specified in the applicable Pricing Supplement, shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 3(b):

- (i) if "Actual/365" or "Actual/Actual (ISDA)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

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

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

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Bond Trustee and any competent listing authority, stock exchange and/or quotation system on or by which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds are for the time being listed, quoted and/or traded and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter and in the case of any notification to be given to the Luxembourg Stock Exchange on or before the first Business Day of each Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to each competent listing authority, stock exchange and/or quotation system on or by which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds are for the time being listed, quoted and/or traded and to the Covered Bondholders in accordance with Condition 12. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for general business in London.

(vi) *Determination or Calculation by Bond Trustee*

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

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(b), whether by the Agent or, if applicable, the Calculation Agent or the Bond Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the LLP, the Agent, the Calculation Agent (if applicable), the other Paying Agents, the Bond Trustee and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith or manifest error) no liability to the Issuer, the LLP, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Agent or (if applicable) the Calculation Agent or the Bond Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

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

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

***(d) Interest on 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 and otherwise as specified in the applicable Pricing Supplement.

***(e) Accrual of interest***

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

**4. Payments**

***(a) Method of payment***

Subject as provided below:

- (i) payments in a Specified Currency other than euro and U.S. Dollars will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively);
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and
- (iii) payments in U.S. Dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 4, means the United States of America, including the State and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank.

In no event will payment be made by a cheque mailed to an address in the United States. All payments of interest will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer. Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment in these Conditions, the Trust Deed, the Agency Agreement and the Pricing Supplement, but without prejudice to the provisions of Condition 6. References to Specified Currency will include any successor currency under applicable law.

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

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

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

made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant definitive Covered Bond in accordance with the preceding paragraph. If any definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be repayable only on surrender of such Covered Bond together with all unmatured Receipts appertaining thereto. Receipts presented without the definitive Covered Bond to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer or the LLP. Upon the date on which any definitive Covered Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Covered Bonds in definitive form (other than Dual Currency Covered Bonds, Index Linked Covered Bonds or Long Maturity Covered Bonds (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive form becoming due and repayable by the Issuer (in the absence of a Notice to Pay) or LLP under the Covered Bond Guarantee prior to its Final Maturity Date or, as the case may be, the Extended Final Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

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

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

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

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

**(d) *General provisions applicable to payments***

The bearer of a Global Covered Bond (other than in relation to the Excess Proceeds) or the Bond Trustee shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer or, as the case may be, the LLP and the Bond Trustee will be discharged by payment to, or to the order of, the bearer of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of

Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg (or, as provided in the Trust Deed, the Bond Trustee), as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the LLP or the Bond Trustee to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the bearer of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall have any claim against the Issuer or the LLP in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition:

- (i) the Issuer reserves the right to require Couponholders who do not make a declaration (such declaration being to the satisfaction of the United Kingdom Inland Revenue) that they are not resident in the United Kingdom to present their Coupons at a specified office of a Paying Agent situated outside the United Kingdom if the Issuer would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of tax calculated by reference to the interest represented by the relevant Coupon; and
- (ii) if any amount of principal and/or interest in respect of Covered Bonds is payable in U.S. Dollars, such U.S. Dollar payments of principal and/or interest in respect of such Covered Bonds will be made at the specified office of a Paying Agent in the United States if:
  - (A) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and interest on the Covered Bonds in the manner provided above when due;
  - (B) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
  - (C) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

**(e) Payment Day**

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 7) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) London;
  - (C) any Additional Financial Centre specified in the applicable Pricing Supplement; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

**(f) Interpretation of principal and interest**

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

- (i) any additional amounts which may be payable with respect to principal under Condition 6 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

- (ii) the final redemption amount (as defined in the relevant Pricing Supplement) (the **Final Redemption Amount**) of the Covered Bonds;
- (iii) the Early Redemption Amount of the Covered Bonds;
- (iv) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (v) in relation to Covered Bonds redeemable in instalments, the amount that can be redeemed on each Instalment Date in relation to the Covered Bonds (**Instalment Amounts**);
- (vi) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 5(e));
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds;
- (viii) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds; and
- (ix) in relation to Dual Currency Covered Bonds, the principal payable in any relevant Specified Currency.

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 6 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

**(g) Partial payment**

Following the service of a Notice to Pay on the LLP but prior to an LLP Event of Default, if on the Original Due for Payment Date (subject to any applicable grace period) of a Series of Covered Bonds the LLP has insufficient moneys (after paying higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments) to pay the Guaranteed Amount corresponding to the Final Redemption Amount on that Series of Covered Bonds, then the LLP shall apply the available moneys (after paying higher ranking amounts in accordance with the Guarantee Priority of Payments) to redeem the relevant Series of Covered Bonds *pro rata* in part at par together with accrued interest.

**5. Redemption and Purchase**

**(a) Redemption at maturity**

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

Without prejudice to Condition 8, if an Extended Final Maturity Date is specified as applicable in the Pricing Supplement for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Pricing Supplement (or after the expiry of the grace period set out in Condition 8(a)(i)) and, the LLP or the Cash Manager on its behalf determines that the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two London Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (in each case after expiry of the grace period set out in Condition 8(b)(i)) under the terms of the Covered Bond Guarantee and (b) the Extension Determination Date, then (subject as provided below), payment of the unpaid amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Final Maturity Date provided that, any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date.

The LLP shall confirm to the Rating Agencies, any relevant Covered Bond Swap Provider, the Bond Trustee and the Principal Paying Agent as soon as reasonably practicable and in any event at least one London Business Day prior to the earlier of the dates specified in (a) and (b) of the preceding paragraph of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the LLP to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

In the circumstances outlined above, the LLP shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 8(b)(i)) and (b) the Extension Determination Date under the Covered Bond Guarantee apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above.

Any discharge of the Issuer's obligations in respect of the Covered Bonds as the result of the payment of Excess Proceeds to the Bond Trustee in accordance with Condition 8 shall be disregarded for the purposes of determining the amounts to be paid by the LLP under the Covered Bond Guarantee in connection with this Condition 5(a).

Such failure to pay by the LLP shall not constitute an LLP Event of Default.

For the purposes of these Conditions;

**Extension Determination Date** means the date falling three Business Days after the expiry of seven days from (and including) the Final Maturity Date of the relevant Series of Covered Bonds.

**Extended Final Maturity Date** means in relation to any Series of Covered Bonds, the date if any specified as such in the applicable Pricing Supplement to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date.

**(b) Redemption for tax reasons**

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Covered Bond is neither a Floating Rate Covered Bond, an Index Linked Interest Covered Bond nor a Dual Currency Interest Covered Bond) or on any Interest Payment Date (if this Covered Bond is either a Floating Rate Covered Bond, an Index Linked Interest Covered Bond or a Dual Currency Interest Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and the Agent and, in accordance with Condition 12, the Covered Bondholders (which notice shall be irrevocable), if the Cash Manager notifies the Bond Trustee in writing that there will be sufficient funds available to pay any termination payments due to the relevant Covered Bond Swap Provider(s) and the Issuer satisfies the Bond Trustee immediately before the giving of such notice that:

- (i) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 6 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 6) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the relevant series of the Covered Bonds; or
- (ii) the Issuer will be required to account to any taxing authority in the Tax Jurisdiction for any amount (other than any tax withheld or deducted from interest payable on the Covered Bonds) calculated by reference to any amount payable in respect of the Covered Bonds, Receipts or Coupons, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Bond Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Covered Bondholders, the Receiptholders and the Couponholders. Covered Bonds redeemed pursuant to this Condition 5(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

If an issuer call is specified in the applicable Pricing Supplement (the **Issuer Call**), the Issuer may, (subject to the Cash Manager notifying the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s)) (unless otherwise specified in the applicable Pricing Supplement) having given:

- (i) not less than 30 nor more than 60 days' notice to the Covered Bondholders in accordance with Condition 12; and
- (ii) not less than 15 nor more than 30 days before the giving of the notice referred to in (i), notice to the Bond Trustee and to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such partial redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by definitive Covered Bonds, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 60 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Covered Bonds represented by definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 12 not less than 30 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 12 at least 30 days prior to the Selection Date.

**(d) Redemption at the option of the Covered Bondholders (Investor Put)**

If an investor put is specified in the applicable Pricing Supplement (the **Investor Put**), then if and to the extent specified in the applicable Pricing Supplement, upon the holder of this Covered Bond giving to the Issuer, in accordance with Condition 12, not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice provided that the Cash Manager has notified the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s), redeem subject to, and in accordance with, the terms specified in the applicable Pricing Supplement in whole (but not in part) such Covered Bond on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Pricing Supplement, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

If this Covered Bond is in definitive form, to exercise the right to require redemption of this Covered Bond, the holder of this Covered Bond must deliver such Covered Bond, on any Business Day (as defined in Condition 3(b)(i)) falling within the above-mentioned notice period at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise of the Investor Put in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

**(e) Early Redemption Amounts**

For the purpose of paragraphs (b) above and (j) below and Condition 8, each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Covered Bond (including an Instalment Covered Bond and Partly Paid Covered Bonds but not a Zero Coupon Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

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

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield (compounded annually) (as defined in the relevant Pricing Supplement) expressed as a decimal; and

**y** is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator of which is 360,

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

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, on the basis of a 360-day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365) or (iii) on such other calculation basis as may be specified in the applicable Pricing Supplement.

**(f) Instalments**

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

**(g) 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 and the applicable Pricing Supplement.

**(h) Purchases**

The Issuer, any of its subsidiaries and the LLP may, at any time, purchase or otherwise acquire Covered Bonds (provided that, in the case of definitive Covered Bonds, all unmatured Receipts, Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price in the open market either by tender or private agreement or otherwise. If purchases are made by tender, tenders must be available to all Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, the relevant subsidiary or the LLP, surrendered to any Paying Agent for cancellation (except that any Covered Bonds purchased or otherwise acquired by the LLP must immediately be surrendered to any Paying Agent for cancellation).

**(i) Cancellation**

All Covered Bonds which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and cancelled (if applicable) pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be held, reissued or resold.

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

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to paragraphs (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Agent or the Bond Trustee and notice to that effect has been given to the Covered Bondholders in accordance with Condition 12.

**(k) Legislative Exchange**

Following the coming into force in the United Kingdom, at any time after the Programme Date, of (i) any legislation similar to covered bond legislation in force in any other country of the European Union or (ii) any rules, regulations or guidelines published by any governmental authority that provides for bonds issued by United Kingdom issuers to qualify for the same benefits available to covered bonds issued under covered bond legislation in force in any other country of the European Union, the Issuer may, at its option and without the consent of the Bond Trustee or the Covered Bondholders, Receiptholders or Couponholders, exchange all (but not some only) of the Covered Bonds of all Series then outstanding (the **Existing Covered Bonds**) for new Covered Bonds which qualify as covered bonds under such new legislation, rules, regulations or guidelines (the **New Covered Bonds**) in identical form, amounts and denominations as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (the **Legislative Exchange**) if not more than 60 nor less than 30 days' notice to the Covered Bondholders (in accordance with Condition 12) and the Bond Trustee is given and provided that:

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

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

**(l) Redemption due to illegality**

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and the Agent subject to the Cash Manager notifying the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s) and, in accordance with Condition 12, all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP under the

Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.

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

Covered Bonds redeemed pursuant to this Condition 5(l) will be redeemed at their Early Redemption Amount referred to in Condition 5(e) above together (if appropriate) with interest accrued to (but excluding) the date of redemption.

## **6. Taxation**

All payments of principal and interest in respect of the Covered Bonds, Receipts and Coupons by the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In the event of a withholding or deduction being made by the Issuer in respect of a payment made by it, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond, Receipt or Coupon:

- (a) presented for payment in the Tax Jurisdiction; or
- (b) presented for payment by or on behalf of a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bond, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4(e)); or
- (d) 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 directive implementing the conclusions of the ECOFIN Council (the **ECOFIN Council**) meeting of 26th - 27th 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
- (e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (f) presented for payment by or on behalf of a holder who is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority but fails to do so.

As used herein:

- (i) **Tax Jurisdiction** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due and payable, except that, if the full amount of the moneys payable has not been duly received by the Bond Trustee or the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 12.

Any obligation of the Issuer to pay any additional amounts pursuant to this Condition 6 will not constitute Guaranteed Amounts for the purposes of the Covered Bond Guarantee.

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

## **7. Prescription**

The Covered Bonds, Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 6) therefor, subject in each case to the provisions of Condition 4(b).

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 4(b) or any Talon which would be void pursuant to Condition 4(b).

## **8. Events of Default and Enforcement**

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

The Bond Trustee at its discretion may and if so requested in writing by the holders of not less than 25 per cent. of the aggregate principal amount of the Covered Bonds (which for this purpose means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by a Programme Resolution shall, but in the case of the happening of any of the events described in paragraph (ii) below, only if the Bond Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

- (i) default is made by the Issuer for a period of seven days or more in the payment of any principal, or redemption amount or for a period of 14 days or more in the payment of interest on the Covered Bonds of any Series when due; or
- (ii) a default is made in the performance or observance by the Issuer of any obligation (other than any obligation for the payment of principal, redemption amount or interest in respect of the Covered Bonds of any Series) under the provisions of the Covered Bonds of any Series or the Trust Deed or any other Transaction Document to which the Issuer is a party which (unless certified by the Bond Trustee, in its opinion, to be incapable of remedy) shall continue for more than 30 days (or such longer period as the Bond Trustee may permit) after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given to the Issuer by the Bond Trustee in accordance with the Trust Deed; or
- (iii) an order is made or an effective resolution passed for the liquidation or winding up of the Issuer (except 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 Bond Trustee or an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 13); or
- (iv) the Issuer ceases to carry on its business or substantially all its business (except a cessation for the purpose of a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by the Bond Trustee or an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 13); or

- (v) proceedings shall be initiated against the Issuer under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 13); or a receiver, administrator, trustee or other similar official shall be appointed in relation to the Issuer or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within thirty days; or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, sequestration, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by the Bond Trustee or an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 13) or shall make a conveyance, assignment for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) the Issuer shall be unable to pay its debts (other than any debts disputed in good faith) as they fall due (within the meaning of section 123(1)(b) to (e) (inclusive) and section 123(2) of the Insolvency Act (as that section may be amended)) or shall admit inability to pay its debts as they fall due or shall stop payment in respect of any debts that are due (save, in the case of stopping payments, in respect of any obligation for the payment of principal, redemption amount or interest in respect of the Covered Bonds of any Series) or shall be adjudged or found bankrupt or insolvent; or
- (vii) a failure to satisfy the Asset Coverage Test (as set out in the LLP Deed) on any Calculation Date which has not been cured by the LLP by the next following Calculation Date.

Upon the occurrence of an Issuer Event of Default and service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP on the next following London Business Day pursuant to the Covered Bond Guarantee and the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 8(c).

The Trust Deed provides that all moneys received by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator or other similar official appointed in relation to the Issuer following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice and a Notice to Pay (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Deed of Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge the obligations of the Issuer *pro tanto* under the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following the occurrence of an Issuer Event of Default, the service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

**(b) LLP Events of Default**

The Bond Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. of the aggregate principal amount of the Covered Bonds (which for this purpose means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the

Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by a Programme Resolution shall (subject in each case to being indemnified and/or secured to its satisfaction), but in the case of the happening of any of the events described in paragraph (ii) below, only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, give notice (the **LLP Acceleration Notice**) in writing to the Issuer and to the LLP, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default) thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

- (i) default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amount when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payment of a Guaranteed Amount when Due for Payment under Condition 5(a) where the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (ii) a default is made in the performance or observance by the LLP of any obligation binding upon it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed or any other Transaction Document to which the LLP is a party which (unless certified by the Bond Trustee, in its opinion, to be incapable of remedy when no such continuation and notice as is hereinafter mentioned will be required) shall continue for more than 30 days (or such longer period as the Bond Trustee may permit) after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given to the LLP by the Bond Trustee in accordance with the Trust Deed; or
- (iii) an order is made or an effective resolution passed for the liquidation or winding up of the LLP; or
- (iv) the LLP ceases to carry on its business or substantially all its business; or
- (v) proceedings shall be initiated against the LLP under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order); or a receiver, administrator, trustee or other similar official shall be appointed in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (vii) the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect; or
- (viii) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any Calculation Date following an Issuer Event of Default; or
- (ix) the LLP creates or permits to subsist any security interest over the whole or any part of its assets, or (other than as envisaged by the Transaction Documents) incurs any indebtedness or enters into any contracts, agreements or undertakings.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 8(c) and the Covered

Bondholders shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 6) as provided in the Trust Deed in respect of each Covered Bond.

**(c) Enforcement**

The Bond Trustee may at any time after service of an Issuer Acceleration Notice (in the case of the Issuer) or an LLP Acceleration Notice (in the case of the LLP), at its discretion and without further notice, take such proceedings against the Issuer or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Receipts, and the Coupons or any other Transaction Documents to which it is a party, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other Transaction Document unless (i) it shall have been so directed by a Programme Resolution or so requested in writing by the holders of not less than 25 per cent. of the principal amount of the Covered Bonds of all Series then outstanding (taken together and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions under Condition 8 the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series together as a single class and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge or any other Transaction Documents to which it is a party and may, at any time after the Security has become enforceable, take such steps as it may think fit to enforce the Security, but it shall not be bound to take any such steps unless (i) it shall have been so directed by a Programme Resolution or a request in writing by the holders of not less than 25 per cent. of the aggregate principal amount of the Covered Bonds of all Series then outstanding (taken together converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid); and (ii) it shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other Secured Creditors.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or the Security.

**9. Replacement of Covered Bonds, Receipts, Coupons and Talons**

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent in London and/or in Luxembourg, or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 12 upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

**10. Paying Agents**

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

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest (if applicable) or to calculate the Interest Amounts of any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

The Issuer is entitled, with the prior written approval of the Bond Trustee to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be a Paying Agent (which may be the Agent) with a specified office in a city approved by the Trustee in western continental Europe;

- (b) so long as the Covered Bonds are listed, quoted and/or traded on or by any competent listing authority, on any stock exchange or quotation system, there will at all times be a Paying Agent (which may be the Agent) with a specified office in such place as may be required by the rules and regulations of the relevant competent listing authority, stock exchange or quotation system; and
- (c) the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26th - 27th November, 2000 or any law implementing or complying with, or introduced in order to conform, to such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Covered Bondholders in accordance with Condition 12.

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

#### **11. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 7. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relevant Coupon sheet matures.

#### **12. Notices**

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

So long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed, quoted and/or traded on or by any competent listing authority, stock exchange or quotation system and the rules of that competent listing authority, stock exchange or quotation system so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the seventh day after which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relative Covered Bond or Covered

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

### 13. Meetings of Covered Bondholders, Modification, Waiver and Substitution

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

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 8 or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the principal amount of the Covered Bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Series of Covered Bonds.

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

The Bond Trustee, the Security Trustee, the LLP and the Issuer may also agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders of any Series and without the consent of the other Secured Creditors, (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter) to:

- (a) any modification of the Covered Bonds of one or more Series, the related Receipts and/or Coupons or any Transaction Document provided that (i) in the opinion of the Bond Trustee such

modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series: (ii) in the opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the Secured Creditors (other than the Seller) (in which respect the Security Trustee may rely (without further enquiry) upon the consent in writing of any such Secured Creditor (other than the Covered Bondholders) as to the absence of material prejudice to the interests of such Secured Creditor) and/or if it is not of that opinion in relation to any such Secured Creditor or any such Secured Creditor (other than the Covered Bondholders) acting reasonably has informed the Security Trustee in writing that such modification will be materially prejudicial to its interests, such Secured Creditor has given its written consent to such modification; and (iii) the Security Trustee has not been informed in writing by any such Secured Creditor (other than any Covered Bondholder(s) and the Seller) acting reasonably that such Secured Creditor will be materially prejudiced thereby (other than a Secured Creditor who has given his/her written consent as aforesaid); or

- (b) any modification of the Covered Bonds of any one or more Series, the related Receipts and/or Coupons or any Transaction Document which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

The Bond Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series or the Transaction Documents, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the Covered Bondholders. The Security Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents, provided that, in any such case, (i) it is not, in the opinion of the Security Trustee, materially prejudicial to the interests of any of the Secured Creditors (other than the Seller) (in which respect the Security Trustee may (without further enquiry) rely upon the consent in writing of any such Secured Creditor (other than Covered Bondholders) as to the absence of material prejudice to the interests of such Secured Creditor) or if it is not of that opinion in relation to any such Secured Creditor or any such Secured Creditor (other than Covered Bondholders) acting reasonably has informed the Security Trustee in writing that such waiver, authorisation or determination will be materially prejudicial to its interests, such Secured Creditor has given its written consent to such waiver, authorisation or determination and (ii) the Security Trustee has not been informed in writing by any such Secured Creditor (other than Covered Bondholders) acting reasonably that such Secured Creditor will be materially prejudiced thereby (other than a Secured Creditor who has given its written consent as aforesaid).

Any such modification, waiver, authorisation or determination shall be binding on all Covered Bondholders of all Series of Covered Bonds for the time being outstanding, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Security Trustee and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Bond Trustee and the Security Trustee shall have regard to the general interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders,

except to the extent already provided for in Condition 6 and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 6 pursuant to the Trust Deed.

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

For the purposes hereof:

**Potential Issuer Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default; and

**Potential LLP Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an LLP Event of Default.

#### **14. Indemnification of the Bond Trustee and/or Security Trustee and Bond Trustee and/or Security Trustee Contracting with the Issuer and/or the LLP**

If, in connection with the exercise of its powers, trusts, authorities or discretions (i) the Bond Trustee or the Security Trustee is of the opinion that the interests of the holders of the Covered Bonds then outstanding of any one or more Series would be materially prejudiced thereby, the Bond Trustee or the Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a written resolution of such Covered Bondholders of at least a clear majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding (a **Written Resolution**) or (ii) the Security Trustee is of the opinion (other than in relation to any enforcement action, when it shall only have regard to the interests of the Covered Bondholders) that the interests of a Secured Creditor (other than the Seller) would be materially prejudiced thereby, or any such Secured Creditor (other than the Covered Bondholders) (acting reasonably) informs the Security Trustee in writing that it would be materially prejudiced thereby, the Security Trustee shall only exercise the same with the written consent of such Secured Creditor(s) and provided that the Security Trustee is satisfied that such exercise will not be materially prejudicial to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions (other than as aforesaid), the Security Trustee may not act on behalf of the Seller.

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

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (i) to enter into business transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates and to act as trustee for the

holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders or the other Secured Creditors and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for (i) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test or the Amortisation Test; or (iv) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

#### **15. Substitution**

- (a) Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Covered Bondholders, may agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders, to the substitution of any successor in business to the Issuer or of a Subsidiary either of the Issuer or of any successor in business to the Issuer in place of the Issuer as principal debtor under the Trust Deed, the Covered Bonds, the Receipts, the Coupons and all other Transaction Documents provided in the case of a Subsidiary in respect of the Trust Deed, the Covered Bonds, the Receipts, the Coupons and the Transaction Documents shall be guaranteed by the Issuer or such successor in business in a form satisfactory to the Bond Trustee.
- (b) Any such substitution shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, any such substitution shall be notified by the Issuer to the Covered Bondholders as soon as practicable thereafter in accordance with Condition 12.

#### **16. Further Issues**

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

#### **17. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

#### **18. Governing Law**

The Trust Deed, the Agency Agreement, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents (other than certain documents to be granted pursuant to the Jersey Corporate Services Agreement) are governed by, and shall be construed in accordance with, English law and the Issuer and the LLP agree that the courts of England are the most appropriate and convenient court to settle any dispute arising from or connected with the Covered Bonds and accordingly, that they will not agree to the contrary unless specifically stated to the contrary.

## **USE OF PROCEEDS**

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after swapping the proceeds of the Term Advances into Sterling (if necessary) under the relevant Covered Bond Swap) either:

- (i) to purchase the Initial Portfolio and each New Portfolio, consisting of Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
- (ii) (subject to complying with the Asset Coverage Test) to make a Capital Distribution to any Member by way of a distribution of that Member's equity in the LLP in an amount equal to the Term Advance (or the Sterling Equivalent thereof) or any part thereof; and/or
- (iii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
- (iv) if an existing Series, or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to such existing Series or Tranche; and/or
- (v) to deposit all or part of the proceeds into the GIC Account.

## THE ISSUER

### 1. Introduction and Constitution

The Issuer is an authorised person under the FSMA and has its registered office at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA. It is the successor to Bradford & Bingley Building Society (the **Society**), which was a “building society” within the meaning given to that term in the Building Societies Act 1986 (as amended by the Building Societies Act 1997).

### 2. History and Business Activities

The Society was formed on 1st July, 1964 as a result of the merger of the Bradford Equitable Building Society and the Bingley Building Society which were both established in 1851. The Issuer was incorporated as a public limited company on 28th February 2000. At a Special General Meeting held on 17th July, 2000, the Society’s voting members overwhelmingly endorsed a proposal from the Board of Directors to convert to a public limited company. Following the latter’s flotation on the London Stock Exchange on 4th December, 2000, the business, property and liabilities of the Society were transferred to the Issuer.

The principal activities of the Issuer are (i) to lend on residential and commercial property, (ii) to offer a range of retail savings services, (iii) to operate as an independent retailer of mortgage, investment and insurance products (including products regulated under the FSMA) provided by a range of companies and (iv) to offer residential estate agency and selected other property related services. The Issuer also has a number of subsidiaries which are engaged in the activity of insurance, offshore deposit taking and treasury activity.

The Issuer’s main brands are “Mortgage Express”, “Bradford & Bingley Property Finance” and “Bradford & Bingley Housing Finance” which form its lending business; “Bradford & Bingley Estate Agents” and “SecureMove” which provide estate agency and property management services and “The MarketPlace” and “Charcol” both of which offer choice and independent financial advice on a range of financial products.

The Issuer’s lending business is responsible for the development and manufacture of the mortgage lending product range. It only offers loans secured on property. Residential lending products are distributed through the Issuer’s branch network, directly via the telephone and online. Specialist mortgages are sold through intermediaries under the Mortgage Express brand. In 2003, the Issuer, through its specialist lending subsidiary, Mortgage Express, acquired loan portfolios with a value of £1.4 billion from GMAC-RFC Limited. The Issuer’s commercial lending operation focuses on property-related lending to corporate customers, always secured on income producing property or on pre-let development schemes and its Housing Finance business lends to housing associations throughout the United Kingdom.

The Issuer’s savings business is responsible for the development and manufacture of the Issuer’s range of convenience and value savings products. These products are distributed exclusively through the Issuer’s retail network, and are managed very closely with the distribution business. In addition to introducing a large customer base to the Issuer’s retail financial services business, the savings business supports the Issuer’s retail distribution strategy by offering good value savings products, which both meet the needs of existing customers and attract new ones.

The Issuer’s distribution business develops and manages the distribution network. This offers a wide range of services online and offline, including estate agency and property related services, mortgage and insurance broking and financial advice on a wide range of investment products. The MarketPlace offers product choice and advice at over 500 locations across the United Kingdom in both the Estate Agency and Bank branches, on mortgages, investments and insurance products. The Issuer’s own savings products are also available at MarketPlace outlets, with Bradford & Bingley International in the Isle of Man providing offshore products.

Charcol offers independent advice online, on the telephone and in a number of branches around the country. New acquisitions, Charcol Holden Meehan and Charcol Aitchison & Colegrave offer specialist advice on investment products, savings and pensions.

The Issuer is the fifth largest residential estate agency and one of the largest residential surveying firms in the United Kingdom. The flow of customers into the estate agency outlets acts as an important lead generator for the Issuer’s mortgage broking and wealth management business. SecureMove offers a wide range of property services including residential valuations, property management, corporate property services and conveyancing.

The Issuer is also active in the wholesale money markets raising funds principally through time deposits, certificates of deposit, commercial paper, bank loans, bond issues and subordinated liabilities. In 2003 it raised around £4 billion from overseas markets in Europe, the United States, Asia and Australia. Further funding diversification has been achieved by the use of securitisation: approximately £1 billion of mortgages were securitised in the name of Aire Valley Finance plc in 1997 and a further £1 billion of mortgages were securitised in the name of Aire Valley Finance (No 2) plc in 2000.

The Board of Directors has announced that the property services businesses, the estate agency businesses and SecureMove, the mortgage brokerage business Charcol and its associated mid-to-high net worth IFA businesses are not core to the future of the Issuer and should be sold. It is intended that any such sale will be completed by the end of 2004.

The Board of Directors of the Issuer is of the opinion that such sale will not adversely affect its obligations under the Transaction Documents or in respect of the Covered Bonds.

### **3. Results for the Year Ended 31st December 2003**

The Issuer group achieved a profit before tax and exceptional items of £263.0 million, being a decline of four per cent. on the previous year. Assets (including the assets of wholly owned subsidiaries) increased by 27 per cent. to £32.2 billion as a result of the growth in lending assets. Liquid assets rose 24 per cent. compared to the previous year.

The Issuer's residential loan book grew by £3.9 billion, thus contributing to a total managed residential book of £20.6 billion. Commercial and housing association lending increased the size of its book by £1.5 billion to £5.2 billion.

On the funding side of the business, retail savings balances declined £100 million to £12.9 billion. Wholesale deposits increased to £3.8 billion during the year in support of lending growth, while debt securities in issue increased by £4.6 billion to £10.3 billion.

The distribution business' profit before tax declined to £10 million, while income from financial services declined by 5.5 per cent. to £136 million and property services by one per cent. to £114 million.

Shareholders' equity, reserves and subordinated loan capital stood at £174 million, £1,127 million and £1,122 million respectively.

## Board of Directors

The composition of the Board of Directors of the Issuer is as follows:

<u>Directors</u>		<u>Other Directorships</u>
Roderick D. Kent	Chairman, Non-Executive Director	Close Brothers Group Plc Close Brothers Holdings Limited E.F. Investments Limited Grosvenor Group Holdings Limited Grosvenor Limited Grosvenor UK Finance Limited Whitbread Group PLC
Ian M. Cheshire	Non-Executive Director	Castorama France S.A. e-Kingfisher Limited Eijsvogel S.A.R.L. Immobiliere de l'Epinoy SAS Kingfisher PLC Lorlan SA Medicinema Enterprises Limited Screwfix Direct Limited The Baby Fund Trading Limited
Nicholas J. Cosh	Non-Executive Director	Computacentre plc Hornby Industries Limited Hornby plc ICAP plc SBA Underwriting Limited Sportev Limited Stace Barr Angerstein plc
George E. Cox	Non-Executive Director	Enterprise Insight Limited Euronext N.V. Institute of Directors IOD.COM Limited IOD Management Limited Short Brothers PLC The Director Publications Limited
Steven J. Crawshaw	Group Chief Executive	No External Directorships
Ian S. Darby	Group Commercial Director	Association of Independent Financial Advisers
Robert S. Dickie	Group Operations Director	No External Directorships
Louise Patten	Non-Executive Director	Brixton PLC GUS PLC Somerfield PLC
Rosemary P. Thorne	Group Finance Director	Burra Limited Ellerton House (Bryanston Square) Management Company Limited The Financial Reporting Council Limited
Stephen P. Webster	Non-Executive Director	Wolseley plc

The business address of the Directors is c/o Bradford & Bingley plc, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

# BRADFORD & BINGLEY GROUP

## FINANCIAL INFORMATION

### Financial Summary

The following is a summary of the audited consolidated profit and loss accounts of the Issuer and its subsidiaries for the year ended 31st December, 1999 (when the Issuer was a Building Society) and of the Issuer and its subsidiaries for the four years ended 31st December, 2003 (figures are in £ millions)<sup>(1)</sup>:

	<u>1999<sup>(2)(3)</sup></u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Interest Receivable and similar income arising from					
debt securities .....	239	259	231	142	145
Other interest receivable and similar income .....	<u>1,206</u>	<u>1,417</u>	<u>1,305</u>	<u>1,235</u>	<u>1,281</u>
Total interest receivable .....	1,445	1,676	1,536	1,377	1,426
Interest payable .....	<u>(1,105)</u>	<u>(1,250)</u>	<u>(1,093)</u>	<u>(936)</u>	<u>(990)</u>
Net interest income .....	340	426	443	441	436
Fees and Commissions receivable .....	253	255	273	290	296
Fees and Commissions payable .....	(8)	(9)	(12)	(18)	(32)
Other operating income .....	<u>22</u>	<u>24</u>	<u>10</u>	<u>15</u>	<u>39</u>
Total income					
Operating income .....	607	696	714	728	738
Administrative expenses:					
On-going .....	(379)	(411)	(418)	(416)	(440)
Exceptional .....	(30)	(78)	(19)	(33)	—
Depreciation and Amortisation .....	(28)	(32)	(34)	(30)	(29)
Other operating charges .....	—	—	—	—	—
Provisions for bad and doubtful debts .....	4	(7)	(6)	(6)	(7)
Provision for pension review .....	<u>(19)</u>	<u>(13)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating Profit .....	155	155	237	243	(263)
Share of loss in joint ventures .....	—	(1)	(3)	(3)	—
Profit on disposal of subsidiary .....	<u>—</u>	<u>5</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit on ordinary activities before tax .....	155	159	234	240	263
Tax on profit on ordinary activities					
On-going .....	(60)	(82)	(71)	(63)	(72)
Exceptional credit .....	—	—	—	—	23
Minority Interest (non-equity) .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6)</u>	<u>(10)</u>
Profit attributable to shareholders .....	95	77	163	171	204
Dividends .....	<u>—</u>	<u>(24)</u>	<u>(88)</u>	<u>(96)</u>	<u>(102)</u>
Profit retained for the financial year .....	<u>95</u>	<u>53</u>	<u>75</u>	<u>75</u>	<u>102</u>

Notes:—

- (1) These figures are extracted without material adjustment from the Group Income and Expenditure Account set out in the Society's annual accounts for the year 1999 and from the Consolidated Profit and Loss Account set out in the Issuer's annual accounts for the years 2000, 2001, 2002 and 2003.
- (2) The 1999 accounts were drawn up in compliance with the Building Societies (Accounts and Related Provisions) Regulations 1998.
- (3) The Directors have taken the view that "Other operating charges" and certain deductions from operating income reported in 1999 are more appropriately included within administrative expenses, and for greater clarity the provision for pension review is now reported separately from 1999.

## CAPITALISATION AND INDEBTEDNESS

The following is a summary of the audited consolidated shareholders' funds, subordinated liabilities and unsubordinated indebtedness of the Issuer and its subsidiaries (together the **Group**) as at 31st December, 2003.<sup>(9)</sup>

*31st December, 2003*  
*(in £ millions)*

### SHAREHOLDERS' FUNDS

Equity shareholders' funds:	
Called up share capital <sup>(1)</sup> .....	158.5
Share premium account .....	3.9
Capital Redemption Reserve .....	12.0
Profit and loss account .....	<u>1,127.4</u>
<b>Total Shareholders' Funds</b> .....	<u>1,301.8</u>
<b>MINORITY INTEREST (NON-EQUITY)<sup>(2)</sup></b> .....	<u>148.6</u>

### UNDATED SUBORDINATED LIABILITIES<sup>(4)(5)(6)</sup>

13 per cent. Perpetual Subordinated Bonds (Sterling) .....	55.0
11½ per cent. Perpetual Subordinated Bonds (Sterling) .....	50.0
5½ per cent. Callable Perpetual Subordinated Notes (Sterling) .....	246.0
6 per cent. Callable Perpetual Subordinated Notes (Sterling) .....	<u>198.2</u>
<b>Total Undated Subordinated Liabilities</b> .....	<u>549.2</u>

### DATED SUBORDINATED LIABILITIES

Sterling Subordinated Notes due 2010 .....	125.0
Step-up Sterling Subordinated Notes due 2011 .....	125.0
Sterling Fixed rate Step-up Subordinated Notes due 2022 .....	197.7
Sterling Subordinated Notes due 2023 .....	<u>125.0</u>
<b>Total Dated Subordinated Liabilities<sup>(3)</sup></b> .....	<u>572.7</u>

### UNSUBORDINATED INDEBTEDNESS<sup>(7)</sup>

Certificates of deposit .....	1,753.3
Commercial paper .....	994.3
Medium term notes .....	6,605.2
Floating Rate Notes and Short Term Notes .....	969.7
Deposits and loans .....	<u>3,743.4</u>
<b>Total Unsubordinated Indebtedness</b> .....	<u>14,065.9</u>

Notes:—

- (1) The authorised share capital of the Issuer is £220,500,000 being 882,000,000 shares of 25p each. At 31st December, 2003, there were 634,082,544 ordinary shares issued at a paid up amount of £158,520,636, with the remaining shares being unissued and unclassified.
- (2) On 29th May, 2002, £150 million, 6.462 per cent. guaranteed, non-voting, non-cumulative, perpetual preferred securities, Series A were issued through Bradford & Bingley Capital Funding L.P. (£148.5m net of expenses), a Jersey based Limited Partnership. These securities are guaranteed on a subordinated basis by the Issuer. These securities are not subject to any mandatory redemption provisions and qualify as tier 1 regulatory capital; they are redeemable by the Issuer at its option on 2nd June, 2032 and on each fifth anniversary thereafter. They have a fixed coupon and, if not redeemed in 2032, the coupon will be reset at a rate equal to the sum of the relevant five year benchmark "gilt rate" plus a margin of 2.3 per cent. per annum.
- (3) As at 31st December, 2003, all liabilities and indebtedness were unsecured and unguaranteed save as disclosed in Note (8).
- (4) The Permanent Interest Bearing Shares (**PIBS**) issued by Bradford & Bingley Building Society were replaced by Perpetual Subordinated Bonds (**PSB**'s) of Bradford and Bingley plc on conversion. These PSB's had a principal amount equal to the principal amount of the PIBS they replaced and carry the same rate of interest of those as the PIBS.
- (5) On 29th April, 2003, the Group issued £250 million of undated subordinated notes, qualifying as upper tier 2 regulatory capital. Under the terms of the issue the Group has the option to call the notes at par on 20th December, 2013, and every five years thereafter. The notes have a fixed coupon of 5.625 per cent. but if the Group does not call the notes on this date (or subsequent call dates), the coupon on the notes will be reset for the period following the issuer call date at a rate equal to the sum of the then prevailing five year benchmark "gilt rate" plus a margin of 2.23 per cent.
- (6) On 10th December, 2003, the Group issued £200 million of undated subordinated notes, qualifying as upper tier 2 regulatory capital. Under the terms of the issue the Group has the option to call the Notes at par on 10th December, 2019, and every five years thereafter. The notes have a fixed coupon of six per cent. but if the Group does not call the notes on this date (or subsequent call dates), the coupon on the notes will be reset for the period following the issuer call date at a rate equal to the sum of the then prevailing five year benchmark "gilt rate" plus a margin of 1.93 per cent.
- (7) Since 31st December, 2003, there have been approximate increases of £410 million in medium term notes, £285 million in commercial paper, £540 million in deposits, £465 million in certificates of deposit and £285 million in Short Term Notes.
- (8) As at 31st December, 2003, the Group had contingent liabilities consisting of guarantees of £4.9 million and commitments of £1.135 million. Since that date there has been an approximate increase of £330 million (none of which consists of guarantees).

## THE LLP

### *Introduction*

The LLP was incorporated in England and Wales on 23rd January, 2004 as a limited liability partnership (registered number OC306627) with limited liability under the LLPA 2000 by the Seller, Mortgage Express (a wholly owned subsidiary of the Seller) and the First Designated Member as its Members. The membership of Mortgage Express was terminated as of 25th February, 2004. The Second Designated Member was admitted as a Member of the LLP on 27th April 2004. The principal place of business of the LLP is at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA. The LLP has no subsidiaries.

### *Principal Activities*

The principal objects of the LLP are set out in the LLP Deed and include, *inter alia*, the ability to carry on the business of acquiring the Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement with a view to profit and to do all such things as are incidental or conducive to the carrying on of that business and to borrow money.

The LLP has not engaged since its incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any activities other than activities incidental to its incorporation under the LLPA 2000, activities contemplated under the Transaction Documents to which it is or will be a party, applying for a standard licence under the Consumer Credit Act 1974, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to the foregoing.

### *Members*

The members of the LLP as at the date of this Offering Circular are and their registered offices are:

<u>Name</u>	<u>Registered Office</u>
Bradford & Bingley plc .....	Croft Road Crossflatts, Bingley West Yorkshire BD16 2UA
Designated Member No. 1 Limited ..	47 Esplanade St. Helier Jersey JE1 0BD
Designated Member No. 2 Limited ..	Blackwell House Guildhall Yard London EC2V 5AE

The LLP has no employees.

### *Directors of the Members*

The following table sets out the directors of Designated Member No. 1 Limited and their respective business addresses and occupations.

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Jonathan Eden Keighley .....	Blackwell House Guildhall Yard London EC2V 5AE	Director
Robert William Berry .....	Blackwell House Guildhall Yard London EC2V 5AE	Director

The following table sets out the directors of Designated Member No. 2 Limited and their respective business addresses and occupations:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited .....	Blackwell House Guildhall Yard London EC2V 5AE	Corporate Director
SFM Directors (No. 2) Limited.. ....	Blackwell House Guildhall Yard London EC2V 5AE	Corporate Director

The directors of Bradford & Bingley plc are set out under *The Issuer* above.

#### *Capitalisation and Indebtedness Statement*

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

	<u>As at 21st May, 2004</u> <u>£</u>
Capital Contributions .....	0
Term Advances .....	0
Total capitalisation and indebtedness .....	<u>0</u>

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

#### *Accountants' Report*

The following is the text of a report received by the Members of the LLP from KPMG Audit Plc, the reporting accountants to the LLP. The financial information contained therein does not comprise the LLP's statutory accounts. No statutory accounts have been prepared or delivered to the Registrar of Companies in England and Wales since incorporation. The LLP's accounting reference date is 31st December with the first statutory accounts being drawn up to 31st December 2004.



KPMG Audit Plc  
Canary Wharf (9th Floor)  
1 Canada Square  
London  
E14 5AG  
United Kingdom

### **The Members**

Bradford & Bingley Covered Bonds LLP

P.O. Box 88  
Croft Road  
Crossflatts  
Bingley  
BD16 2UA  
(the "LLP" and the "Guarantor")

21 May, 2004

Dear Sirs

**Programme for the Issuance of Covered Bonds (the Programme) by Bradford & Bingley plc (the Issuer) the repayment of which is guaranteed by Bradford & Bingley Covered Bonds LLP (the LLP)**

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 21 May 2004 (the **Offering Circular**) of the Issuer.

#### *Basis of Preparation*

The financial information set out in paragraphs 1 and 2 is based on the financial statements of the LLP from incorporation to 21 May 2004 prepared on the basis described in note 2.1.

#### *Responsibility*

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

The Issuer and the LLP are responsible for the contents of the Offering Circular dated 21 May 2004 in which this report is included.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

#### *Basis of opinion*

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

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

#### *Opinion*

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the LLP at 21 May 2004.

Yours faithfully

KPMG Audit Plc

1. Balance Sheet as at 21 May 2004

	<u>£</u>
Current assets	
Cash at bank and in hand.....	0

2. Notes

2.1 Accounting Policies

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

2.2 Trading Activity

The LLP was incorporated on 23rd January, 2004, with the name Bradford & Bingley Covered Bonds LLP. The LLP has not yet commenced business, no audited financial statements have been prepared and no dividends have been declared or paid since the date of incorporation.

2.3 Registration

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

- Data Protection Act 1998 — Register of Data Controllers — registration number Z8476201; and
- Consumer Credit Act 1974 — consumer credit licence, licence number 550368.

2.4 Members' Capital

On incorporation the members' capital was £nil.

2.5 Auditors

KPMG Audit Plc was appointed as auditor on 13 May 2004.

## SUMMARY OF THE PRINCIPAL DOCUMENTS

### Trust Deed

The Trust Deed made between the Issuer, the LLP, the Bond Trustee and the Security Trustee on the Programme Date, is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under *Terms and Conditions of the Covered Bonds* above);
- the covenants of the Issuer and the LLP;
- the terms of the Covered Bond Guarantee (as described below);
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee; and
- the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign or retire or be removed.

### Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date (subject to any applicable grace periods) of any moneys due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Receipts or Coupons, if any other Issuer Event of Default occurs (other than by reason of non-payment) or if an LLP Event of Default occurs, the LLP has agreed (subject as described below) to pay or procure to be paid (following service of an Issuer Acceleration Notice on the Issuer and a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders), an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, Extended Final Maturity Date by the Issuer.

Following the occurrence of an Issuer Event of Default and after the Covered Bonds have been declared due and payable by the Bond Trustee as against the Issuer, and following service of an Issuer Acceleration Notice on the Issuer, the Bond Trustee will serve a notice to pay (the **Notice to Pay**) on the LLP. Payment by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day which is two London Business Days following service of a Notice to Pay on the LLP and (b) the day on which the Guaranteed Amounts are otherwise Due for Payment, provided that, any amount representing the Final Redemption Amount due and remaining unpaid on the Original Due for Payment Date may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date.

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

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and (following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP or, if earlier, service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any judgement or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 8(b) failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default.

The Trust Deed provides that the Excess Proceeds shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

For the purposes hereof:

**Due for Payment** means, the requirements by the LLP to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the LLP:

- (i) prior to the occurrence of an LLP Event of Default on the later of:
  - (a) the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of the Notice to Pay on the LLP in respect of such Guaranteed Amounts or if the applicable Pricing Supplement specified that an Extended Final Maturity Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Final Maturity Date or such other Interest Payment Date(s) as specified in the relevant Pricing Supplement (the **Original Due for Payment Date**); and
  - (b) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Final Maturity Date, but only (i) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Final Maturity Date pursuant to the terms of the applicable Pricing Supplement and (ii) to the extent that the LLP, having received a Notice to Pay no later than the date falling two Business Days prior to the Extension Determination Date, does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, as the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the LLP or, if later, the Final Maturity Date (in each case, after the expiry of the grace period set out in Condition 8(b)(i)) under the terms of the Covered Bond Guarantee and (b) the Extension Determination Date,

or if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

- (ii) following the occurrence of an LLP Event of Default, the date on which the LLP Acceleration Notice is served on the Issuer and the LLP.

**Guaranteed Amounts** means, prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable the Extended Final Maturity Date, the sum of amounts equal to Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date, or, if applicable, the Extended Final Maturity Date or after the service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts and all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed provided that any Guaranteed Amounts representing interest paid after the Final Maturity Date shall be paid on such dates and at such rates as specified in the relevant Pricing Supplement.

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

**Scheduled Interest** means an amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on each Interest Payment Date as specified in Condition 4 falling on or after service of a Notice to Pay on the LLP (but excluding any additional amounts relating to premiums, default interest or interest upon interest (**Excluded Scheduled Interest Amounts**) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following an LLP Acceleration Notice) if the Covered Bonds had not become due and payable prior to their Final Maturity Date and (if the Pricing Supplement specified that an Extended Final Maturity Date is applicable to the relevant Covered Bonds) if the maturity date of the Covered Bonds had been the Extended Final Maturity Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Final Maturity Date) or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the relevant Pricing Supplement less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 6.

**Scheduled Payment Date** means, in relation to payments under the Covered Bond Guarantee each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date.

**Scheduled Principal** means an amount equal to the amount in respect of principal which would have been due and payable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 5(a) and Condition 5(e) (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (**Excluded Scheduled Principal Amounts**) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Pricing Supplement specifies that an Extended Final Maturity Date is applicable to the relevant Covered Bonds, if the maturity date of the Covered Bonds had been the Extended Final Maturity Date.

#### **Governing Law**

The Trust Deed is governed by English law.

#### **Intercompany Loan Agreement**

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the gross proceeds of the issue of the related Covered Bonds to the LLP by way of a term advance (each such term advance, a **Term Advance**) pursuant to a term loan agreement dated the Programme Date between the Issuer, the LLP and the Security Trustee (the **Intercompany Loan Agreement**). Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Pricing Supplement, and will be converted into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under — *Mortgage Sale Agreement — Sale by the Seller of Loans and their Related Security* and/or (ii) (subject to it complying with the Asset Coverage Test after such Capital Distribution has been made) to make a Capital Distribution to any Member and/or (iii) to invest in Substitution Assets in an amount not exceeding the prescribed limit and/or (iv) if an existing Series, or Tranche, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to such Series or Tranche and/or (v) to deposit all or part of the proceeds into the GIC Account. Each Term Advance will bear interest at a rate of interest with reference to LIBOR or EURIBOR, as the case may be, for one-month deposits equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments. Prior to the service of a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer

on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the relevant Pre-Acceleration Principal Priority of Payments. However any failure by the LLP to pay any amounts due on the Term Advances will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds.

The amounts owed by the LLP to the Issuer under the Term Advance(s) will be reduced by: (i) any amounts paid by the LLP under the terms of the Covered Bond Guarantee to redeem the Covered Bonds which originally financed such Term Advances and any amounts paid in respect of any items ranking in priority of payments under the relevant Covered Bonds; and (ii) the Principal Amount Outstanding of any Covered Bonds which originally financed such Term Advances and which have been purchased by the LLP in accordance with Condition 5(h).

### ***Governing Law***

The Intercompany Loan Agreement is governed by English law.

### ***Mortgage Sale Agreement***

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of a mortgage sale agreement entered into on the Programme Date between Bradford & Bingley plc (in its capacity as seller, the **Seller**), the LLP and the Security Trustee (the **Mortgage Sale Agreement**).

### ***Sale by the Seller of Loans and Related Security***

The Portfolio will consist of Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming part of the Portfolio will vary over time provided that, at the time the relevant Loans are sold to the LLP, the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Transfer Date. Accordingly, the Portfolio may, at any time, include Loans originated by different originators of mortgages being either a member of the Bradford & Bingley Group or such other entity, in respect of which the Rating Agencies have confirmed in writing that the inclusion of loans and related security originated by such entity would not have an adverse effect on the then current rating of the Covered Bonds (each an **Originator** and, together the **Originators**), Loans with characteristics that were not being offered to Borrowers on previous Transfer Dates or New Types of Loans.

Prior to the occurrence of an Issuer Event of Default, the LLP will acquire Loans and their Related Security from the Seller in the three circumstances described below.

- (a) First, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied in whole or in part by the LLP to acquire Loans and their Related Security from the Seller. In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the Current Balance of those Loans sold by it as at the Transfer Date, which will be satisfied by a combination of:
  - (i) a cash payment to be made by the LLP from the proceeds of the relevant Term Advance and/or from Available Principal Receipts; and/or
  - (ii) the Seller being treated as having made a Capital Contribution in an amount equal to the difference between the Current Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) made by the LLP; and/or
  - (iii) the right of the Seller (pursuant to and in accordance with the LLP Deed) to receive a share of the LLP Income Profits and amounts (if any) standing to the credit of the Members' reserve from time to time.
- (b) Second, the LLP will use the Available Principal Receipts to acquire New Loans and their Related Security from the Seller and/or Substitution Assets (in respect of any Substitution Assets up to the prescribed limit) on each LLP Payment Date.
- (c) Third, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test the Seller will use all reasonable efforts to offer to sell sufficient New Loans and their Related

Security to the LLP on or before the next Calculation Date in consideration of the Seller being treated as having made a Capital Contribution (in an amount equal to the Current Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and in consideration of the right of the Seller (pursuant to and in accordance with the LLP Deed) to receive a share of the LLP Income Profits and amounts (if any) standing to the credit of the Members' reserve from time to time.

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

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

For the purposes hereof:

**Additional Loan Advance** means any further loan and/or additional advance other than the Initial Advance.

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

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

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

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

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

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

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

**High Loan-to-Value Fee** means any fee incurred by a Borrower as a result of taking out a Loan with a Loan-to-Value Ratio in excess of a certain percentage specified in the Offer Conditions.

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

**LLP Income Profits** means all amounts representing Available Income Receipts remaining after the LLP has satisfied in full its obligations under the Pre-Acceleration Revenue Priority of Payments, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments (other than amounts due to the Members pursuant to the LLP Deed (excluding any indemnity paid to a Member)).

**Loan** means each loan referenced by its account number, or account numbers, as the case may be, and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including all Additional Loan Advances) due or owing with respect to that loan under the relevant Mortgage Terms by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same.

**Loan-to-Value Ratio** means the ratio (expressed as a percentage) of the Outstanding Principal Balance of a Loan to the value of the relevant Property securing that Loan.

**Mortgage** means a first fixed charge by way of legal mortgage, sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, which secures the repayment of a Loan.

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

**Mortgage Terms** means all the terms and conditions applicable to a Loan and its Related Security, including, without limitation, the applicable Mortgage Conditions, definitions and interpretations, loan conditions, general conditions, product conditions and offer conditions included in any applicable standard documentation from time to time;

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

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

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

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

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

**Related Security** means, in relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio.

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

#### ***Eligibility Criteria***

The sale of Loans and their Related Security to the LLP will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Transfer Date or in respect of Additional Loan Advances, on the next Calculation Date, including:

- (a) no Issuer Event of Default or LLP Event of Default under the Transaction Documents shall have occurred which is continuing as at the relevant Transfer Date;
- (b) the LLP, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the purchase of the Loans and their Related Security, would adversely affect the then current ratings by Moody's, S&P or Fitch of the Covered Bonds;
- (c) the weighted average yield on the Loans in the Portfolio (including the New Loans) is at least 0.15 per cent. greater than LIBOR for one month Sterling deposits after taking into account (i) the average yield on the Loans and (ii) the margins on the Interest Rate Swaps and (iii) the average yield on any Substitution Assets held by the LLP;
- (d) no such Loan has a Current Balance of more than £1,000,000; and
- (e) no Loan is in respect of a Property which is not a residential Property.

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

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

Eligibility Criteria in paragraphs (c), (d) and (e) above) requiring the Seller to repurchase the Loans subject to any Product Switch or Additional Loan Advance or (in the event of a breach of the Eligibility Criteria in paragraph (c) above) by requiring the Seller to transfer further Loans to the LLP in an amount sufficient to ensure that the Eligibility Criteria in paragraph (c) above is met.

For the purposes hereof:

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

- (a) any variation imposed by statute; or
- (b) any variation in the frequency with which the interest payable in respect of the Loan is charged.

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

Loans will be sold by the Seller to the LLP by way of equitable assignment. As a result, legal title to the Loans will remain with the Seller or where the Loans have been originated by an Originator, the relevant Originator until the LLP's interest in the Loans is perfected by legal transfers being delivered by the Seller to the LLP and notice of the sale is given by the Seller and/or, as applicable, an Originator to the Borrowers. Legal assignment of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described below.

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

- (a) the occurrence of an Issuer Event of Default and service on the LLP of a Notice to Pay (unless the Seller has notified the LLP that it will accept the offer set out in the Selected Loan Offer Notice within the prescribed time in relation to all the Loans and their Related Security owned by the LLP);
- (b) in respect of Selected Loans only, at the request of the LLP following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;
- (c) the Seller and/or an Originator and/or the LLP being required to perfect legal title to the Mortgages by an order of a court of competent jurisdiction, or by a regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders with whose instructions it is customary for the Seller to comply, to perfect legal title to the Mortgages;
- (d) it becoming necessary by law to take any or all such actions;
- (e) the Security under the Deed of Charge or any material part of that Security being, in the opinion of the Security Trustee, in jeopardy;
- (f) unless otherwise agreed by the Security Trustee (such consent to be given if the Rating Agencies have confirmed to the Security Trustee that it would not adversely affect the then current ratings of the Covered Bonds), the termination of the Seller's role as Servicer under the Servicing Agreement, unless as at the relevant date of termination any substitute servicer is a member of the Bradford & Bingley Group;
- (g) the Seller or any Originator calling for perfection by serving notice in writing to that effect on the LLP and the Security Trustee;
- (h) the Seller requesting a transfer by way of assignment or assignation (as appropriate) by giving notice in writing to the LLP and the Security Trustee;
- (i) the date on which the Seller ceases to be assigned the Minimum Ratings; and
- (j) the occurrence of an Insolvency Event in relation to the Seller or any Originator.

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of the Mortgages will be secured by an irrevocable power of attorney granted by the Seller and, where applicable, the Originator in favour of the LLP and the Security Trustee.

The Title Deeds and Customer Files relating to the Loans in the Portfolio will be held by or to the order of the Seller or Servicer, as the case may be, or by solicitors acting for the Seller in connection with

the creation of the Loans and their Related Security or by the Land Registry. The Seller or Servicer, as the case may be, will undertake that all the Title Deeds and Customer Files relating to the Loans in the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Security Trustee or as the Security Trustee may direct.

For the purposes hereof:

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

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

whether in the form of original documentation, electronic form or otherwise or information provided by such documentation stored on an electronic database.

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

- (i) an order is made or an effective resolution passed for the liquidation or winding up of the relevant entity; or
- (ii) the relevant entity ceases to carry on its business or substantially all its business; or
- (iii) proceedings shall be initiated against the relevant entity under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws; or a receiver, administrator, trustee or other similar official shall be appointed in relation to the relevant entity or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within thirty days; or if the relevant entity shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment for the benefit of, or shall enter into any composition with, its creditors generally; or
- (iv) the relevant entity shall be unable to pay its debts as they fall due (within the meaning of section 123(1)(b) to (e) (inclusive) and section 123(2) of the Insolvency Act (as those sections may be amended)) or shall admit inability to pay its debts as they fall due or shall be adjudged or found bankrupt or insolvent.

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

**Property** means a freehold or leasehold property which is subject to a Mortgage.

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

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

**Title Deeds** means, in relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents which make up the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection therewith.

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

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

***Representations and warranties***

Neither the LLP, the Security Trustee nor the Issuer has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (with the Rating Agencies have confirmed that it would not adversely affect the then current ratings of the Covered Bonds), amend the Representations and Warranties in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Transfer Date in respect of the Loans and Related Security to be sold to the LLP only on that date and on the Calculation Date following the making of any Further Advance or Product Switch in respect of the Loan to which the Further Advance or Product Switch relates:

- each Loan was originated by the Seller or an Originator not less than three calendar months prior to the relevant Transfer Date;
- each Loan was originated in pounds Sterling and is denominated in pounds Sterling (or was originated and is denominated in euro should the euro be adopted as the lawful currency for the time being of the United Kingdom);
- no Loan has a Current Balance of more than £1,000,000;
- each Loan has a remaining term of less than 50 years as at the relevant Transfer Date;
- prior to the making of each Initial Advance and Further Advance, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- all of the Borrowers are natural legal persons and were aged 18 years or older at the date he or she executed the relevant Mortgage;
- each Borrower has made at least two payments of interest (and principal in relation to a repayment mortgage) (**Monthly Payments**);
- the whole of the Current Balance on each Loan is secured by a Mortgage;
- subject only in certain appropriate cases to applications for registration at H.M. Land Registry each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage over the relevant property;
- all of the properties are located in England and/or Wales;
- not more than twelve months prior to the granting of each Mortgage, (or such longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) the Seller or the relevant Originator received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender or such other form of valuation of the relevant Property the acceptance of which the Rating Agencies have confirmed would not affect the then current ratings of the Covered Bonds from time to time;
- the benefit of all Valuation Reports and/or Certificates of Title which were provided to the Seller or the relevant Originator not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the LLP without obtaining the consent of the relevant Valuer or solicitor;
- prior to the taking of each Mortgage (other than a remortgage), the Seller or the relevant Originator instructed its solicitor or licenced conveyancer to carry out an investigation of title to the relevant property and to undertake other searches, investigations, enquiries and other actions

on behalf of the Seller or, as applicable, the relevant Originator in accordance with the instructions issued to the relevant solicitor or licenced conveyancer as are set out, in the case of the Loans, in the CML's Lenders' Handbook for England & Wales or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- buildings insurance cover for each property is available under either a policy arranged by the Borrower or a policy arranged by the Seller or, as applicable, the relevant Originator at the request of the Borrower or a policy arranged by the relevant landlord or the properties in possession cover;
- the Seller has good title to, and is the absolute unencumbered legal and beneficial (in the case of those Loans originated by the Seller) or (where the Loan was not originated by the Seller but acquired from an Originator) beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the Seller to the LLP under the Mortgage Sale Agreement;
- the Seller has, since the making of each Loan, kept or procured the keeping (e.g. through the Originator) of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loan;
- there are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence;
- the rate of interest under each Loan can at all times be set in the manner disclosed in the relevant Mortgage Conditions; and
- each loan is appropriately hedged against the possible variances between the rates of interest payable on the Loan and LIBOR for three-month sterling deposits.

If New Loan Types are to be sold to the LLP, then the Representations and Warranties in the Mortgage Sale Agreement will be modified as required to accommodate these New Loan Types. The prior consent of the Covered Bondholders to the requisite amendments will not be required. However any such modification will require the consent of the Security Trustee and confirmation in writing from the Rating Agencies that the then current rating of the Covered Bonds will not be adversely affected by the sale of New Loan Types to the LLP.

For the purposes hereof:

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

**Certificate of Title** means a solicitor's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation, where relevant.

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

**Further Advance** means, in relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, but which is an amount in excess of the principal amount of the Loan approved by the Seller, at the time of origination of the Loan.

**Monthly Payment Date** means the date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Loan or, if any such day is not a London Business Day, the next following London Business Day.

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

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

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

If the Seller receives a notice from the Cash Manager identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case

of a Further Advance or Product Switch), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase (i) any such Loan and its Related Security and (ii) and other Loans of the relevant Borrower and their related Security that are included in the Portfolio. The repurchase price payable on the repurchase of any Loan is an amount (not less than zero) equal to the Current Balance thereof and the expenses of the sale as at the relevant repurchase date. The repurchase proceeds received by the LLP will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the relevant Pre-Acceleration Principal Priority of Payments (see *Cashflows* below).

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

If the Seller does not repurchase these Loans and their Related Security which are in breach of the Representations and Warranties then the Current Balance of those Loans will be excluded from the calculation of the Asset Coverage Test.

#### ***Defaulted Loans***

If a Seller receives a notice from the Cash Manager (the **Defaulted Loans Notice**) identifying a Loan or its Related Security in the Portfolio which (each a **Defaulted Loan**) is more than three months in arrears, then that Defaulted Loan will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. In addition, the Seller may, at its option, repurchase a Defaulted Loan for an amount equal to its Current Balance as at the date of repurchase.

#### ***General ability to repurchase***

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Loan and its Related Security from the LLP for a purchase price of not less than the aggregate Current Balance of the relevant Mortgage Loan. The LLP may accept such offer at its discretion.

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

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans and their Related Security.

The LLP will serve on the Seller a notice offering to sell the Selected Loans and their Related Security which the Seller has previously sold to the LLP for an offer price equal to the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount (as defined below), subject to the offer being accepted by the Seller within ten London Business Days (a **Selected Loan Offer Notice**). If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a Solvency Certificate to the LLP and the Security Trustee. If the Seller rejects or fails to accept the LLP's offer, the LLP will offer to sell the Selected Loans and their Related Security to Purchasers (as described under — *LLP Deed — Sale of Selected Loans in the Portfolio following the occurrence of an Issuer Event of Default*, below).

If the Seller validly accepts the LLP's offer to sell the Selected Loans and their Related Security, the LLP will, within three London Business Days of such acceptance, serve a further notice on the Seller (a **Selected Loan Repurchase Notice**). The Seller will sign and return a duplicate copy of the Selected Loan Repurchase Notice and will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of the purchase of the Selected Loans and their Related Security by the Seller will take place on the LLP Payment Date after receipt of the Selected Loans Repurchase Notice(s) or such date as the LLP may direct in the Selected Loans Repurchase Notice (provided that

such date is not later than the earlier to occur of the date which is (a) ten London Business Days after returning the Selected Loan Repurchase Notice to the LLP and (b) (prior to the occurrence of an LLP Event of Default) the Final Maturity Date or, as applicable, the Extended Final Maturity Date, of the Earliest Maturing Covered Bonds).

For the purposes hereof:

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

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

$$\frac{\text{the Principal Amount Outstanding of the relevant Series of Covered Bonds}}{X} \times (1 + 0.50 \text{ per cent.} \times \frac{\text{days to maturity of the relevant Series of Covered Bonds}}{365})$$

**Selected Loans** means Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required Current Balance Amount (as defined below).

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

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

#### **Governing law**

The Mortgage Sale Agreement is governed by English law.

#### **Intercompany Mortgage Sale Agreement**

The Seller, Mortgage Express (in its capacity as an Originator), the LLP and the Security Trustee have entered into a mortgage sale agreement (the **Intercompany Mortgage Sale Agreement**) on the Programme Date, pursuant to which Loans originated by the MX Originator will be sold from time to time to the Seller. The Seller may sell Loans and their Related Security originated by the MX Originator to the LLP pursuant to the terms of the Mortgage Sale Agreement.

#### **Governing Law**

The Intercompany Mortgage Sale Agreement is governed by English Law.

#### **Servicing Agreement**

Pursuant to the terms of the servicing agreement entered into on the Programme Date between Bradford & Bingley plc (in its capacity as servicer, the **Servicer**), the LLP and the Security Trustee (the **Servicing Agreement**), the Servicer has agreed to service on behalf of the LLP the Loans and their Related Security sold by it to the LLP (in its capacity as Seller).

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

- (i) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; and
- (ii) in accordance with the Seller's procedures and administration and enforcement policies as they apply to those Loans.

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

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

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

Pursuant to the terms of the Servicing Agreement, the Servicer will undertake, *inter alia*, to:

- keep records and accounts on behalf of the LLP in relation to the Loans;
- keep the Customer Files and Title Deeds which are in its possession in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to such Title Deeds and other records relating to the administration of the Loans and their Related Security;
- maintain a register in respect of the Portfolio;
- make available to the LLP and the Security Trustee a report on a monthly basis containing information about the Loans and their Related Security comprised in the Portfolio;
- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;
- take all reasonable steps, in accordance with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender, to recover all sums due to the LLP, including instituting proceedings and enforcing any Loan or Mortgage; and
- to enforce any Loan which is in default in accordance with the relevant Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

The Servicer also undertakes that, on the Servicer ceasing to be assigned the Minimum Ratings, it will use reasonable efforts to enter into a new or a master servicing agreement (in such form as the LLP and the Security Trustee shall require) with a third party which is assigned the Minimum Ratings within 60 days under which such third party will undertake the servicing obligations in relation to the Portfolio.

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

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set in relation to all the Loans in the Portfolio the Standard Variable Rate and any other discretionary rates and margins except in the limited circumstances described in this sub-section when the LLP will be entitled to do so. The Servicer will not at any time prior to service of a Notice to Pay on the LLP and/or the transfer of the legal title to the Portfolio (or any part thereof) to the LLP, without the prior consent of the LLP, set or maintain:

- (i) the Standard Variable Rate applicable to the Loans sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Seller Standard Variable Rate; and
- (ii) any other discretionary ratio or margin in respect of any other Loan sold by the Seller to the LLP and in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate of the Seller, or where the Loans have been originated by an Originator, that Originator which applies to that type of Loan beneficially owned by the Seller or, the relevant Originator, as applicable outside the Portfolio.

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

- (a) the income which the LLP would expect to receive during the next succeeding LLP Payment Period (the **relevant LLP Payment Period**);
- (b) the Standard Variable Rate and any other discretionary rate of margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant LLP Payment Period; and
- (c) the other resources available to the LLP including the Interest Rate Swap Agreement, the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of income during the relevant LLP Payment Period which when aggregated with funds otherwise available to it is less than the amount which is the aggregate of (1) the amount of interest which would be payable or provisioned to be paid under the Covered Bond Guarantee on each Interest Payment Date falling at the end of the relevant LLP Payment Period or in

the immediately succeeding LLP Payment Period and amounts payable or provisioned to be paid to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on the LLP Payment Date falling at the end of the relevant LLP Payment Period and (2) the other senior expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priorities of Payments applicable prior to an LLP Event of Default.

If the Servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the LLP and the Security Trustee, within one London Business Day, of the amount of the shortfall and the Standard Variable Rate and the other discretionary rate or margin which would, in the Servicer's opinion, need to be set in order for no shortfall to arise, having regard to the date(s) on which the change to the Standard Variable Rate and any other discretionary rates or margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender. If the LLP notifies the Servicer that, having regard to the obligations of the LLP, the Standard Variable Rate and/or margins should be increased, the Servicer will take all steps which are necessary to increase the Standard Variable Rate and/or any other discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Terms.

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

- (a) the Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the relevant LLP Payment Period; and
- (b) the other resources available to the LLP under the Interest Rate Swap Agreement,

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

If the Servicer determines that the Yield Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one London Business Day, of the amount of the shortfall and the Standard Variable Rate and the discretionary rates or margins which would, in the Servicer's opinion, need to be set in order for no shortfall to arise, and the Yield Shortfall Test to be met, having regard to the date(s) on which the change to the Standard Variable Rate and the other discretionary rates or margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender. If the LLP notifies the Servicer that, having regard to the obligations of the LLP, the Standard Variable Rate and/or the other discretionary rates or margins should be increased, the Servicer will take all steps which are necessary to increase the Standard Variable Rate and/or any other discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Terms. *In these circumstances, the Servicer will have the right to set the Standard Variable Rates of the Seller or, as applicable, the relevant Bradford & Bingley Group Company.*

The LLP and the Security Trustee may terminate the authority of the Servicer to determine and set the Standard Variable Rate and any other variable rates or margins on the occurrence of a Servicer Event of Default, in which case the LLP will set the Standard Variable Rate and the discretionary rates or margins itself in accordance with this sub-section.

For the purposes hereof:

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

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

**Variable Rate Loans** means those Loans to the extent that and for such period that their Mortgage Terms provide that they are subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage Terms.

#### **Compensation**

The LLP will pay to the Servicer a servicing fee of 0.05 per cent. per annum (inclusive of VAT) of the aggregate outstanding amount of the Loans sold by the Seller to the LLP and comprised in the Portfolio in accordance with the Servicing Agreement comprised in the Portfolio as of the beginning of the relevant Calculation Period.

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

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

- the Servicer defaults in the payment of any amount due to the LLP under the Servicing Agreement and fails to remedy that default for a period of three London Business Days after becoming aware of the default;
- the Servicer fails to comply with any of its other obligations under the Servicing Agreement which failure in the opinion of the Security Trustee is materially prejudicial to Covered Bondholders and does not remedy that failure within 30 London Business Days after becoming aware of the failure;
- an Insolvency Event occurs in relation to the Servicer; or
- the LLP resolves that the appointment of the Servicer should be terminated.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' notice to the Security Trustee and the LLP provided that a substitute servicer qualified and authorised, insofar as required, to act as such under the FSMA and with a management team with experience of administering mortgages in the United Kingdom has been appointed and such substitute servicer enters into a servicing agreement with the LLP substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Covered Bonds unless the Covered Bondholders agree otherwise by Extraordinary Resolution.

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

The Servicer may sub-contract or delegate the performance of its duties under the Servicing Agreement provided that it meets certain conditions as set out in the Servicing Agreement and provided that the Servicer is not released or discharged from any liability therefor and remains liable for the performance by any sub-contractor or delegate of the duties so sub-contracted or delegated under the Servicing Agreement.

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

### ***Governing Law***

The Servicing Agreement is governed by English law.

### ***Intercompany Servicing Agreement***

The Servicer, Mortgage Express (in its capacity as a **Sub-Servicer** and, together with any other sub-servicers of the Servicer, the **Sub-Servicers**), the LLP and the Security Trustee have entered into a sub-servicing agreement (the **Intercompany Servicing Agreement**) on the Programme Date, pursuant to which, *inter alia*, the LLP and the Servicer have appointed the Sub-Servicer to provide certain administrative services in respect of those Loans originated by the MX Originator and sold by the Seller to the LLP pursuant to the terms of the Mortgage Sale Agreement and comprised in the Portfolio.

### ***Governing Law***

The Intercompany Servicing Agreement is governed by English Law.

### ***Asset Monitor Agreement***

Under the terms of an asset monitor agreement entered into on the Programme Date between KPMG Audit Plc (the **Asset Monitor**), the LLP, the Cash Manager and the Security Trustee (the **Asset Monitor Agreement**), the Asset Monitor has agreed, subject to due receipt of the information to be

provided by the Cash Manager to the Asset Monitor, to conduct independent tests in respect of the calculations performed by the Cash Manager for the Asset Coverage Test or the Amortisation Test, as applicable on the Calculation Date immediately preceding each anniversary of the Programme Date with a view to verifying the compliance by the LLP with the Asset Coverage Test or, following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice to the Issuer and service of a Notice to Pay on the LLP, the Amortisation Test on that Calculation Date.

If the Cash Manager or the Issuer cease to be assigned the Minimum Ratings, the Asset Monitor will be required to conduct such tests following each Calculation Date and, following a determination by the Asset Monitor of any errors in the calculations performed by the Cash Manager such that the LLP has failed the Asset Coverage Test or the Amortisation Test, as applicable, on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount (each as defined below) is misstated by an amount exceeding one per cent. of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable, (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of conducting such tests is true and correct and not misleading in any material respect, and is not required to conduct a test or otherwise take steps to verify the accuracy of any such information. The results of the tests conducted by the Asset Monitor will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee, the Security Trustee and the Rating Agencies.

The LLP will pay to the Asset Monitor a fee per test for the tests to be performed by the Asset Monitor in the amount set out in the Asset Monitor Agreement from time to time.

The LLP may, at any time, but subject to the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor by giving at least 30 days' prior written notice to the Asset Monitor, provided that such termination may not be effected unless and until a replacement asset monitor has been found by the LLP (such replacement to be approved by the Security Trustee unless the replacement is an appropriate professional adviser of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement.

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

If a replacement asset monitor has not been found by the LLP within 60 days of the notice of termination by the LLP or the notice of resignation by the Asset Monitor, the Asset Monitor may identify a replacement (such replacement to be approved by the Security Trustee, unless the replacement is an appropriate professional adviser of national standing) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement.

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor in any circumstances.

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

The Asset Monitor Agreement is governed by English law.

#### **LLP Deed**

The Members of the limited liability partnership incorporated under the name Bradford & Bingley Covered Bonds LLP (the **LLP**) have agreed to operate the business of the LLP in accordance with the terms of a limited liability partnership deed entered into on the Programme Date between the LLP, the Seller, the Designated Members, the Bond Trustee and the Security Trustee (the **LLP Deed**).

#### ***Members***

As at the Programme Date, each of the Seller and the Designated Members is a member (each a **Member**, and together with any other members from time to time, the **Members**) of the LLP. The

Designated Members have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

Save as set out below, any Member admitted to the LLP after the Programme Date (a **New Member**) must be a new Third Party Member (and must firstly be required to accede to, *inter alia*, the LLP Deed and the Deed of Charge) and may only become a Member following written confirmation from the Rating Agencies that this would not adversely affect the then current rating of the Covered Bonds.

### ***Capital Contributions***

From time to time Bradford & Bingley plc (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (e.g. through a contribution of Loans to the LLP). The Capital Contributions of Bradford & Bingley plc shall be calculated in Sterling on each Calculation Date as the difference between (a) the Current Balance of the Portfolio as at the last day of the preceding Calculation Period plus Principal Receipts standing to the credit of the GIC Account plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the preceding Calculation Period and (b) the Sterling Equivalent aggregate Principal Amount Outstanding under the Covered Bonds then outstanding as at the last day of the preceding Calculation Period.

The Designated Members will not make any Capital Contributions to the LLP.

Capital Contributions or returns on Capital Contributions, shall only be paid to Members after the LLP has paid or, as applicable, provided for all higher ranking amounts in the relevant Priority of Payments.

### ***Other provisions***

A management board comprised as at the Programme Date of directors, officers and/or employees of the Designated Members (as to a majority thereof) and the Seller (as to a minority thereof) (the **Management Board**) will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP, which require a unanimous decision of the Members) the Members delegate all matters. Any decision by the Management Board relating to any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will only be made, whilst any Covered Bonds are outstanding, with the prior written consent of the Security Trustee.

Furthermore, the Members have agreed, *inter alia*, not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments (as set out in the Deed of Charge) have been paid in full.

Each Member will be responsible for the payment of its own tax liabilities and will be required to indemnify the LLP and the other Members from any liabilities which they incur as a result of the relevant Member's non-payment thereof.

### ***Asset Coverage Test***

Under the terms of the LLP Deed, the LLP and the Seller (in its capacity as Member) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as calculated on the relevant Calculation Date (the **Asset Coverage Test**).

If on any Calculation Date the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds then outstanding as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Seller (in its capacity as Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see *Summary of the Principal Documents — Mortgage Sale Agreement — Sale by the Seller of Loans and their Related Security*) or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met. An Issuer Event of Default shall occur if a breach of the Asset Coverage Test is not remedied by the next following Calculation Date.

For the purposes hereof:

**Adjusted Aggregate Loan Amount** means the amount calculated on each Calculation Date as follows:

$$(A + B + C + D) - (X + Y + Z)$$

where,

A = the lower of (i) and (ii), where:

(i) = the sum of the **Adjusted Current Balance** of each Loan in the Portfolio, which shall be the lower of (1) the actual Current Balance of the relevant Loan in the Portfolio as calculated on the relevant Calculation Date and (2) M per cent. of the Indexed Valuation relating to that Loan (where for all Loans that are less than three months in arrears, or not in arrears, M = 0.75 and for all Loans that are three months or more in arrears, M = 0.40).

*minus*

the aggregate sum of the following deemed reductions to the aggregate Adjusted Current Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan or its Related Security is, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans under the relevant Mortgage Account and their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted Current Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) under the relevant Mortgage Account; and/or
- (2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller or the Servicer to indemnify the LLP for such financial loss);

AND

(ii) = the aggregate Current Balance of the Loans in the Portfolio as at the relevant Calculation Date multiplied by the Asset Percentage (as defined below);

*minus*

the aggregate sum of the following deemed reductions to the aggregate Current Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan or its Related Security is, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of a Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans under the relevant Mortgage Account and their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Current Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) under the relevant Mortgage Account; and/or
- (2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial

loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller or the Servicer to indemnify the LLP for such financial loss);

and *multiplied by* the Asset Percentage (as defined below);

B = the amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Deed of Charge and/or the other Transaction Documents;

C = the amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Deed of Charge and/or the other Transaction Documents;

D = the outstanding principal balance of any Substitution Assets;

X = 2.25 per cent. of the aggregate Current Balance of the Loans in the Portfolio, as calculated on the relevant Calculation Date;

Y = 8 per cent. *multiplied by* the **flexible redraw capacity**, being an amount equal to the excess of (1) the maximum amount that Borrowers may draw under Flexible Loans in the Portfolio (whether or not drawn) as determined in respect of the previous Calculation Period over (2) the aggregate Current Balance of all Flexible Loans in the Portfolio on the relevant Calculation Date *multiplied by* three; and

Z = the weighted average remaining maturity of all Covered Bonds then outstanding *multiplied by* the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds *multiplied by* 0.50 per cent.

**Asset Percentage** means 91.0 per cent. or such lower percentage figure as determined from time to time in accordance with the terms of the LLP Deed such that on the Calculation Date falling in October, January, April and July of each year, the LLP (or the Cash Manager on its behalf) will calculate the Weighted Average Foreclosure Frequency (**WAFF**) and the Weighted Average Loss Severity (**WALS**) (and/or such figures calculated in accordance with such alternative methodologies as Fitch and S&P may prescribe) for the Portfolio as a whole or for a random sample of the Loans in the Portfolio, such calculations to be made throughout or agreed otherwise by Fitch and S&P.

The WAFF and WALS (or other relevant figures) so calculated will be inputted by the Cash Manager to one or more cashflow models approved by the Rating Agencies. Such models, which test the credit enhancement required in various cashflow scenarios, will indicate, on the basis of the latest WAFF and WALS figures (or other relevant figures), the Asset Percentage needed in order to provide credit enhancement to cover all such cashflow scenarios.

Save where otherwise agreed with the Rating Agencies, the Asset Percentage will be adjusted in accordance with the various methodologies prescribed by each of the Rating Agencies provided that the Asset Percentage may not, at any time, exceed 91.0 per cent.

Any breach of the Asset Coverage Test arising as a result of the assumption of an asset percentage applied in accordance with the model supplied by Moody's will not constitute an Issuer Event of Default. However in such circumstances, prior to the service of a Notice to Pay on the LLP, Available Principal Receipts will be deposited in the GIC Account in accordance with the Re-Acceleration Priority of Payments.

**Calculation Date** means the 12th day of each month (or, if such day is not a London Business Day, then the immediately preceding London Business Day).

**Calculation Period** means in respect of Loans originated by Bradford & Bingley plc the period from, and including, the first day of each month to, and including, the last day of each month preceding the relevant Calculation Date and, in respect of Loans originated by Mortgage Express, the period from, and including, the fourth day of each month to, and including, the third day of the following month which precedes the relevant Calculation Date and in respect of Loans originated by a different person, such periods as are stipulated at the time of sale of New Loans to the LLP.

**Halifax Index** means the index of increases in house prices issued by Halifax plc in relation to residential properties in the United Kingdom.

**Halifax Price Indexed Valuation** in relation to any property at any date means the Original Valuation of that property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Original Valuation.

**Indexed Valuation** means at any date in relation to any Loan secured over any Property:

- (a) where the Original Valuation of that Property is equal to or greater than the Halifax Price Indexed Valuation as at that date, the Halifax Price Indexed Valuation; or
- (b) where the Original Valuation of that Property is less than the Halifax Price Indexed Valuation as at that date, the Original Valuation plus 85 per cent. of the difference between the Original Valuation and the Halifax Price Indexed Valuation.

**Mortgage Account** means all Loans or all advances under a Loan, as the case may be, secured on the same Property and thereby forming a single mortgage account.

**Original Valuation** in relation to any Property means the value given to that Property by the most recent valuation addressed to the Seller or, where the Loan was not originated by the Seller, the relevant Originator of the Loan secured over that Property.

#### ***Amortisation Test***

The LLP and the Seller (in its capacity as Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date (the **Amortisation Test**).

Following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer, service of a Notice to Pay on the LLP, if on any Calculation Date the Amortisation Test Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as calculated on the relevant Calculation Date, then the Amortisation Test will be deemed to be breached and an LLP Event of Default will occur. The LLP or the Cash Manager, as the case may be, will immediately notify the Members, the Security Trustee and (whilst Covered Bonds are outstanding) the Bond Trustee of any breach of the Amortisation Test.

The **Amortisation Test Aggregate Loan Amount** will be calculated on each Calculation Date as follows:

$$A + B + C - Z$$

where,

A = the aggregate **Amortisation Test Current Balance** of each Loan, which shall be the lower of (1) the actual Current Balance of the relevant Loan as calculated on the relevant Calculation Date multiplied by M and (2) 100 per cent. of the Indexed Valuation multiplied by M.

Where for all the Loans that are less than three months in arrears M = one, or for all the Loans that are three months or more in arrears, M = 0.7;

B = the amount of any cash standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding any Revenue Receipts received in the immediately preceding Calculation Period);

C = the outstanding principal balance of any Substitution Assets;

Z = the weighted average remaining maturity of all Covered Bonds then outstanding *multiplied* by the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds *multiplied by* 0.50 per cent.

#### ***Sale of Selected Loans and their Related Security following service of a Notice to Pay***

After a Notice to Pay has been served on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice on the Issuer and after service of an LLP Acceleration Notice, the LLP will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be credited to the GIC Account and applied as set out in the Priorities of Payments.

### **Method of Sale of Selected Loans**

If the LLP is required to sell Selected Loans and their Related Security to Purchasers following the occurrence of an Issuer Event of Default and/or an LLP Event of Default, the LLP will be required to ensure that before offering Selected Loans for sale:

- (a) the Selected Loans have been selected from the Portfolio on a Random Basis as described in the Deed of Charge; and
- (b) the Selected Loans have an aggregate Current Balance in an amount (the **Required Current Balance Amount**) which is as close as possible to the amount calculated as follows:

$$N \times \frac{\text{Current Balance of all the Loans in the Portfolio}}{\text{the Sterling Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where N is an amount equal to the Sterling Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds).

The LLP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event for an amount not less than the Adjusted Required Redemption Amount. The **Adjusted Required Redemption Amount** means, the Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts and any amounts payable on a partial novation of the Interest Rate Swap payable to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of the GIC Account and the Sterling Equivalent of the principal balance of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds) plus or minus any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement.

If the Selected Loans have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to (where the Covered Bonds are not subject to an Extended Final Maturity Date) the Final Maturity Date or (where the Covered Bonds are subject to an Extended Final Maturity Date) the Extended Final Maturity Date as applicable, of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), then the LLP will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

In respect of the sale of Selected Loans following service of a Notice to Pay on the LLP but prior to the occurrence of an LLP Event of Default, in addition to offering Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the LLP (subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Sale Agreement) is permitted to offer to sell a portfolio of Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds.

The LLP is also permitted to offer for sale to Purchasers part of any portfolio of Selected Loans (a **Partial Portfolio**). Except in circumstances where the portfolio of Selected Loans is being sold within six months of the Final Maturity Date or, as applicable, the Extended Final Maturity Date, of the Series of Covered Bonds to be repaid from such proceeds or at any time after the occurrence of an LLP Event of Default and failure by the Seller to serve a Selected Loan Repurchase Notice, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

The LLP will through a tender process appoint a portfolio manager of recognised standing in asset disposals on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Loans (if such terms are commercially available in the market) to advise it in relation to the sale of the Selected Loans to Purchasers (except where the Seller is buying the Selected Loans in accordance with its right of pre-emption in the Mortgage Sale Agreement). The appointment of the portfolio manager shall be approved by the Security Trustee.

In respect of any sale of Selected Loans and their Related Security following service of a Notice to Pay on the LLP and/or following the occurrence of an LLP Event of Default, the LLP will instruct a portfolio manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the Deed of Charge.

The terms of any sale and purchase agreement with respect to the sale of Selected Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee. The Security Trustee will give its consent if the Security Trustee has agreed to the appointment of the portfolio manager and the LLP has certified that it has chosen the selected Loans for sale on a random basis.

The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under — *Deed of Charge — Release of Security*, below) are satisfied.

If Purchasers accept the offer or offers from the LLP so that some or all of the Selected Loans shall be sold prior to the next following Final Maturity Date or, as applicable, Extended Final Maturity Date of the Earliest Maturing Covered Bonds or at any time following the occurrence of an LLP Event of Default, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require, *inter alia*, a cash payment from the relevant Purchasers. Any such sale is unlikely to include any Representations and Warranties from the LLP in respect of the Loans and the Related Security.

#### ***Covenants of the LLP and the Members***

Each of the Members covenants that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP covenants that it will not, save with the prior written consent of the LLP Management Board or as envisaged by the Transaction Documents:

- (a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future other than pursuant to the Deed of Charge;
- (b) dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;
- (c) have an interest in a bank account other than as set out in the Transaction Documents;
- (d) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;
- (e) consolidate or merge with or transfer any of its property or assets to another person;
- (f) have any employees, premises or subsidiaries;
- (g) acquire assets other than pursuant to the Mortgage Sale Agreement, the Cash Management Agreement and the LLP Deed;
- (h) engage in any activities or derive income from any activities within the United States or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;
- (i) enter into any contracts, agreements or other undertakings;
- (j) compromise, compound or release any debt due to it;
- (k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or
- (l) be a member of any VAT group.

#### ***Limit on Investing in Substitution Assets and Authorised Investments***

Prior to the service of a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts, the proceeds of Term Advances and the proceeds of any

Cash Contributions made by any Third Party Member in Substitution Assets and in Authorised Investments, provided that the aggregate amount so invested in Substitution Assets does not exceed ten per cent. of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement.

Following service of a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the GIC Account and the LLP will be permitted to invest all available monies in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

For the purposes hereof:

**Authorised Investments** means:

- (a) Sterling gilt-edged securities having a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date; and
- (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under FSMA) are rated at least A-1+ by S&P, P-1 by Moody's and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies;

**Substitution Assets** means:

- (a) Sterling gilt-edged securities;
- (b) Sterling demand or time deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term, unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term, unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1/Aa3 by Moody's, A-1+/AA- by S&P and F1+/AA- by Fitch or their equivalents by three other internationally recognised rating agencies;
- (c) Sterling denominated government and public securities, as defined from time to time by the FSA, provided that such investments have a remaining period to maturity of one year or less and which are rated Aaa by Moody's, AAA by S&P and AAA by Fitch or their equivalents by three other internationally recognised rating agencies; and
- (d) Sterling denominated residential mortgage backed securities provided that such investments have a remaining period to maturity of one year or less, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's, AAA by S&P and AAA by Fitch or their equivalents by three other internationally recognised rating agencies,

provided that the aggregate value of the Substitution Assets, at any time, shall not exceed in aggregate an amount equal to ten per cent. of the total assets of the LLP.

### **Priorities of Payment**

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under *Cashflows* below.

### **Other provisions**

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed, *inter alia*, not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or the Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

Each Member will be responsible for the payment of its own tax liabilities and will be required to indemnify the LLP and the other Members from any liabilities which they incur as a result of the relevant Member's non-payment.

### **Governing Law**

The LLP Deed is governed by English law.

### **Cash Management Agreement**

The Cash Manager will provide certain cash management services to the LLP pursuant to the terms of a cash management agreement entered into on the Programme Date between the LLP, Bradford & Bingley plc in its capacity as the Cash Manager (the **Cash Manager**) and the Security Trustee (the **Cash Management Agreement**).

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the LLP;
- (b) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under *Cashflows*, below;
- (c) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under *Credit Structure — Asset Coverage Test*, below;
- (d) determining whether the Amortisation Test is satisfied on each Calculation Date following service of a Notice to Pay on the LLP (but prior to an LLP Event of Default and service of an LLP Acceleration Notice) on that Calculation Date in accordance with the LLP Deed, as more fully described under *Credit Structure — Amortisation Test*, below; and
- (e) preparation of certain investor reports (which will, *inter alia*, include information on compliance with the Asset Coverage Test) (an **Investor Report**) for, *inter alios*, the Covered Bondholders, the Rating Agencies and the Bond Trustee. This Investor Report will be sent to the Luxembourg Paying Agent and will be available to Covered Bondholders free of charge.

For purposes hereof:

**Capital Account Ledgers** means the ledgers maintained by the LLP pursuant to the terms of the LLP Deed to record the Capital Contributions of each of the Members.

**Ledgers** includes the Revenue Ledger, the Principal Ledger, the Capital Account Ledgers, the Reserve Ledger and after service of a Notice to Pay on the LLP each ledger opened by the Cash Manager in respect of a Series of Covered Bonds.

**Losses** mean all realised losses on the Loans.

**Principal Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed.

**Reserve Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed.

**Revenue Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed.

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager and to appoint a substitute cash manager approved by the Security Trustee. Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager, although the fee payable to the substitute cash manager may be higher.

### **Governing Law**

The Cash Management Agreement is governed by English law.

### **Interest Rate Swap Agreements**

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time that may either be linked to the Seller's Standard Variable Rate or linked to an interest rate other than the Seller's

Standard Variable Rate, such as a variable rate offered by a basket of UK mortgage lenders or a rate that tracks the Bank of England base rate. Other Loans pay a fixed rate of interest for a period of time. However, the Sterling payments to be made by the LLP under the Covered Bond Swaps are based on LIBOR for three-month Sterling deposits. To provide a hedge against the possible variance between:

- (1) the rates of interest payable on the Loans in the Portfolio; and
- (2) LIBOR for three-month Sterling deposits,

the LLP and Bradford & Bingley plc (in its capacity as interest rate swap provider, the **Interest Rate Swap Provider**) and the Security Trustee have entered into an interest rate swap (the **Interest Rate Swap**) governed by the 1992 ISDA Master Agreement (Multicurrency - Cross Border) as published by ISDA (the **1992 ISDA**), including a schedule and confirmation thereto (the **Interest Rate Swap Agreement**) on the Programme Date. The LLP may on or after the Programme Date, subject to Rating Agency confirmation to the Bond Trustee that the same would not adversely affect the then current ratings of the Covered Bonds, hedge only part of possible variances between the rates of interest payable on the Loans in the Portfolio and LIBOR for three-month Sterling deposits pursuant to the Interest Rate Swap.

In the event that the relevant ratings of the Interest Rate Swap Provider, or any guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the ratings specified in the Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Interest Rate Swap Provider, and, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Interest Rate Swap Provider will be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with the minimum ratings required by the relevant Rating Agency, procuring another entity with the minimum rating(s) required by the relevant Rating Agency to become co-obligor in respect of its obligations, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will subject to certain conditions (including, but not limited to, the requirement to find a replacement Interest Rate Swap Provider) allow the LLP to terminate the Interest Rate Swap Agreement.

On the Programme Date, the ratings of the Interest Rate Swap Providers will be below the required ratings of the Rating Agencies specified in the Interest Rate Swap Agreement. As a result, the Interest Rate Swap Provider will provide collateral for its obligations to the LLP under a collateral support agreement entered into between the LLP and the Interest Rate Swap Provider on the Programme Date.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an **Interest Rate Swap Early Termination Event**), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement;
- upon the occurrence of an insolvency of the LLP Interest Rate Swap Provider, or any guarantor of the obligations of the Interest Rate Swap Provider, if applicable, or the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement (except in respect of a transfer by the LLP to the Security Trustee in its fiduciary capacity);
- upon the service of an LLP Acceleration Notice by the Security Trustee on the LLP;
- if becoming unlawful for the Interest Rate Swap Provider or the LLP to perform their obligations under the Interest Rate Swap Agreement.

Upon the termination of an Interest Rate Swap, the LLP or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap, the Interest Rate Swap Provider shall always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap, the LLP shall not be obliged to gross up those payments.

If the LLP is required to sell Selected Loans in the Portfolio in order to provide liquidity in respect of the Earliest Maturing Covered Bonds following an Issuer Event of Default and service of a Notice to Pay on the LLP, then to the extent that such Selected Loans include Fixed Rate Loans, either:

- (a) the Interest Rate Swap in connection with such Fixed Rate Loans will partially terminate and any

breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Loans; or

- (b) such Interest Rate Swap will be partially novated to the purchaser of such Fixed Rate Loans, and such purchaser will thereby become party to a separate interest rate swap transaction with the relevant Interest Rate Swap Provider.

#### **Governing Law**

The Interest Rate Swap Agreements are (or, as applicable, will be) governed by English law.

#### **Covered Bond Swap Agreements**

The LLP will enter into one or more transactions (each a **Covered Bond Swap** and, together the **Covered Bond Swaps**, and together with the Interest Rate Swaps, the **Swaps**) with one or more Covered Bond Swap Provider and the Security Trustee, each such Covered Bond Swap governed by the 1992 ISDA, including a schedule and confirmation (the **Covered Bond Swap Agreements**) in respect of each Series or Tranche, as applicable, of Covered Bonds whose Specified Currency is different to then applicable currency in respect of the Loans, to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP). Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds. Under the Covered Bond Swaps on the relevant Issue Date, the LLP will pay to the Covered Bond Swap Providers the amount received by the LLP under the applicable Term Advance (being an amount equal to the gross proceeds of the issue of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Providers will pay an amount equivalent to the Sterling Equivalent of the applicable Term Advance. Thereafter, the Covered Bond Swap Providers will pay to the LLP on each Interest Payment Date amounts equivalent to the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will pay to the Covered Bond Swap Providers on each LLP Payment Date an amount in Sterling calculated by reference to LIBOR for three-month Sterling deposits for the relevant Interest Period plus a spread and the Sterling Equivalent of any principal due in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement.

Under the terms of each Covered Bond Swap, in the event that the relevant rating of the Covered Bond Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Covered Bond Swap Provider, and, where applicable, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap, arranging for its obligations under the Covered Bond Swap to be transferred to an entity with the minimum rating(s) required by the relevant Rating Agency, procuring another entity with the minimum rating(s) required by the relevant Rating Agency to become co-obligor in respect of its obligations under the Covered Bond Swap, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will subject to certain conditions (including, but not limited to, the requirement to obtain a replacement Covered Bond Swap Provider) allow the LLP to terminate the Covered Bond Swap.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- (unless stated otherwise in the relevant Covered Bond Swap Agreement) at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement;
- upon the occurrence of an insolvency of the LLP or the Covered Bond Swap Provider or any guarantor of the obligations of the Covered Bond Swap Provider, if applicable, or the merger of a Covered Bond Swap Provider without an assumption of the obligations under the relevant Covered Bond Swap Agreement;

- upon the service of an LLP Acceleration Notice by the Security Trustee on the LLP;
- it becoming unlawful for the Covered Bond Swap Provider or the LLP to perform their obligations under the Covered Bond Swap Agreement; and
- the Covered Bonds being redeemed in whole, prior to the Final Maturity Date of the relevant Series or Tranche of Covered Bonds.

Additionally a Covered Bond Swap Agreement may in respect of a relevant Tranche or Series of Covered Bonds provide that non-payment by the LLP of any amounts due under the terms of the Covered Bond Swap Agreement will not constitute a Covered Bond Swap Early Termination Event. In such circumstances the relevant Covered Bond Swap Provider will be obliged to make payments to the LLP irrespective of any non-payment by the LLP. Any amounts due and remaining unpaid by the LLP to the relevant Covered Bond Swap Provider may in such circumstances result in additional amounts of interest being due to such Covered Bond Swap Provider.

Upon the termination of a Covered Bond Swap, the LLP or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made in Sterling.

If withholding taxes are imposed on payments made by the Covered Bond Swap Provider to the LLP under a Covered Bond Swap, the Covered Bond Swap Provider shall always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap, the LLP shall not be obliged to gross up those payments.

In the event that the Covered Bonds are redeemed in accordance with the Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with any termination will be taken into account in calculating the purchase price to be paid for any Covered Bonds purchased by the LLP in accordance with Condition 5(h).

Each Covered Bond Swap Provider may, subject to certain conditions specified in the relevant Covered Bond Swap Agreement, including (without limitation) the satisfaction of certain requirements of the Rating Agencies, transfer its obligations under any of the Covered Bond Swaps to another entity.

### **Governing Law**

The Covered Bond Swap Agreements are (or, as applicable, will be) governed by English law.

### **Bank Account Agreement**

Pursuant to the terms of a bank account agreement entered into on the Programme Date between the LLP, National Westminster Bank Plc as account bank (in such capacity, the **Account Bank**), the Cash Manager and the Security Trustee (the **Bank Account Agreement**), the LLP will maintain with the Account Bank the accounts described below, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge:

- (a) the GIC Account into which are paid, *inter alia*, all amounts received from Borrowers in respect of Loans in the Portfolio. On each LLP Payment Date as applicable, amounts required to meet the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred to the Transaction Account; and
- (b) the Transaction Account into which moneys standing to the credit of the GIC Account will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under *Cashflows*.

At close of business on each London Business Day, subject to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of Bradford & Bingley plc being rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch, the Account Bank will transfer an amount equal to the lesser of:

- (i) the amount standing to the credit of the GIC Account; and
- (ii) 20 per cent. of the aggregate Principal Amount Outstanding on all Covered Bonds then outstanding.

from the GIC Account to a specified Bradford & Bingley plc account. All monies so transferred will be transferred back to the GIC Account by no later than 9 a.m. on the following London Business Day.

If the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank cease to be rated A-1 by S&P, P-1 by Moody's or F1 by Fitch (the **Account Bank Ratings**) then either:

- the GIC Account and the Transaction Account will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a financial institution (i) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch and (ii) which is an authorised person under the FSMA; or
- the Account Bank will obtain a guarantee of its obligations under the Bank Account Agreement from a financial institution whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch.

in each case, provided that the Rating Agencies then rating the Covered Bonds confirm that the then current ratings of the Covered Bonds would not be adversely affected thereby. If the LLP cannot find a replacement account bank or the Account Bank cannot obtain a guarantee of its obligations, as described above, the LLP will open the Stand-by GIC Account and the Stand-by Transaction Account, with the Stand-by Account Bank (see below).

For the purposes hereof:

**GIC Account** means the account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Guaranteed Investment Contract, the Bank Account Agreement and the Deed of Charge or such additional or replacement account as may for the time being be in place with the prior consent of the Security Trustee.

**Transaction Account** means the account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such other account as may for the time being be in place with the prior written consent of the Security Trustee and designated as such.

#### ***Governing Law***

The Bank Account Agreement is governed by English law.

#### **Stand-by Bank Account Agreement**

Pursuant to the terms of a stand-by bank account agreement entered into on the Programme Date between the LLP, Citibank N.A., London Branch (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (the **Stand-by Bank Account Agreement**), the LLP will open a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) with the Stand-by Account Bank if the LLP cannot find a replacement account bank in accordance with the terms of the Bank Account Agreement or the Account Bank cannot obtain a guarantee of its obligations, in each case if the short-term, unsecured, unsubordinated and unguaranteed debt obligations ratings of the Account Bank fall below the Account Bank Ratings, and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for any other reasons in accordance with its terms. The Stand-by GIC Account and the Stand-by Transaction Account will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

References in this Offering Circular to the GIC Account or the Transaction Account include references to the Stand-by GIC Account or the Stand-by Transaction Account when the Stand-by GIC Account and the Stand-by Transaction Account become operative.

References to the **LLP Accounts** mean the GIC Account, the Transaction Account and any additional or replacement accounts opened in the name of the LLP, including the Stand-by GIC Account and the Stand-by Transaction Account.

#### ***Governing Law***

The Stand-by Bank Account Agreement is governed by English law.

#### **Guaranteed Investment Contract**

The LLP has entered into a guaranteed investment contract with National Westminster Bank Plc (the **GIC Provider**), the Security Trustee and the Cash Manager on the Programme Date (the **Guaranteed**

**Investment Contract** or **GIC**), pursuant to which the GIC Provider has agreed to pay interest on the moneys standing to the credit thereof at specified rates determined in accordance with the GIC.

#### ***Governing Law***

The Guaranteed Investment Contract is governed by English law.

#### **Stand-by Guaranteed Investment Contract**

The LLP has entered into a stand-by guaranteed investment contract with Citibank N.A., London Branch (the **Stand-by GIC Provider**) on the Programme Date (the **Stand-by Guaranteed Investment Contract**), pursuant to which the Stand-by GIC Provider has agreed to pay interest on the Stand-by GIC Account at specified rates determined in accordance with the Stand-by Guaranteed Investment Contract.

#### ***Governing Law***

The Stand-by Guaranteed Investment Contract is governed by English law.

#### **Jersey Corporate Services Agreement**

The First Designated Member, Holdings and the LLP have entered into a corporate services agreement with the Jersey Corporate Services Provider on the Programme Date (the **Jersey Corporate Services Agreement**), pursuant to which the Jersey Corporate Services Provider has agreed to provide corporate services to the First Designated Member and Holdings.

#### ***Governing Law***

The Jersey Corporate Services Agreement is governed by Jersey law.

#### **UK Corporate Services Agreement**

The Second Designated Member, the LLP and the UK Share Trustee have entered into a corporate services agreement with the UK Corporate Services Provider on the Programme Date (the **UK Corporate Services Agreement**), pursuant to which the UK Corporate Services provider has agreed to provide corporate services to the Second Designated Member.

#### ***Governing Law***

The UK Corporate Services Agreement is governed by English Law.

#### **Deed of Charge**

Pursuant to the terms of the Deed of Charge entered into on the Programme Date by the LLP, the Security Trustee and the other Secured Creditors, the obligations of the LLP in respect of the Covered Bonds under the Covered Bond Guarantee and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

- (a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the Loans and their Related Security and other related rights comprised in the Portfolio;
- (b) an assignment by way of first fixed charge over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party;
- (c) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including the Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;
- (d) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts; and
- (e) a first floating charge over all the assets and undertaking of the LLP governed by English law and not, from time to time, subject to a valid fixed charge in favour of the Security Trustee pursuant to the Deed of Charge.

***Release of Security***

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (on the written request of the LLP) release those Loans from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if in the case of the Sale of Selected Loans, the Security Trustee is provided with a certificate on behalf of the LLP confirming that the Selected Loans being sold have been selected on a random basis.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Security Trustee will subject to receipt of a certificate from the LLP, release that Loan from the Security created by and pursuant to the Deed of Charge on the date of the repurchase.

***Enforcement***

If an LLP Acceleration Notice is served on the LLP, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the Security Trustee from the enforcement of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under *Cashflows*.

***Governing Law***

The Deed of Charge is governed by English law.

## CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice on the LLP. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate repayments to Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Asset Coverage Test is intended to ensure that the ratio of the LLP's assets to the Covered Bonds is maintained at a certain level;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice of Pay on the LLP;
- a Reserve Fund will be established in the GIC Account to trap Available Revenue Receipts if the Issuer's short-term ratings fall below A-1+ by S&P, F1+ by Fitch or P-1 by Moody's; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of 0.25 per cent. per annum below LIBOR for one-month Sterling deposits.

Certain of these factors are considered more fully in the remainder of this section.

### Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any other amount becoming payable in respect of the Covered Bonds for any other reason, including any accelerated payment pursuant to Condition 8 following the occurrence of an Issuer Event of Default. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment.

See further *Summary of the Principal Documents — Trust Deed*, as regards the terms of the Covered Bond Guarantee. See further *Cashflows — Guarantee Priority of Payments*, as regards the payment of amounts payable by the LLP to Covered Bondholders and other Secured Creditors following the occurrence of an Issuer Event of Default.

### Asset Coverage Test

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee. Under the LLP Deed, the LLP and the Seller (in its capacity as a Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If the Asset Coverage Test is failed on any Calculation Date, and such failure is not remedied on or before the next following Calculation Date, then an Issuer Event of Default will occur. The Asset Coverage Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and makes further adjustments to take account of set-off on a Borrower's current or deposit accounts held with the Seller, any set-off associated with drawings made by Borrowers under Flexible Loans and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Transfer Date. See further *Summary of the Principal Loans — LLP Deed — Asset Coverage Test*, above.

### Amortisation Test

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, the service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP (but prior

to service on the LLP of an LLP Acceleration Notice), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where Covered Bondholders may not be repaid, an LLP Event of Default will occur and all obligations owing under the Covered Bond Guarantee may be accelerated. Under the LLP Deed, the LLP and the Seller (in its capacity as a Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to an LLP Event of Default and service of an LLP Acceleration Notice, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further *Summary of the Principal Documents — LLP Deed — Amortisation Test*, above.

#### **Reserve Fund**

If at any time prior to an Issuer Event of Default the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations cease to be rated A-1+ by S&P, P-1 by Moody's or F1+ by Fitch, the LLP will be required to establish a reserve fund (the **Reserve Fund**) on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the aggregate of £600,000 and all amounts due on the next following LLP Payment Date (the **Reserve Fund Required Amount**) in respect of items (a) to (c) of the Pre-Acceleration Revenue Priority of Payments or such other amount as is agreed with the Rating Agencies. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default.

The Reserve Fund will be funded from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger falling at item (c) of the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A **Reserve Ledger** will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

## CASHFLOWS

As described above under *Credit Structure*, until a Notice to Pay is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the cashflows of the LLP only, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority (all such orders of priority, the **Priorities of Payments**) (i) prior to an Issuer Event of Default and an LLP Event of Default, (ii) following an Issuer Event of Default (but prior to an LLP Event of Default) and (iii) following an LLP Event of Default, all in accordance with the LLP Deed or the Deed of Charge, as applicable.

### Definitions

For the purposes hereof:

**Available Principal Receipts** means on a relevant Calculation Date an amount equal to the aggregate of (without double counting):

- (a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the GIC Account (**but excluding** any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);
- (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds and/or the proceeds received by the LLP under the relevant Covered Bond Swap have not been applied to acquire New Portfolios, refinance an existing Term Advance, invest in Substitution Assets or make a Capital Distribution to a Member), (ii) any Cash Capital Contributions received from a Member and (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement;
- (c) all amounts in respect of principal (if any) received by the LLP under each Covered Bond Swap Agreement on the relevant LLP Payment Date (other than any termination payments or Swap Collateral Excluded Amounts).

**Available Revenue Receipts** means on a relevant Calculation Date, an amount equal to the aggregate of:

- (a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on the GIC Account (**but excluding** any Revenue Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);
- (b) prior to the service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (c) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and Authorised Investments in the preceding Calculation Period and amounts received by the LLP under the Interest Rate Swap Agreements, all amounts in respect of interest received by the LLP under each Covered Bond Swap Agreement on the relevant LLP Payment Date (other than any termination payments, additional amounts the LLP receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by a Swap Provider under a Swap Agreement or Swap Collateral Excluded Amounts) and any amount received by the LLP in consideration for entering into a replacement Swap;
- (d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account; and
- (e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund;

*less*

- (f) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller (to the extent that the Third Party Amounts relate to Loans serviced by the Seller).

**Covered Bond Swap Rate** means in relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the relevant Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if such Covered Bond Swap Agreement has terminated, the applicable spot rate.

**Earliest Maturing Covered Bonds** means at any time each and all of the relevant Series of the Covered Bonds that has or have the earliest Final Maturity Date or, as applicable, Extended Final Maturity Date, as specified in the applicable Pricing Supplement(s) (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default).

**Excluded Swap Termination Amount** means in relation to a Swap Agreement, an amount equal to the greater of zero and: (a) the amount of any termination payment due and payable (i) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (ii) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider; less (b) the amount, if any, received by the LLP from a replacement Swap Provider upon entry by the LLP into an agreement with such replacement Swap Provider to replace such Swap which has been terminated as a result of such Swap Provider Default or Swap Provider Downgrade Event.

**Final Maturity Date** means in respect of each Series of Covered Bonds, the Interest Payment Date on which such Series of Covered Bonds is expected to be redeemed at their Principal Amount Outstanding in accordance with the Conditions, as specified in the relevant Pricing Supplement.

**Interest Payment Date** means in relation to any Fixed Rate Covered Bond, such date or dates as indicated in the applicable Pricing Supplement and, in relation to any Floating Rate Covered Bond or Index Linked Interest Covered Bond, either:

- (a) the date which falls the number of months or other period specified as the **Specified Period** in the applicable Pricing Supplement after the preceding Interest Payment Date or the Interest Commencement Date (in the case of the first Interest Payment Date); or
- (b) such date or dates as are indicated in the applicable Pricing Supplement.

**LLP Payment Period** means the period from and including an LLP Payment Date to but excluding the next following LLP Payment Date.

**Principal Receipts** means:

- (a) principal repayments under the Loans (including payments of arrears, Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan);
- (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property);
- (c) any payment pursuant to any insurance policy in respect of a property the subject of a Mortgage in connection with a Loan in the Portfolio; and
- (d) the proceeds of the repurchase of any Loan by the Seller from the LLP pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date).

**Reserve Fund Required Amount** means zero unless the Issuer is rated less than A-1+ by S&P or less than P-1 by Moody's or less than F1+ by Fitch, in which case it is the aggregate of £600,000 and all amounts due on the next following LLP Payment Date in respect of items (a) to (c) of the Pre-Acceleration Revenue Priority of Payments or such other amount as is agreed with the Rating Agencies.

**Revenue Receipts** means:

- (a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the LLP in respect of the Loans other than the Principal Receipts;
- (b) recoveries of interest and outstanding fees from defaulting Borrowers under Loans being enforced; and
- (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed.

**Sale Proceeds** means the cash proceeds realised from the sale of Selected Loans and their Related Security.

The **Sterling Equivalent** of any amount means (a) in relation to a Covered Bond or Series of Covered Bonds or Term Advance which is denominated in a currency other than Sterling, the Sterling Equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Covered Bond

or Series of Covered Bonds or Term Advance and (b) in relation to a Covered Bond or Series of Covered Bonds or Term Advance denominated in Sterling, the applicable amount in Sterling.

**Swap Collateral** means, at any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed.

**Swap Collateral Excluded Amounts** means, at any time, the amount of Swap Collateral which may not be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP under the terms of the relevant Swap Agreement.

**Swap Provider Default** means the occurrence of an Event of Default (as defined in the Swap Agreements) where the relevant Swap Provider is the Defaulting Party (as defined in the relevant Swap Agreement) other than a Swap Provider Downgrade Event.

**Swap Provider Downgrade Event** means the occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement.

**Third Party Amounts** include:

- (a) payments of insurance premiums due to any provider of mortgage indemnity guarantees;
- (b) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer account;
- (c) payments by the Borrower of any fees (including any fees (other than the standard redemption fee charged to the Borrower by the Seller where the Borrower makes a repayment of the full outstanding principal of a Loan) which the Borrower is required to pay in the event that the Borrower is in default or his or her Loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant Loan before a specified date (**Early Repayment Fees**), and other charges which are due to the Seller; and
- (d) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to either that Borrower or the Seller or the LLP,

which amounts may be paid daily from moneys on deposit in the GIC Account.

***Allocation and Distribution of Revenue Receipts prior to the service of a Notice to Pay***

Prior to service of a Notice to Pay on the LLP or the service of an LLP Acceleration Notice on the LLP, Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP or the Cash Manager on its behalf shall calculate:

- (a) the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date; and
- (b) the Reserve Fund Required Amount.

If the LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Revenue Receipts under the **Pre-Acceleration Revenue Priority of Payments** will be delayed until the Issuer has made scheduled interest payments and/or principal repayments on that Interest Payment Date.

***Pre-Acceleration Revenue Priority of Payments***

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts from the GIC Account to the Transaction Account, in an amount equal to the lesser of (a) the amount required to make the payments described below and (b) the amount of Available Revenue Receipts.

Prior to service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice on the Issuer and the LLP, Available Revenue Receipts will be applied by or on behalf of the LLP on each LLP

Payment Date (except for amounts due to third parties by the LLP under paragraph (i), which shall be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction of any amounts due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay and discharge any liability of the LLP for Taxes;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period;
  - (iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (iv) amounts (including costs and expenses) due and payable to the Corporate Services Providers pursuant to the terms of the Corporate Services Agreements, plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (v) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (i) below), plus any applicable VAT (or similar taxes) thereon as provided therein;
- (c) *third*, in or towards payment *pro rata* and *pari passu*, of any amount due to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the Interest Rate Swap Agreement;
- (d) *fourth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof any amount due to the Covered Bond Swap Providers (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the relevant Covered Bond Swap Agreements;
- (e) *fifth*, towards a credit to the Reserve Ledger on the GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
- (f) *sixth*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Event of Default is either remedied or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (g) *seventh*, to pay *pro rata* and *pari passu* according to the respective amounts thereof on each Interest Payment Date only, any amounts due and payable (excluding principal amounts due and payable), on each Interest Payment Date falling prior to the next following LLP Payment Date to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (h) *eighth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreements;
- (i) *ninth*, towards payment of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (j) *tenth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed;

- (k) *eleventh*, towards payment *pro rata* and *pari passu* to the Members of the sum to be allocated and paid to each Member in accordance with their respective entitlement to Revenue Receipts, as set out in the LLP Deed as at the relevant Calculation Date subject to a minimum of £1.00 each, as their profit for their respective interests as Members in the LLP.

***Allocation and Distribution of Principal Receipts prior to service of a Notice to Pay***

Prior to service of a Notice to Pay on the LLP or the service of an LLP Acceleration Notice on the LLP, Principal Receipts will be allocated and distributed as described below.

On each Calculation Date, the LLP or the Cash Manager on its behalf will calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lesser of (a) the amount required to make the payments described below and (b) the amount of all Available Principal Receipts.

If an LLP Payment Date is the same as an Interest Payment Date or Final Maturity Date, then the distribution of Available Principal Receipts under the relevant Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest payments and/or principal repayments on that Interest Payment Date or Final Maturity Date.

***Pre-Acceleration Principal Priority of Payments***

Prior to service of a Notice to Pay on the LLP and an LLP Acceleration Notice on the Issuer and the LLP all Available Principal Receipts (other than Cash Capital Contributions made from time to time by a Member, which shall (subject to complying with the Asset Coverage Test) be distributed to a Member as a Capital Distribution) will be applied by or on behalf of the LLP on each LLP Payment Date in making the following payments and provisions (the **Pre-Acceleration Principal Priority of Payments**):

- (a) *first*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test, and thereafter to acquire Substitution Assets;
- (b) *second*, to deposit the remaining Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount equal to the greater of an amount sufficient to ensure (in each case taking into account the other resources available to the LLP) that the LLP is in compliance with:
  - (i) the Asset Coverage Test; and
  - (ii) the Asset Coverage Test assuming that the Asset Percentage used in such test has been calculated using the model supplied to the LLP by Moody's;
- (c) *third*, provided that all principal amounts outstanding under a Series of Covered Bonds have been repaid in full, in or towards repayment of the corresponding Term Advance relating to such existing Series of Covered Bonds by making the following payments:
  - (i) amounts (in respect of principal) due and payable to the relevant Covered Bond Swap Provider in respect of the relevant Term Advances (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement to the extent that such amounts are not paid in accordance with the Pre-Acceleration Revenue Priority of Payments but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) amounts (in respect of principal) due (or to become due in the immediately succeeding LLP Payment Period) to the Issuer in respect of the relevant Term Advance; and
- (d) *fourth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution *pari passu* to each Member (other than the Designated Members) by way of distribution of that Member's equity in the LLP in accordance with the LLP Deed.

***Allocation and Distribution of moneys following service of a Notice to Pay***

At any time after the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice on the LLP, all moneys (other than Third Party Amounts) will be applied as described below.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lesser of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount standing to the credit of the GIC Account.

The LLP will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) of the Guarantee Priority of Payments (below), and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled repayment date thereof.

#### ***Guarantee Priority of Payments***

On each LLP Payment Date after the service of a Notice to Pay on the LLP (but prior to the occurrence of an LLP Event of Default), the LLP or the Cash Manager on its behalf will apply moneys standing to the credit of the Transaction Account to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and plus any applicable VAT (or similar taxes) thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank and the Paying Agents under or pursuant to the Paying Agency Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for Taxes;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement;
  - (iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (iv) any amounts (including costs and expenses) due and payable to the Corporate Services Providers pursuant to the Corporate Services Agreements, plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (v) any amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (j) below) pursuant to the terms of the Asset Monitor Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;

(d) *fourth*, in or towards satisfaction *pro rata* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Providers (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreements;

(e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:

- (i) amounts due and payable to the relevant Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
- (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Interest that is Due for Payment or will become Due for Payment in the immediately succeeding LLP Payment Period under the Covered Bond Guarantee in respect of each Series of Covered Bonds.

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is Due for Payment in respect of each Series of Covered Bonds under (e)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (e)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(f) *sixth*, to pay or provide for, *pro rata* and *pari passu*, according to the respective amounts thereof, of:

- (i) the amounts (in respect of principal) due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of the relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
- (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Principal that is Due for Payment or will become Due for Payment in the immediately succeeding LLP Payment Period under the Covered Bond Guarantee in respect of each Series of Covered Bonds.

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment in respect of each Series of Covered Bonds under (f)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (f)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(g) *seventh*, to deposit the remaining moneys in the GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (f) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);

(h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;

(i) *ninth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;

(j) *tenth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and

(k) *eleventh*, thereafter any remaining moneys will be applied in accordance with the LLP Deed.

***Application of moneys received by the Security Trustee following the occurrence of an LLP Event of Default and enforcement of the Security***

Under the terms of the Deed of Charge, each of the Secured Creditors has agreed that all moneys received or recovered by the Security Trustee or any other Secured Creditor (whether in the administration, liquidation of the LLP or otherwise) following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP will be applied following the enforcement of the Security in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of:
  - (i) all amounts due and payable or to become due and payable to the Bond Trustee under the provisions of the Trust Deed together with interest and, plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and, plus any applicable VAT (or similar taxes) thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any remuneration then due and payable to the Agent Bank and the Paying Agents under or pursuant to the Paying Agency Agreement plus any applicable VAT (or similar taxes) thereon as provided therein;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement;
  - (iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (iv) amounts (including costs and expenses) due to the Corporate Services Providers pursuant to the terms of the Corporate Services Agreements, plus any applicable VAT (or similar taxes) thereon as provided therein;
- (d) *fourth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment due and payable under the Interest Rate Swap Agreement (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:
  - (i) the amounts due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) the amounts due and payable under the Covered Bond Guarantee to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent for payment to of the Covered Bondholders *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from any Covered Bond Swap Provider) would be insufficient to pay the Sterling

Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under (e)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (e)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made:

- (f) *sixth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;
- (g) *seventh*, after the Covered Bonds have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;
- (h) *eighth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (i) *ninth*, thereafter any remaining moneys shall be applied pursuant to the LLP Deed.

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**), consists of Loans and their Related Security sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under *Summary of the Principal Documents — Mortgage Sale Agreement*.

For the purposes hereof:

**Initial Portfolio** means the portfolio of Loans and their Related Security, particulars of which are set out in the Mortgage Sale Agreement (other than any Loans and their Related Security which have been redeemed in full prior to the First Transfer Date), and all right, title, interest and benefit (other than in respect of any mortgage indemnity guarantee) of the Seller in and to:

(a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Terms;

(b) subject where applicable to the subsisting rights of redemption of Borrowers, all deeds of consent, deeds of postponement or any collateral security for the repayment of the relevant Loans;

(c) the right to exercise all the powers of the Seller in relation thereto;

(d) all the estate and interest in the Properties vested in the Seller;

(e) each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof; and

(f) all rights, title and interests of the Seller (including, without limitation, the proceeds of all claims) to which the Seller is entitled under the buildings policies and the properties in possession cover.

**New Portfolio** means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit (other than in respect of any mortgage indemnity guarantee) of the Seller in and to the rights and assets set out in paragraphs (a) to (f) above.

See also the following investment considerations under *Investment Considerations — Investment Considerations relating to the LLP — Limited description of the Portfolio — Maintenance of Portfolio and — Changes to the Lending Criteria of the Seller*.

## **DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS**

Since 6th April, 2001, it has been possible to incorporate a limited liability partnership in England and Wales (but not Northern Ireland) under the LLPA 2000. Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

### **Corporate characteristics**

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 1985 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2001 so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

### **Partnership characteristics**

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

### **Taxation**

Limited liability partnerships are tax transparent except in the case of value added tax (in respect of which a limited liability partnership can register for VAT in its own name) and in certain winding-up proceedings. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are taxed in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are taxed in relation to the business of that partnership.

## TAXATION

### United Kingdom Taxation

*The following is a general description of certain United Kingdom tax considerations relating to the Covered Bonds based on the Issuer's understanding of current law and practice in the United Kingdom. It does not purport to be a complete analysis of all tax considerations relating to the Covered Bonds. It only applies to the position of persons who are the absolute beneficial owners of Covered Bonds and may not apply to certain classes of persons such as dealers. Prospective purchasers of Covered Bonds who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should consult their own professional tax advisers. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.*

### Payment of Interest by the Issuer on the Covered Bonds

The Issuer, provided that it continues to be a bank within the meaning of section 840A of the Income and Corporation Taxes Act 1988 (ICTA), and provided that the interest on the Covered Bonds is paid in the ordinary course of its business within the meaning of section 349 of ICTA, will be entitled to make payment of interest without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Covered Bonds may also be paid without withholding or deduction for or on account of United Kingdom tax where (i) the Covered Bonds are listed on a "recognised stock exchange", as defined in section 841 of ICTA (the London Stock Exchange and the Luxembourg Stock Exchange are recognised stock exchanges and under Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the UK Listing Authority and admitted to trading by the London Stock Exchange and securities will be treated as listed on the Luxembourg Stock Exchange if they are listed by the competent authority in Luxembourg and admitted to trading by the Luxembourg Stock Exchange); (ii) the maturity of the Covered Bond is less than 365 days; or (iii) the interest on the Covered Bond is paid to a person who belongs in the United Kingdom and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Covered Bond is paid reasonably believes) that either:

- (a) the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; or
- (b) the payment is made to:
  - (i) a local authority;
  - (ii) a charity (within the meaning of section 506(1) of ICTA);
  - (iii) the trustees or other persons having the management of a fund entitled to an exemption under section 620(6) of ICTA (retirement annuity trust schemes);
  - (iv) a person holding investments or deposits for the purposes of a scheme entitled to exemption under section 643(2) of ICTA (approved personal pension schemes);
  - (v) the plan manager of a plan, where an individual investing under the plan is entitled to an exemption under section 333 of ICTA (personal equity plans and individual saving accounts), and the plan manager receives the payment in respect of investments under the plan;
  - (vi) a society or institution with whom tax-exempt special savings accounts (within the meaning of section 326A of ICTA) may be held, where the society or institution receives the payment in respect of investments held for the purposes of such accounts,

or is made to one of the other classes of exempt bodies or persons set out in section 349B of ICTA.

provided that the Inland Revenue has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that none of the conditions specified in section 349B of ICTA will be satisfied in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In all other cases, an amount must be withheld from payments of interest on the Covered Bonds on account of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction

to the contrary by the Inland Revenue under an applicable double taxation treaty. Where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Covered Bondholder, or, where a Covered Bondholder is associated with the Issuer resident in a Member State of the EU and entitled in practice to the benefit of the European Council Directive 2003/49/EC, the Inland Revenue can issue a notice to the Issuer to pay interest to the Covered Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Covered Bondholders who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest (or amounts payable on redemption)) from any person in the United Kingdom who either pays interest to or receives interest (or such an amount) for the benefit of an individual, or who either pays amounts payable on the redemption of Covered Bonds to or receives such amounts for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of the jurisdiction in which the Covered Bondholder is resident for tax purposes.

#### **Other rules relating to United Kingdom withholding tax**

Covered Bonds may be issued at an issue price of less than 100 per cent of their principal amount. Any discount element on any such Covered Bonds will not be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above, but may be subject to reporting requirements as outlined above.

Where Covered Bonds are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.

#### **Payments by the LLP**

If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds) such payment may (unless the Covered Bonds in question have a maturity of less than 365 days) be subject to United Kingdom withholding tax, whether or not the Covered Bonds are listed on a "recognised stock exchange" within the meaning of section 841 of ICTA. If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

#### **Proposed EU Savings Directive**

On 3rd June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which (subject to a number of important conditions being met) Member States will be required, from a date not earlier than 1st January, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain agreements relating to information exchange between the EU and certain non-EU States). The attention of Covered Bondholders is drawn to Condition 7(d).

## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated the Programme Date agreed with the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under *Form of the Covered Bonds* and *Terms and Conditions of the Covered Bonds*. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### United States

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

In connection with any Covered Bonds which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (**Regulation S Covered Bonds**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Regulation S Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the issue date (as determined and certified by the relevant Dealer(s) or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager) within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Rule 903 of Regulation S. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Each issuance of Index Linked Covered Bonds or Dual Currency Covered Bonds shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer(s) may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

### United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) in relation to Covered Bonds which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of the period of six months from the issue date of such Covered Bonds, will not offer or sell any such Covered Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

- (ii) 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 LLP or, in the case of the Issuer, would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (iii) 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.

#### **The Netherlands**

Covered Bonds issued under the Programme (including rights representing an interest in Global Covered Bonds) may not directly or indirectly, be offered or sold in The Netherlands other than (i) Covered Bonds with a denomination of €50,000 or more (or its foreign currency equivalent) each; or (ii) Covered Bonds which can only be purchased as a block or package having an aggregate value of at least €50,000 (or its foreign currency equivalent); or (iii) to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) unless one of the other exemptions from or exceptions to the prohibition contained in article 3 of the Dutch Securities Transactions Supervision Act 1995 ("*Wet toezicht effectenverkeer 1995*") is applicable and the conditions attached to such exemption or exception are complied with.

#### **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Pricing Supplement.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by a resolution of a committee of the board of directors of the Issuer dated 20th May, 2004 and the giving of the Covered Bond Guarantee has been duly authorised by a resolution of a committee of the board of directors or, as the case may be, the board of directors of each of the Members of the LLP dated 20th May, 2004.

### Listing of Covered Bonds on the Luxembourg Stock Exchange

Application has been made to list the Covered Bonds under the Programme on the Luxembourg Stock Exchange. A legal notice relating to the Programme and the constitutional documents of the Issuer are being lodged with the Luxembourg trade and companies register (*Registre de commerce et de sociétés, Luxembourg*) where such documents may be examined and copies obtained. The Luxembourg Stock Exchange has allocated the number 12993 to the Programme for listing purposes.

The listing of the Covered Bonds on the Luxembourg Stock Exchange will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be listed on the Luxembourg Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Covered Bond or Covered Bonds initially representing the Covered Bonds of such Tranche.

### Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available (other than in respect of item (ix)) free of charge and (in respect of item (ix)) will be available for inspection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London or in Luxembourg at the office of the Luxembourg Listing Agent and/or the Luxembourg Paying Agent:

- (i) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the LLP;
- (ii) the consolidated audited financial statements of the Issuer in respect of the financial periods ended 31st December, 2001, 2002 and 2003. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis. The LLP will prepare audited non-consolidated accounts on an annual basis;
- (iii) the most recently published audited annual financial statements of the Issuer and the LLP and the most recently published unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis. The LLP currently prepares unaudited non-consolidated accounts on a semi-annual basis;
- (iv) an accountant's report issued by KPMG Audit Plc, the reporting accountants to the LLP, in respect of the LLP's financial statements as at the Programme Date;
- (v) the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Receipts, the Coupons and the Talons;
- (vi) a copy of this Offering Circular;
- (vii) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (including a Pricing Supplement relating to an unlisted Covered Bond) to this Offering Circular and any other documents incorporated herein or therein by reference;
- (viii) the most recent copy of the Investor Report prepared by the Cash Manager on a monthly basis including, inter alia, information on compliance with the Asset Coverage Test;
- (ix) each of the following transaction documents (the **Transaction Documents**), namely:
  - Mortgage Sale Agreement

- Servicing Agreement
- Asset Monitor Agreement
- Intercompany Loan Agreement
- LLP Deed
- Cash Management Agreement
- each Interest Rate Swap Agreement
- each Covered Bond Swap Agreement
- Guaranteed Investment Contract
- Stand-by Guaranteed Investment Contract
- Bank Account Agreement
- Stand-by Bank Account Agreement
- each Corporate Services Agreement
- Deed of Charge
- Trust Deed
- the Intercompany Mortgage Sale Agreement
- the Intercompany Servicing Agreement
- Agency Agreement
- Programme Agreement
- each Pricing Supplement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a Subscription Agreement)
- each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)
- Master Definitions and Construction Agreement.

#### **Clearing Systems**

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Euroclear will be specified in the applicable Pricing Supplement. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

#### **Significant or Material Change**

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer since 31st December, 2003 or of the LLP since 23rd January, 2004, being the date of incorporation of the LLP and there has been no material adverse change in the financial position or prospects of the Issuer since 31st December, 2003 or of the LLP since 23rd January, 2004, being the date of incorporation of the LLP.

#### **Litigation**

Neither the Issuer nor the LLP is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the LLP is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the LLP.

#### **Auditors**

The auditors of the Issuer are KPMG Audit Plc, chartered accountants and registered auditors, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing

standards in the United Kingdom for each of the two financial years ended on 31st December, 2001 and 31st December, 2002 and for the financial year ended 31st December, 2003.

The LLP has appointed KPMG Audit Plc, chartered accountants and registered auditors as its independent auditors and KPMG Audit Plc has issued an accountants' report in respect of the LLP's financial statements as at the Programme Date in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. KPMG Audit plc has given and not withdrawn their written consent to the inclusion in this Offering Circular of their report in respect of the LLP and references to their name in the form and context in which they are included.

### **Reports**

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

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