



(incorporated under the laws of England and Wales under the Building Societies Act 1986, as amended)

€7 billion

Global Covered Bond Programme

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

Norwich and Peterborough Covered Bonds LLP

(a limited liability partnership incorporated under the laws of England and Wales)

Under this €7 billion covered bond programme (the **Programme**), Norwich and Peterborough Building Society (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). The price and amount of the Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Norwich and Peterborough Covered Bonds LLP (the **LLP**) will guarantee 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.

Covered Bonds may be issued in bearer or registered form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €7 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 the Dealer specified under "*Overview of the Programme*" and any additional Dealers appointed under the Programme from time to time by the Issuer (each, a **Dealer** and together, the **Dealers**), which appointment may be in relation to a specific issue or on an ongoing basis. References in this Prospectus (as defined below) to the **relevant Dealers** 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.

See Risk Factors on page 27 of this Prospectus for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds.

Application has been made to the Financial Services Authority (the **FSA**) which is the United Kingdom competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) (the **UK Listing Authority**) for approval of Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to be admitted to trading on the Professional Securities Market of the London Stock Exchange (the **Professional Securities Market**). The Professional Securities Market is not a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instrument Directive**). References in this Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the Professional Securities Market and have been admitted to the Official List. 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 separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange on the Professional Securities Market, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or regulated or unregulated markets 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 and/or Covered Bonds not admitted to trading on any regulated or unregulated market.

Application may be made to the FSA for the Issuer, the Programme and Covered Bonds issued under the Programme to be admitted to the register of issuers and the register of regulated covered bonds, as appropriate, under the Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714) (the **RCB Regulations**).

The Covered Bonds and the Covered Bond Guarantee (as defined below) have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and may not be offered or sold in the United States or to or for the benefit of U.S. persons unless such securities are registered under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See "*Form of the Covered Bonds*" for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

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 admitted to the Official List only) a supplementary prospectus, 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 Fitch Ratings Ltd. (**Fitch**) and an "Aaa" rating by Moody's Investors Service Limited (**Moody's**). 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.

Arranger for the Programme



The date of this Prospectus is 9 January 2009

This Prospectus comprises listing particulars given in compliance with the requirements of the Financial Services and Markets Act 2000 and the Listing Rules Instrument 2005 by the UK Listing Authority for the purpose of giving information with regard to the Issuer and its subsidiaries (taken as a whole) and the Covered Bonds.

This Prospectus shall be read and construed in conjunction with any amendment or supplement hereto. Furthermore, in relation to any Series of Covered Bonds, this Prospectus should be read and construed together with the relevant Final Terms.

The Issuer and the LLP have each undertaken to the Arranger and the Dealers in the Programme to comply with section 81 of the FSMA. In the event that a supplementary prospectus is produced pursuant to such undertaking, a copy of such supplementary prospectus will accompany this prospectus. Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the UK Listing Authority which will comprise a supplementary listing particulars in accordance with section 81 of the FSMA. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus.

This Prospectus has not been approved by the UK Listing Authority as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the Prospectus Directive) and has not been published in accordance with the prospectus rules made under the FSMA. This Prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision or order under the Securities Act.

The Issuer and the LLP (each a Responsible Person) each accept responsibility for the information contained in this prospectus (the Prospectus). 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 Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as the Issuer and the LLP are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme is registered or regulated under the RCB Regulations. The Issuer does not currently intend to apply for the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations.

Copies of each set of Final Terms (in the case of Covered Bonds to be admitted to the Official List) will be available from the registered office of the Issuer and (in the case of Covered Bonds to be admitted to the Official List and also all unlisted Covered Bonds) from the specified office set out below of each of the Paying Agents (as defined below).

The information contained in this Prospectus was obtained from the Issuer and other sources, but no assurance can be given by the Arranger, the Dealers, the Bond Trustee or the Security Trustee as to the accuracy or completeness of this information. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers, the Bond Trustee or the Security Trustee as to

the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer and the LLP in connection with the Programme. Neither the Arranger, 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 Prospectus or any other information provided by the Issuer and the LLP in connection with the Programme. Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms as the relevant Dealer(s).

No person is or has been authorised by the Issuer, the Seller, the LLP, any of the Arranger, 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 Prospectus 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 Seller, the LLP, the Arranger, the Dealers, the Bond Trustee or the Security Trustee.

Neither this Prospectus 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, the Arranger, any of the Dealers, the Bond Trustee or the Security Trustee that any recipient of this Prospectus 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 Prospectus 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, the Arranger, 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 Prospectus 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 of any time subsequent to the date indicated in the document containing the same. The Arranger, 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.

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act. The Covered Bonds in bearer form 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 United States persons, except in certain transactions permitted by U.S. tax regulations (see "*Subscription and Sale and Transfer and Selling Restrictions*" below). Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

As set forth in the applicable Final Terms, the Covered Bonds are being offered and sold (i) in reliance on Rule 144A under the Securities Act (Rule 144A), in each case to "qualified institutional buyers" (as defined in Rule 144A) (QIBs) and/or (ii) in accordance with regulation S under the Securities Act (Regulation S) to non-US persons in offshore transactions. Prospective purchasers are hereby notified that the sellers of the Covered Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

This Prospectus 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 Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the LLP, the Arranger, the Dealers, the Bond Trustee and the Security Trustee do not represent that this Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, nor assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the LLP, the Arranger, the Dealers, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds or distribution of this Prospectus 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 Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except in circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Covered Bonds in the United States, the United Kingdom and the Republic of Italy: see "*Subscription and Sale and Transfer and Selling Restrictions*". Neither the Issuer, the Arranger nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

All references in this document to Sterling and £ refer to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland, references to euro and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended, and references to U.S. Dollars and \$ refer to the lawful currency for the time being of the United States of America.

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

In making an investment decision, investors must rely on their own examination of the Issuer and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved. The Covered Bonds have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

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

US INFORMATION

This Prospectus is being provided on a confidential basis in the United States to a limited number of "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act (QIBs) or institutional "accredited investors" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act (**Institutional Accredited Investors** or **IAI's**) in connection with the consideration of the purchase of the Covered Bonds being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Covered Bonds may be offered or sold within the United States only to QIBs or Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Covered Bonds is hereby notified that the offer and sale of any Registered Covered Bonds to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act.

Purchasers of Definitive IAI Registered Covered Bonds (as defined under "*Form of the Covered Bonds*") will be required to execute and deliver an IAI Investment Letter (as defined under "*Form of the Covered Bonds*"). Each purchaser or holder of IAI Registered Covered Bonds (as defined under "*Form of the Covered Bonds*"), Covered Bonds represented by a Rule 144A Global Covered Bond (as defined under "*Form of the Covered Bonds*") or any Covered Bonds issued in registered form in exchange or substitution therefore (together **Legended Covered Bonds**) will be deemed, by its acceptance or purchase of any such Legended Covered Bonds, to have made certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Covered Bonds*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

By requesting copies of any of the documents referred to herein, each potential purchaser agrees to keep confidential the various documents and all written information clearly labelled "Confidential" which from time to time have been or will be disclosed to it concerning the LLP or the Issuer or any of their affiliates, and agrees not to disclose any portion of the same to any person.

Notwithstanding anything herein to the contrary, investors (and each employee, representative or other agent of the investors) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the offering and all materials and any kind (including opinions or other tax analyses) that are provided to the investors relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulation Section 1.6011-4). This authorisation of tax disclosure is retroactively effective to the commencement of discussions between the Issuer, the Dealers of their respective representations and a prospective investor regarding the transactions contemplated herein.

FORWARD-LOOKING STATEMENTS

This Prospectus contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of Norwich and Peterborough Building Society and its consolidated subsidiary undertakings (collectively, the **NPBS Group**) to differ materially from the information presented herein. When used in this Prospectus, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the NPBS Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The NPBS Group does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a body corporate organised under the laws of England and the LLP is a limited liability partnership organised under the laws of England. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside England and Wales (as applicable) upon the Issuer, the LLP or such persons, or to enforce judgments against them obtained in courts outside England and Wales (as applicable) predicated upon civil liabilities of the Issuer or such directors and officers under laws other than English laws (as applicable), including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Allen & Overy LLP, its counsel, that there is doubt as to the enforceability in England and Wales in original actions or in actions for the enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

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PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

Issuer:	Norwich and Peterborough Building Society
Guarantor:	Norwich and Peterborough Covered Bonds LLP
Regulated Covered Bonds:	The Issuer does not currently intend to apply for the Issuer, the Programme or any Series of Covered Bonds issued under the Programme to be registered under the RCB Regulations. As at the date of this Prospectus, neither the Issuer, nor the Programme nor any Covered Bonds issued under the Programme is so registered or regulated
Nature of eligible property:	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
Compliant with the Banking Consolidation Directive (Directive 2006/48/EC)¹:	Yes
Location of eligible residential property underlying Loans:	England or Wales
Maximum True Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:	75 per cent.
Maximum Asset Percentage:	93.5 per cent.
Asset Coverage Test:	As set out on page 187
Amortisation Test:	As set out on page 187
Extended Maturities:	Available
Hard Bullet Maturities:	Not Available
Asset Monitor:	PricewaterhouseCoopers LLP
Asset Segregation:	Yes
Namenschuldverschreibungen option:	No
Reserve Fund:	To be funded in accordance with circumstances set out on page 187-188

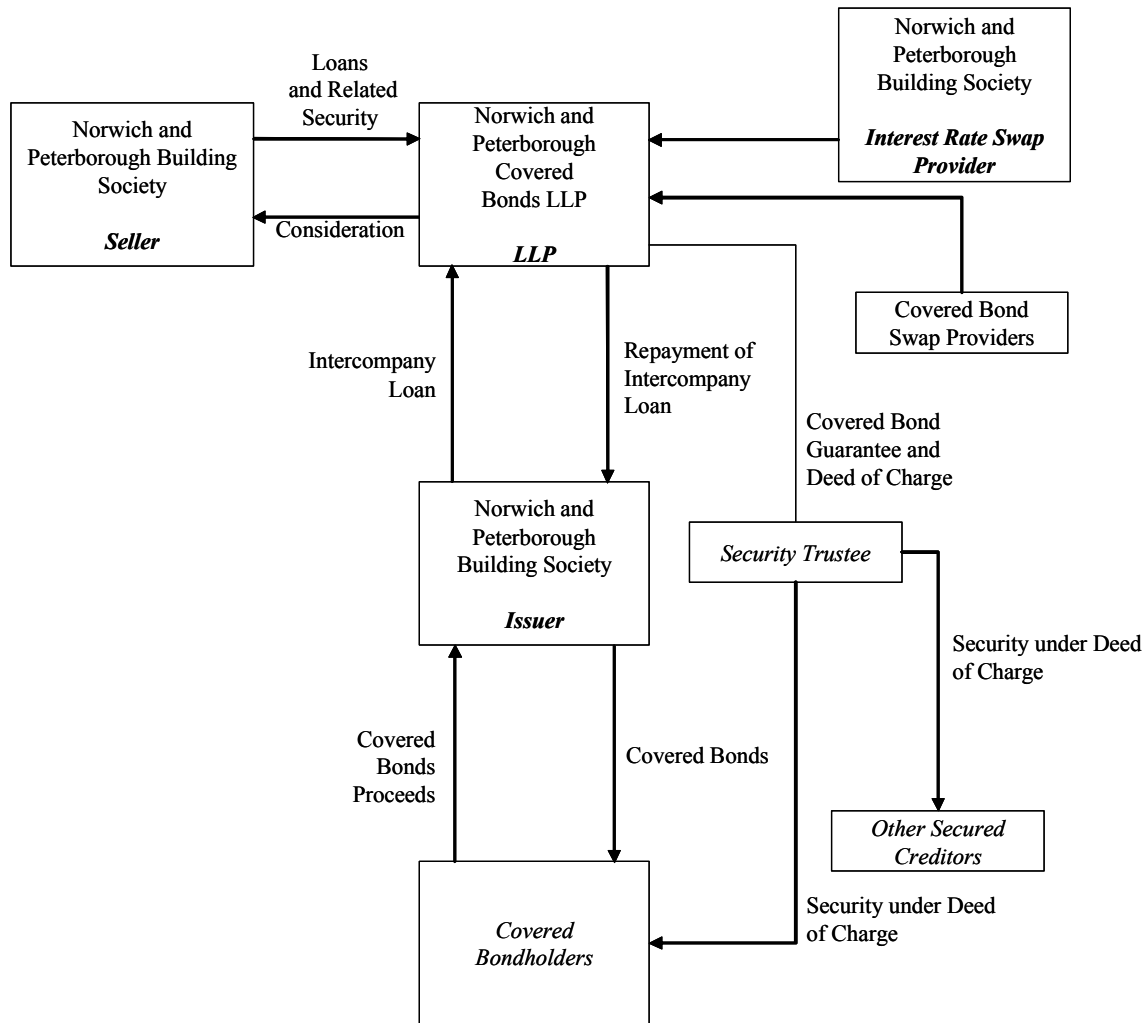
¹ The Programme is intended to be compliant with the Banking Consolidation Directive once the Issuer has been accepted to the register of issuers, and the Programme and any Covered Bonds issued under the Programme have been admitted to the register of regulated covered bonds under the RCB Regulations

STRUCTURE OVERVIEW

This Structure Overview must be read as an introduction to this Prospectus and any decision to invest in any Covered Bonds should be based on a consideration of this Prospectus as a whole.

Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this Structure Overview. A glossary of certain defined terms used in this document is contained at the end of this Prospectus.

Structure Diagram



Structure Overview

- **Programme:** Under the terms of the Programme, the Issuer will issue Covered Bonds to the Covered Bondholders on each 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 Principal Amount Outstanding on the Issue Date of each Series or, as applicable, Tranche of Covered Bonds.

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 to the Covered Bondholders 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 service of a Notice to Pay on the LLP or, if earlier, the service on the LLP of an LLP Acceleration Notice) unconditional obligations of the LLP, secured as provided in the Deed of Charge. Subject as provided in the Trust Deed, the Bond Trustee will be required to serve a Notice to Pay on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice pursuant to which, 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 shall thereupon immediately become due and repayable. An LLP Acceleration Notice may be served by the Bond Trustee on the LLP following the occurrence of an LLP Event of Default.

If an LLP Acceleration Notice is served, the Covered Bonds will (if an Issuer Acceleration Notice has not already been served) become immediately due and payable as against the Issuer, and the LLP's obligations under the Covered Bond Guarantee will be accelerated.

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. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee will be limited to the assets of the LLP from time to time.

- *The 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 Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations (which, for the avoidance of doubt, shall only be necessary upon the Issuer, the Programme or any series of Covered Bonds issued under the Programme being admitted to the register of regulated covered bonds under Regulation 14 of the RCB Regulations) and the Asset Coverage Test and thereafter may be applied by the LLP: (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or (d) if an existing Series or Tranche, or part of 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 the Covered Bonds being so refinanced; and/or (e) to make a deposit of all or part of the proceeds in the GIC Account and or the Reserve GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the Reserve Fund Required Amount). To protect the value of the Portfolio under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) 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 in Kind to the LLP (in an amount up to the difference between the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP) and/or (iii) Deferred Consideration.
- *Security*: To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the portfolio of Loans and their Related Security, 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 an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice on the LLP and/or realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:
 - (a) apply Available Revenue Receipts to pay interest due on the Term Advances (the proceeds of which the Issuer may apply to pay interest due on the Covered Bonds) and to pay Deferred Consideration to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses and amounts due to the Interest Rate Swap Provider and the Covered Bond Swap Providers). For further details of the Pre-Acceleration Revenue Priority of Payments, see "*Cashflows*" below; and
 - (b) apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, but not limited to, acquiring New Loans and their Related Security offered by the Seller to the LLP and acquiring Substitution Assets). For further details of the Pre-Acceleration Principal Priority of Payments, see "*Cashflows*" below.

Following service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to service of a Notice to Pay or an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will continue to apply Available Revenue Receipts and Available Principal Receipts as described above, except that, whilst any Covered Bonds remain outstanding:

- (a) in respect of Available Revenue Receipts, no further amounts will be paid to the Issuer under the Intercompany Loan Agreement, into the Reserve Fund, towards any indemnity amount due to the Members pursuant to the LLP Deed or any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, towards any Deferred Consideration or towards any profit for the Members' respective interests in the LLP (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements); and
- (b) in respect of Available Principal Receipts, no payments will be made other than into the GIC Accounts after exchange (if required) in accordance with the relevant Covered Bond Swap (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 and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP) the LLP will use all monies (other than Third Party Amounts and Swap Collateral 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 and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the Covered Bonds will become immediately due and payable as against the LLP, 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 other than additional amounts payable by the Issuer under Condition 7 (Taxation) and the Security created by the LLP over the Charged Property will become enforceable. Any monies received or recovered by the Security Trustee following enforcement of the Security created by the LLP in accordance with the Deed of Charge, realisation of such Security and/or the commencement of winding-up proceedings against the LLP 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 Members (other than the Liquidation Member) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on that Calculation Date. The Asset Coverage Test will be tested by the Cash Manager on each Calculation Date. A breach of the Asset Coverage Test on a Calculation Date which is not remedied on the immediately succeeding Calculation Date will require the Bond Trustee (subject to the Bond Trustee having actual knowledge or express notice of such breach) to serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been delivered and has not been revoked:

- (a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted;
- (b) the LLP will be required to (or may, if the Extended Due for Payment Date of any Series of Covered Bonds is equal to the Long Date Due for Payment Date) sell Selected Loans; and
- (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.

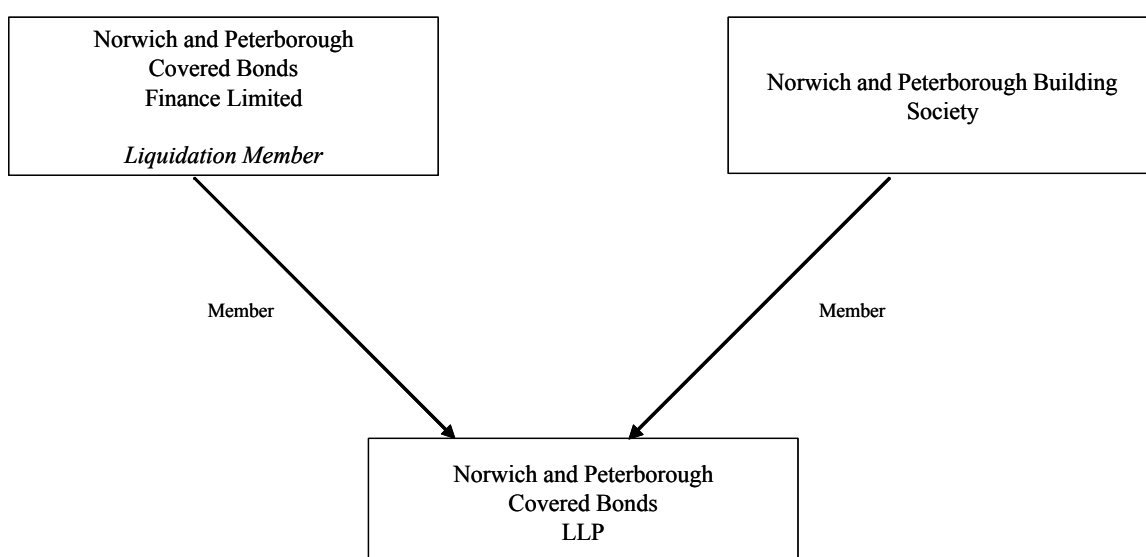
- *Amortisation Test:* In addition, following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, 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 from time to time. The Amortisation Test will be tested by the Cash Manager 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 declaring the Covered Bonds and all amounts due under the Covered Bond Guarantee immediately due and payable and entitle the Security Trustee to enforce the Security over the Charged Property. The Amortisation Test shall not apply if the Extended Due for Payment of all Series of Covered Bonds is equal to the Long Date Due for Payment Date.
- *Extendable obligations under the Covered Bond Guarantee:* An Extended Due for Payment Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms. 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 unpaid portion of the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following the service of a Notice to Pay on the LLP, the LLP has insufficient monies available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the unpaid portion of 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 (without an LLP Event of Default occurring as a result of such non payment) and shall be due and payable on the Extended Due for Payment Date specified in the applicable Final Terms (subject to any applicable grace period). However, 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 Due for Payment 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 Due for Payment Date in accordance with Condition 4 (Interest).
- *Servicing:* In its capacity as Servicer, Norwich and Peterborough Building Society has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which the Servicer has agreed to provide certain services in respect of the Loans and their Related Security sold by Norwich and Peterborough Building Society (in its capacity as Seller) to the LLP.
- *The Regulated Covered Bonds Regulations 2008:* The Issuer does not currently intend to apply for the Issuer, the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any

Covered Bonds issued under the Programme is so registered or so regulated. No assurance can be given as to when or if the Issuer will apply for registration under the RCB Regulations.

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

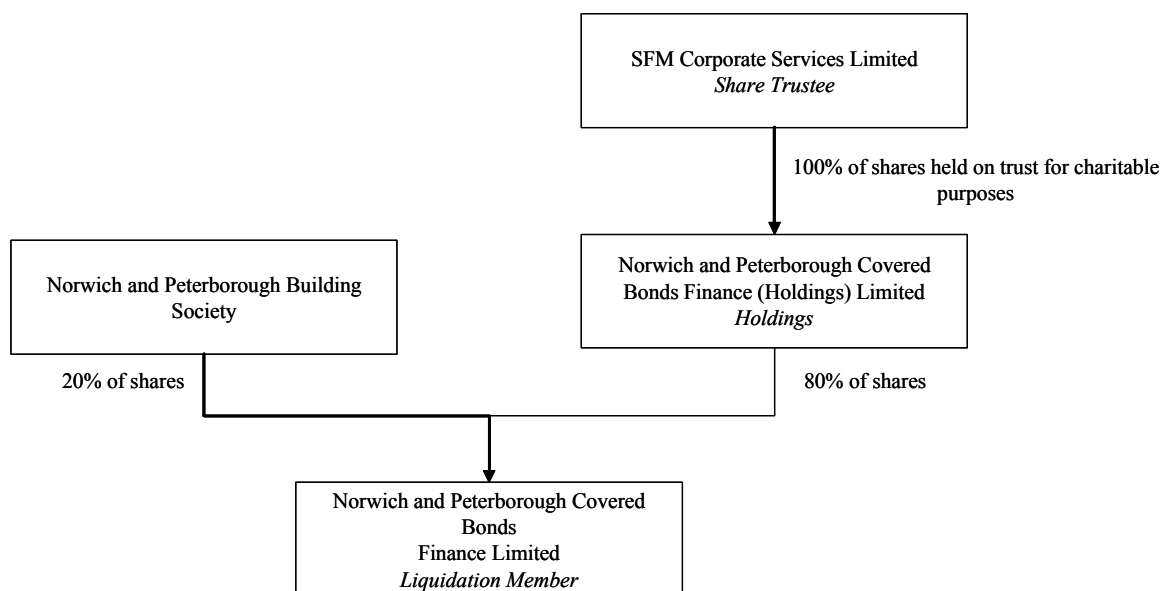
Ownership Structure of Norwich and Peterborough Covered Bonds LLP

- As at the Programme Date, the Members of the LLP are the Seller and the Liquidation Member.
- A New Member may be admitted to 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.
- Other than in respect of those decisions reserved to the Members, the LLP Management Committee (comprised of, as at the Programme Date, directors and/or employees of the Seller and one director of the Liquidation Member) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP.



Ownership Structure of the Liquidation Member

- As at the Programme Date, 80 per cent. of the issued share capital of the Liquidation Member is held by Norwich and Peterborough Covered Bonds Finance (Holdings) Limited (**Holdings**) and 20 per cent. of the issued share capital of the Liquidation Member is held by Norwich and Peterborough Building Society.
- The entire issued capital of Holdings is held by SFM Corporate Services Limited as share trustee on trust for charitable purposes.



OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this overview. A glossary of certain defined terms is contained at the end of this Prospectus.

Issuer: Norwich and Peterborough Building Society (**NPBS** or the **Society**), incorporated under the laws of England and Wales under the Building Societies Act 1986 (as amended) (the **Building Societies Act**) (which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any statutory modification or re-enactment).

For a more detailed description of the Issuer see "*The Issuer*", below.

The LLP: Norwich and Peterborough Covered Bonds LLP, a limited liability partnership incorporated under the laws of England and Wales (partnership no. OC341875). The Members of the LLP on the Programme Date are NPBS (in its capacity as Seller) and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee certain payments in respect of the Covered Bonds. The LLP will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.

The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following an Issuer Event of Default and the service on the LLP of a Notice to Pay or LLP Acceleration Notice. 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: NPBS, which is in the business of originating and acquiring residential mortgage loans and conducting other building society related activities.

For a more detailed description of NPBS see "*The Issuer*", below.

Servicer: Pursuant to the terms of the Servicing Agreement, NPBS has been appointed to service, on behalf of the LLP, the Loans and Related Security sold by the Seller.

Cash Manager:	NPBS has been appointed, <i>inter alia</i> , to 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.
Principal Paying Agent and Agent Bank:	The Bank of New York Mellon, London Branch, acting through its offices at One Canada Square, London E14 5AL has been appointed pursuant to the Agency Agreement as Issuing and Principal Paying Agent and Agent Bank.
Exchange Agent and Transfer Agent:	The Bank of New York Mellon, London Branch, acting through its offices at One Canada Square, London E14 5AL has been appointed pursuant to the Agency Agreement as Exchange Agent and Transfer Agent.
Bond Trustee:	BNY Corporate Trustee Services Limited whose registered office is at One Canada Square, London E14 5AL has been appointed to act as Bond Trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the terms of the Trust Deed.
Registrar:	The Bank of New York Mellon, London Branch, acting through its offices at One Canada Square, London E14 5AL has been appointed pursuant to the Agency Agreement as Registrar.
Security Trustee:	BNY Corporate Trustee Services Limited whose registered office is at One Canada Square, London E14 5AL has been appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself, the Covered Bondholders and other Secured Creditors) under the Deed of Charge.
Asset Monitor:	A reputable institution acceptable to the Rating Agencies 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. As at the date of this Prospectus, the Asset Monitor is PricewaterhouseCoopers LLP.
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 due and payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay or an LLP Acceleration Notice) and Due for Payment under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay or an LLP Acceleration Notice) by entering into the Covered Bond Swaps with the LLP under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings

level, the relevant Covered Bond Swap Provider will be required to obtain a guarantee of its obligations from an appropriately rated guarantor or put in place some other arrangement in order to maintain the then current ratings of the Covered Bonds.

Interest Rate Swap Provider:

NPBS (in its capacity as the Interest Rate Swap Provider) has agreed to act as a 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 LIBOR for one month Sterling deposits (payable by the LLP under the Covered Bond Swap Agreement) by entering into the Interest Rate Swap with the LLP under the Interest Rate Swap Agreement. The Interest Rate Swap Provider will be required to obtain a guarantee of its obligations or put in place some other arrangement in the event that its ratings fall below a specified ratings level, provided that the requirement to put in place such arrangements following a downgrade of the Interest Rate Swap Provider's ratings by Fitch will not apply until notice thereof has been provided by the Interest Rate Swap Provider to the LLP, the Security Trustee and Fitch. As at the Programme Date, no such notice has been provided.

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

Account Bank:

Barclays Bank PLC acting through its offices at 1 Churchill Place, London E14 5HP has agreed to act as Account Bank to the LLP pursuant to the terms of the Bank Account Agreement.

GIC Provider:

Barclays Bank PLC acting through its offices at 5 North Colonnade, Canary Wharf, London E14 4BB has agreed to act as GIC Provider to the LLP pursuant to the terms of the Guaranteed Investment Contract.

Liquidation Member:

Norwich and Peterborough Covered Bonds Finance Limited, a special purpose vehicle incorporated under the laws of England and Wales as a private limited company (registered no. 6765224). As at the Programme Date, 80 per cent. of the issued share capital of the Liquidation Member is held by Holdings and 20 per cent. of the issued share capital of the Liquidation Member is held by NPBS.

Holdings:

Norwich and Peterborough Covered Bonds Finance (Holdings) Limited, a special purpose vehicle incorporated under the laws of England and Wales as a private limited company (registered no. 6765273). All of the shares of Holdings are held on behalf of the Share Trustee on trust for general charitable purposes.

Share Trustee:

SFM Corporate Services Limited, having its registered office at 35 Great St. Helen's, London, EC3A 6AP.

Corporate Services Provider:	Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London, EC3A 6AP, has been appointed to provide certain corporate services to the Liquidation Member and Holdings, pursuant to the Corporate Services Agreement.
Description:	Global Covered Bond Programme.
Arranger:	Barclays Bank PLC (acting through its investment banking division, Barclays Capital).
Dealers:	Barclays Capital and any other Dealers appointed from time to time in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale and Transfer and Selling Restrictions</i> ").
Programme Size:	Up to €7 billion (or its equivalent in other currencies determined as described in the Programme Agreement) 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 by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " 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 and the relevant Dealer(s) (as set out in the applicable Final Terms).
Redenomination:	The applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro. If so, the redenomination provisions will be set out in the applicable Final Terms.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, 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 at par or at a premium or discount to par on a fully-paid basis or partly-paid basis.

Form of Covered Bonds: The Covered Bonds will be issued in bearer or registered form as described in "*Form of the Covered Bonds*". Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and *vice versa*.

Fixed Rate Covered Bonds: Fixed Rate Covered Bonds will bear interest at a fixed rate which 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 Final Terms).

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

- 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 ISDA Definitions; or
- on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds as set out in the applicable Final Terms.

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 Final Terms).

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 Final Terms). 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) (as set out in the applicable Final Terms).

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 Final Terms).
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 unless otherwise specified in the applicable Final Terms.
Partly-Paid Covered Bonds:	Covered Bonds may be issued on a partly-paid basis in which case interest will accrue on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer/s (as set out in the applicable Final Terms).
Rating Agency Confirmation:	The issuance of certain types of Covered Bonds (namely, Zero Coupon Covered Bonds, Index Linked Covered Bonds, Dual Currency Covered Bonds, Partly Paid Covered Bonds and Instalment Covered Bonds, in each case as specified in the relevant Final Terms) shall be subject to the Issuer obtaining confirmation by Moody's and Fitch that the then current ratings for any outstanding Covered Bonds will not be adversely affected by the issuance of such types of Covered Bonds.
Redemption:	<p>The applicable Final Terms 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 and/or the Covered Bondholders upon giving notice to the Covered Bondholders or the Issuer (as the case may be), 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 Final Terms).</p> <p>The applicable Final Terms 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 Final Terms.</p>
Extendable obligations under the Covered Bond Guarantee:	The applicable Final Terms may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the unpaid portion of the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment 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 unpaid portion of the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the LLP by the Extension Determination Date (for example, because the LLP has insufficient monies to pay in full the Guaranteed Amounts corresponding to the unpaid portion of 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 and has sufficient monies to pay in part the unpaid portion of the Final Redemption Amount, such partial payment shall be made by the LLP on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 6(a) (Redemption and Purchase – Final redemption). Interest will continue to accrue and be payable on the unpaid amount up to the Extended Due for Payment Date in accordance with Condition 4 (Interest) and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Due for Payment Date and Extended Due for Payment Date. The Extended Due for Payment Date if applicable in respect of a Series of Covered Bonds will be specified in the relevant Final Terms.

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 Final Terms save that, except in the case of Covered Bonds which are intended to be admitted to trading on a regulated market of a European Economic Area stock exchange or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, the minimum denomination of each such Covered Bond will be at least €50,000 (or, if the Covered Bonds are denominated in a currency other than euro, at least the equivalent amount in such currency) or such other higher amount as may be required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Unless otherwise stated in the applicable Final Terms, the minimum denomination of each Definitive IAI Registered Covered Bond will be U.S.\$500,000 or its approximate equivalent in other Specified Currencies and the minimum denomination of each Definitive Rule 144A Covered Bond will be U.S.\$100,000 or its approximate equivalent in other Specified Currencies.

Taxation:

All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of United Kingdom taxes, subject as provided in Condition 7 (Taxation). If any such deduction or withholding is made the Issuer will, save in the limited circumstances provided in Condition 7 (Taxation),

be required to pay additional amounts in respect of the amounts so deducted or withheld. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 7 (Taxation).

Cross Default:

If an Issuer Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligations of the Issuer to pay interest and principal due in respect of all Series of Covered Bonds outstanding will be accelerated. If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated.

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 the Covered Bond 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.

Ratings:

Covered Bonds to be issued under the Programme are expected on issue to be assigned an "AAA" rating by Fitch and an "Aaa" rating by Moody's.

Listing and admission to trading:

Application has been made to admit Covered Bonds issued under the Programme to the Official List and to admit the Covered Bonds to trading on the Professional Securities Market. Covered Bonds may be unlisted or may be listed on such other or further stock exchanges or regulated or unregulated markets, as may be agreed between the Issuer, the LLP, the Bond Trustee and the relevant Dealer(s) in relation to each issue. The Final Terms relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.

The RCB Regulations:

The Issuer does not currently intend to apply for the Issuer, the Programme or any Series of Covered Bonds issued under the

Programme to be admitted to the register of regulated covered bonds under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme will be so registered or so regulated. No assurance can be given as to when or if the Issuer will apply for registration under the RCB Regulation.

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 and the European Economic Area (which includes the United Kingdom). Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See "*Subscription and Sale and Transfer and Selling Restrictions*".

Risk Factors:

There are certain risks related to any issue of Covered Bonds under the Programme, which investors should ensure they fully understand; the principal risk factors are set out under "*Risk Factors*" from page 27 of this Prospectus.

RISK FACTORS

This section describes the principal risk factors associated with an investment in 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 Prospectus is divided into three main sections – General Risk Factors, Risk Factors relating to the structure of a particular issue of Covered Bonds and Risk Factors which are important for assessing the market risks associated with Covered Bonds issued under the Programme.

GENERAL RISK FACTORS

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 (subject to applicable law) equally with its other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations to be preferred by law).

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 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 occurrence of an Issuer Event of Default does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts when Due for Payment 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 Arranger, 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

Save in respect of the first issue of Covered Bonds, Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series).

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the security granted by the LLP under the Deed of Charge. If, prior to the occurrence of an LLP Event of Default, an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds, the Covered Bonds of all Series outstanding will accelerate at the same time against the Issuer (following service of an Issuer Acceleration Notice) but will be subject to, and have the benefit of, payments made by the LLP under the Covered Bond Guarantee (following service of a Notice to Pay). If an LLP Event of Default occurs, following service of an LLP Acceleration Notice,

the Covered Bonds of all Series outstanding will accelerate against the Issuer (if not already accelerated following an Issuer Event of Default) and the obligations of the LLP under the Covered Bond Guarantee will accelerate. In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect any 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 swapping the same into Sterling if necessary): (i) to acquire Loans and their Related Security from the Seller; and/or (ii) to acquire Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:
 - (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
 - (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
 - (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or
 - (d) if an existing Series or Tranche, or part of 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 the Covered Bonds being so refinanced; and/or
 - (e) to make a deposit of all or part of the proceeds in the GIC Account and/or the Reserve GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the Reserve Fund Required Amount);
- 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 and Bond Trustee's powers

In the exercise of its duties, powers, trusts, authorities and discretions the Security Trustee shall only have regard to the interests of the Covered Bondholders. In the exercise of its duties, powers, trusts, authorities and discretions, the Security Trustee shall not act on behalf of the Seller.

In having regard to the interest of the Covered Bondholders, the Security Trustee shall be entitled to rely solely on a written confirmation from the Bond Trustee as to whether, in the opinion of the Bond Trustee, any matter, action or omission is or is not in the interests of or is not prejudicial or materially prejudicial to the interests of, the Covered Bondholders. The Bond Trustee shall have sole responsibility for resolving conflicts of interest as between the Covered Bondholders or any Series or class of them, subject to and in accordance with the provisions of the Trust Deed and the Conditions.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Bond Trustee is of the opinion that the interests of the Covered Bondholders of any one or more Series

would be materially prejudiced thereby, the Bond Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

Extendable obligations under the Covered Bond Guarantee

Following the failure by the Issuer to pay all or a portion of the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if, following the service of a Notice to Pay on the LLP (by no later than the date which falls one Business Day prior to the Extension Determination Date), payment of the Guaranteed Amounts corresponding to the unpaid portion of the Final Redemption Amount in respect of such Series of the Covered Bonds are not paid in full, then the payment of such Guaranteed Amounts may be automatically deferred. The Issuer is not required to notify Covered Bondholders of such deferral. This will occur (subject to no LLP Event of Default having occurred) if the Final Terms for a relevant Series of Covered Bonds (the **relevant Series of Covered Bonds**) provides that such Covered Bonds are subject to an Extended Due for Payment Date.

To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient monies 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 such partial payment in accordance with the Guarantee Priority of Payments and as described in Condition 6(a) (Redemption and Purchase – Final redemption) on any Interest Payment Date up to and including the relevant Extended Due for Payment Date. Payment of the unpaid amount shall be deferred automatically until the applicable Extended Due for Payment Date (where the relevant Series of Covered Bonds are subject to an Extended Due for Payment Date). Covered Bondholders should be aware that the Extended Due for Payment Date will be the date specified in the applicable Final Terms, interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 (Interest) and the LLP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment 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 all or any portion of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) shall not constitute an LLP Event of Default. However, failure by the LLP to pay Guaranteed Amounts corresponding to the unpaid portion of the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date and/or pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date will (subject to any applicable grace period) be an LLP Event of Default.

The extension period for each Series of Covered Bonds can be for different periods of time. In accordance with the Guarantee Priority of Payments, Covered Bonds with an Extended Due for Payment Date falling one year or less from the relevant LLP Payment Date will be paid in priority to the Series of Covered Bonds with an Extended Due for Payment Date falling more than one year after the relevant LLP Payment Date. To the extent the LLP has insufficient funds to pay Covered Bonds with an Extended Due for Payment Date falling one year or less from the relevant LLP Payment Date, Covered Bonds with an Extended Due for Payment Date falling after one year from the LLP Payment Date may be paid less than they are due, or not at all.

UK Banking (Special Provisions) Act 2008

Under the Banking (Special Provisions) Act 2008 (the **Act**), until 21 February 2009, HM Treasury has wide powers to make certain orders in respect of a UK authorised deposit-taking institution (such as the Issuer, the Seller, the Servicer, the Account Bank and the Interest Rate Swap Provider) and, in certain circumstances, certain related corporate undertakings (such as the LLP). The

orders which may be made under the Act in respect of relevant deposit-taking institutions (and/or, in certain circumstances, certain related corporate undertakings) relate to (amongst other things) (i) transfers of securities issued by relevant entities (such as the Covered Bonds) (and/or securing that rights of holders of securities cease to be exercisable by such holders, discontinuing the listing of securities and/or varying or nullifying the terms of securities), (ii) transfers of property, rights and liabilities of relevant entities notwithstanding any restrictions, requirements or interest (and/or modifying related interests, rights or liabilities of third parties), (iii) the disapplication or modification of laws, (iv) the imposition of a moratorium on the commencement or continuation of any legal process in relation to any body or property and/or (v) the dissolution of any relevant entity. Orders may have retrospective effect and may make provision for nullifying the effect of transactions or events taking place after the time in question.

In general, transfer orders under the Act may be made by the UK Treasury only in certain circumstances for the purposes of maintaining the stability of the UK financial system and/or protecting the public interest in circumstances where financial assistance has been provided by the Treasury to the deposit-taking institution. The Act includes provisions related to compensation in respect of any transfer orders made. If the UK Treasury were to make an order in respect of the Issuer and/or certain related corporate undertakings, such order may (amongst other things) result in a transfer of the Covered Bonds and/or any property of the Issuer or the LLP (including the asset pool, in whole or in part, notwithstanding any other interests), impact on the rights of Covered Bondholders and/or result in nullification or modification of the Terms and Conditions of the Covered Bonds and/or the de-listing of the Covered Bonds. In addition, such an order may impact on various matters in respect of the Issuer and/or various other aspects of the transaction (including the enforceability of certain Transaction Documents and/or the ability of certain parties to perform their obligations under such documents) which may negatively affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or the ability of the Issuer to meet its obligations in respect of the Covered Bonds. At present, the UK Treasury has not made any orders under the Act in respect of the Issuer or any of its related corporate undertakings and there has been no indication that it will make any such order under the Act, but there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such order if made.

On 5 June 2008, the Building Societies (Financial Assistance) Order 2008 (the **Financial Assistance Order**) came into force in exercise of certain powers under the Act for the purpose of modifying the application of the Building Societies Act in specified circumstances to facilitate the provision of relevant financial assistance by the Bank of England (i.e. assistance for the purpose of maintaining the stability of the financial system in the U.K.). Most significantly, the Financial Assistance Order would permit the Bank of England to provide such assistance without it counting for the purpose of the 50% limit on a building society's non-member funding. It would also permit the society to create a floating charge over its assets in favour of the Bank of England in respect of that assistance. Because of the new power for a building society to create a floating charge over its assets, the Financial Assistance Order also allows for an administrative receiver to be appointed over the assets of the building society. We note that the general prohibition on appointing an administrative receiver in section 72A of the Insolvency Act 1986 has not been amended by the Financial Assistance Order to enable the Bank of England to appoint such an administrative receiver but the Secretary of State has the power, under section 72H(2) of the Insolvency Act 1986, to add a new exception to the general prohibition by way of statutory instrument and so it seems likely that, if a building society were to create a floating charge over its assets in favour of the Bank of England, the Bank of England would be given the power to appoint an administrative receiver in respect of that floating charge.

Lastly, we note that the UK Banking Bill was introduced in the House of Commons on 7 October 2008. The Banking Bill includes (amongst other things) provision for a new special resolution regime intended to extend the range of tools available to UK authorities to deal with the failure (or likely failure) of a UK bank or building society. We understand that the Banking Bill will

form the basis of the permanent regime to be put into place on or about the expiration of the Act in February 2009. The Banking Bill is not in final form and it is likely that changes will be made to it in the course of the corresponding parliamentary debate. As such, it is too early to anticipate the full impact of the Banking Bill and there can be no assurance that the Bondholders will not be adversely affected by an action taken under it once it is finalised and implemented (assuming that should occur).

Covered Bonds not guaranteed by UK Government

On 8 October 2008, the UK Government announced the introduction of a new credit guarantee scheme pursuant to which the Government will make available to eligible institutions for an interim period a guarantee of new short and medium term debt issuance to assist in refinancing maturing, wholesale funding obligations as they fall due. The Government has indicated that certain debt instruments including UK covered bonds are not covered by the guarantee provided under the scheme and, as such, for the avoidance of doubt, the obligations of the Issuer in respect of the Covered Bonds are not guaranteed by the UK Government. In addition, any investment in the Covered Bonds does not have the status of a bank deposit in England and Wales and is not within the scope of the UK Financial Services Compensation Scheme.

Absence of secondary market; lack of liquidity

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. The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". If a secondary market does develop, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a holder of the Covered Bonds may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the holder of the Covered Bonds to realise a desired yield.

In addition, potential investors in Covered Bonds should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a severe lack of liquidity in the secondary market for instruments similar to the Covered Bonds. As a result of the current liquidity crisis, there exist significant additional risks to the Issuer and the investors which may affect the returns on the Covered Bonds to investors.

In addition, the current liquidity crisis has stalled the primary market for a number of financial products including instruments similar to the Covered Bonds. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for securities similar to the Covered Bonds will recover at the same time or to the same degree as such other recovering global credit market sectors.

Further deterioration in wholesale funding markets may have an adverse effect on all UK financial services institutions (including the Issuer)

During the second half of 2007 and during 2008, the wholesale funding markets (including the international debt capital markets) experienced, and continue to experience, significant disruptions. Such disruptions have resulted in an increase in the cost and availability of wholesale market funding across the financial services sector. Whilst short-term unsecured money-market funding has remained available, the residential mortgage securitisation and covered bond markets were effectively closed to new external issuances of securities, and continue to remain so. During this period, the NPBS Group has continued to closely manage its funding requirements.

If the wholesale funding markets deteriorate further, it may have a material adverse effect on the liquidity and funding of all UK financial services institutions including the NPBS Group. There can be no assurance that the wholesale funding markets will not deteriorate further.

Ratings of the Covered Bonds

The ratings assigned to the Covered Bonds by Fitch address the probability of default and the loss given by default under the Covered Bonds. The ratings assigned to the Covered Bonds by Moody's address the expected loss posed to potential investors.

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced. 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. A credit rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds.

Rating Agency Confirmation in respect of Covered Bonds

The terms of certain of the Transaction Documents provide that, in certain circumstances, the Issuer must, and the Bond Trustee or the Security Trustee may, obtain confirmation from the Rating Agencies that any particular action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee or the Security Trustee will not adversely affect or cause to be withdrawn the then current ratings of the Covered Bonds (a **Rating Agency Confirmation**).

By acquiring the Covered Bonds, investors will be deemed to have acknowledged and agreed that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a Rating Agency Confirmation, whether any action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not materially prejudicial to, some or all of the Covered Bondholders. In being entitled to have regard to the fact that the Rating Agencies have confirmed that the then current ratings of the Covered Bonds would not be adversely affected or withdrawn, each of the Issuer, the LLP, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.

Any such Rating Agency Confirmation may be given or not given at the sole discretion of each Rating Agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency Confirmation in the time available or at all, and the Rating Agency will not be responsible for the consequences thereof. Such confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bonds form part since the issuance closing date. A Rating Agency Confirmation represents only a restatement of the opinions given, and

is given on the basis that it will not be construed as advice for the benefit of any parties to the transaction.

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effects on the value of the Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Covered Bonds not in physical form

Unless the Bearer Global Covered Bonds or the Registered Global Covered Bonds are exchanged for Bearer Definitive Covered Bonds or Registered Definitive Covered Bonds, respectively, which exchange will only occur in the limited circumstances set out under "Form of the Covered Bonds – Bearer Covered Bonds" and "Form of the Covered Bonds – Registered Covered Bonds" below, the beneficial ownership of the Covered Bonds will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg and/or DTC. The fact that the Covered Bonds are not represented in physical form could, among other things:

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg or DTC instead of directly to Covered Bondholders;
- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and

- hinder the ability of Covered Bondholders to resell the Covered Bonds because some investors may be unwilling to buy Covered Bonds that are not in physical form.

RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF COVERED BONDS

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

Covered Bonds subject to Optional Redemption by the Issuer

If an Issuer Call is specified in the applicable Final Terms, the Issuer may elect to redeem all or some of the Covered Bonds at the Optional Redemption Amount (specified in the applicable Final Terms) plus Accrued Interest. An optional redemption feature of Covered Bonds (whether or not structured as an Issuer Call) is likely to limit the market value of such Covered Bonds. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed Rate Covered Bonds

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

Index Linked Interest Covered Bonds and Dual Currency Interest Covered Bonds

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

- the market price of such Covered Bonds may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency from that expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Interest Covered Bonds. Accordingly, an investor should consult its own financial, tax and legal advisers about the risk entailed by an investment in any Index Linked Interest Covered Bonds and the suitability of such Covered Bonds in light of their particular circumstances.

Partly-paid Covered Bonds

The Issuer may issue Covered Bonds where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable Interest Covered Bonds with a multiplier or other leverage factor

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

Fixed/Floating Rate Covered Bonds

The Issuer may issue Covered Bonds which bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Covered Bonds may be less favourable than the prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the then prevailing rates on its Covered Bonds.

Covered Bonds issued at a substantial discount or premium

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

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

Pursuant to the terms of the Trust Deed, the Bond Trustee may without the consent or sanction of any of the Covered Bondholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modification (save in relation to a Series Reserved Matter) to, or waive or authorise any breach or proposed breach in respect of, the Transaction Documents and the Terms and Conditions of the Covered Bonds 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 the Bond Trustee is of the opinion that such modification, waiver, determination and/or authorisation:

- will not be materially prejudicial to the interest of any of the Covered Bondholders of any Series; or
- are, in the opinion of the Bond Trustee, made to correct a manifest error or are of a formal, minor or technical nature or are made to comply with mandatory provisions of law,

provided further that, in respect of any proposed modification, waiver, authorisation or determination on or after the date (if any) on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, prior to the Bond Trustee agreeing to any such modification, waiver, authorisation or determination, the Issuer must send written confirmation to the Bond Trustee:

- (i) that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or result in the Issuer or the Programme ceasing to be registered under the RCB Regulations; and
- (ii) that either: (a) such modification, waiver, authorisation or determination would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or (b) if such modification, waiver, authorisation or determination would require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FSA and the FSA has given its consent to such proposed modification, waiver, authorisation or determination.

Save as otherwise expressly provided in the Deed of Charge, the Security Trustee shall (i) concur with the Issuer, the LLP or any other person in making any modification to any Transaction Document and/or (ii) waive or authorise (without prejudice to its rights in respect of any further or other breach) any breach or proposed breach of any of the provisions of any Transaction Document, in each case, only if so directed by (a) the Bond Trustee, so long as there are any Covered Bonds outstanding or (b) all of the other Secured Creditors, if there are no Covered Bonds outstanding.

Notwithstanding the above, the Issuer and the LLP may request the Bond Trustee and the Security Trustee to agree to modifications to the Transaction Documents and/or the Terms and Conditions of the Covered Bonds to enable the Covered Bonds issued under the Programme to qualify as regulated covered bonds under the RCB Regulations or any replacement or amended regulations. Subject as provided in Condition 14, each of the Bond Trustee and the Security Trustee, shall agree to such modifications without the consent or sanction of any of the Covered Bondholders, the Receiptholders or the Couponholders and without the consent or sanction of any other Secured Creditors, subject to receipt by the Bond Trustee and the Security Trustee of a certificate signed by two directors of the Issuer and a certificate of a Designated Member of the LLP, each certifying to the Bond Trustee and the Security Trustee: (i) that the requested amendments are to be made solely for the purpose of enabling the Covered Bonds to qualify as regulated covered bonds under the RCB Regulations or any replacement or amended regulations and (ii) that the requested amendments are not, in the opinion of the Issuer and the LLP, materially prejudicial to the interests of any Covered Bondholders or any Secured Creditor.

Certain decisions of the Covered Bondholders taken at Programme level

Any Extraordinary Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice following an Issuer Event of Default, to direct the Bond Trustee to serve an LLP Acceleration

Notice following an LLP Event of Default and any direction to the Bond Trustee or Security Trustee to take any enforcement action must be passed at a single meeting of all the Covered Bondholders 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 Monetary Union and that the euro may become the lawful currency of the United Kingdom. In that event: (a) all amounts payable in respect of any Covered Bonds denominated in pounds Sterling may become payable in euro; (b) applicable provisions of law may allow or require the Covered Bonds to be re-denominated into euro and additional measures to be taken in respect of such Covered Bonds; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds Sterling used to determine the rates of interest on such Covered Bonds or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Covered Bonds.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within their jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding). In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories.

If a payment were to be made or collected through a Member State or dependent or associated territory which has opted for a withholding system and as a consequence of such a system, an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer, the LLP, any Paying Agent or any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any other directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 (if there is any such Member State).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the directive, which included the Commission's advice on the need for changes to the directive. On 13 November 2008, the European Commission published a

more detailed proposal for amendments to the directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

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 Prospectus. No assurance can be given as to the impact of any possible change to English law (including any change in regulation which may occur without a change in primary legislation) or administrative practice or tax treatment in the United Kingdom after the date of this Prospectus, nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Covered Bonds or the ability of the LLP to make payments under the Covered Bond Guarantee.

UK regulated covered bond regime

The Issuer does not currently intend to apply for the Issuer, the Programme or any Covered Bonds issued under the Programme to be admitted to register of regulated covered bonds under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme is so registered or regulated.

The new legislative framework for UK covered bonds contemplated by the RCB Regulations is intended to meet the requirements set out in Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). The FSA will notify the European Commission of an issuer's inclusion in the register of issuers, a covered bond included in the register of regulated covered bonds and the status of the guarantee offered in respect of such covered bonds once the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made, any covered bonds issued under the Programme will not be UCITS compliant.

The FSA may take certain actions in respect of the Issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing the Issuer from the register of issuers, directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP and/or restricting the ability of the Seller to transfer further loans to the LLP. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). There is a risk that any such enforcement actions by the FSA may reduce the amounts available to pay Covered Bondholders.

With respect to the risks referred to above, see also "*Cashflows*" and "*Description of the UK Regulated Covered Bonds Regime*" below for further details.

Expenses of insolvency officeholders

Under the RCB Regulations (assuming such regulations apply to the LLP), following the realisation of any asset pool security (excluding circumstances where there is a concurrent winding up of the LLP) certain costs and expenses are payable out of the fixed and floating charge assets of the LLP in priority to the claims of other Secured Creditors (including the Covered Bondholders). Such costs and expenses are also payable out of the floating charge assets of the LLP (but it would appear not out of the fixed charge assets) in priority to the claims of the other Secured Creditors in a winding up of the LLP and/or in an administration of the LLP. Such costs and expenses include disbursements

made by the officeholder (including an administrative receiver, liquidator or administrator) in respect of costs in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English law which provides that the expenses of any administration (and, following the implementation of new section 176ZA of the Insolvency Act 1986 on 6 April 2008, the expenses of any liquidation) only rank ahead of unsecured debts and the claims of a holder of a floating charge (but not the claims of a fixed chargeholder).

It is intended that the LLP should be a bankruptcy-remote entity and a provision has been included in the Deed of Charge such that, in certain post-enforcement scenarios in circumstances where the regulations apply to the LLP, each Secured Creditor agrees in effect that (amongst other things) if it receives certain subordinated amounts in respect of any secured liabilities owed to it other than in accordance with the Post-Enforcement Priority of Payments (referred to under "*Cashflows*" below) then such amounts will be held on trust for the Security Trustee and paid over to the Security Trustee immediately upon receipt so that such amounts may be applied in accordance with that priority of payments. Notwithstanding such provision, assuming that the RCB Regulations will apply, there is a risk that in certain circumstances the relevant provisions of the RCB Regulations will result in a reduction in the amounts available to pay Covered Bondholders. In particular, it is not possible to bind third parties (such as HMRC) in relation to such subordination provisions.

See also the investment consideration described below under "*Liquidation expenses*".

Insolvency Act 2000

Significant changes to the United Kingdom insolvency regime have been enacted since 2000, including the Insolvency Act 2000, the relevant provisions of which came into force on 1 January 2003. 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 in place 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). Prior to 1 October 2005, there was some doubt as to whether the moratorium provisions of the Insolvency Act 2000 applied to limited liability partnerships such as the LLP. However, on 1 October 2005, the Limited Liability Partnership (Amendment) Regulations 2005 made it clear that the moratorium provisions apply to limited liability partnerships subject to certain modifications.

A "small" company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £6.5 million; (ii) its balance sheet total is not more than £3.26 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, at any given time, will not be determined to be a "small" company. The United Kingdom Secretary of State for Business, Enterprise and Regulatory Reform (formerly the 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 the Covered Bondholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment"

(also defined but generally a rated, listed or traded bond) and (b) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign currency) of at least £10 million. While 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 Business, Enterprise and Regulatory Reform 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 the 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.

English law security and insolvency considerations

The LLP will enter into the Deed of Charge pursuant to which it will grant the Security in respect of its obligations under the Guarantee (as to which, see "*Transaction Documents – Deed of Charge*"). In certain circumstances, including the occurrence of certain insolvency events in respect of the LLP, the ability to realise the Security may be delayed and/or the value of the Security impaired. While the transaction structure is designed to minimise the likelihood of the LLP becoming insolvent, there can be no assurance that the LLP will not become insolvent and/or the subject of insolvency proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including English insolvency laws).

In addition, it should be noted that, to the extent that the assets of the LLP are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the LLP in the Transaction Documents are intended to ensure it has no significant creditors other than the Secured Creditors under the Deed of Charge, it will be a matter of fact as to whether the LLP has any other such creditors at any time. There can be no assurance that the Covered Bondholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

Pursuant to the modifications made by the RCB Regulations to, amongst other things, the Insolvency Act 1986, upon registration of the Issuer in the register of issuers under the RCB Regulations, the provisions set out above in respect of section 176A of the Insolvency Act 1986 will not apply with respect to the LLP and its floating charge assets. However, the provisions set out above will apply to the LLP prior to such time that the RCB Regulations apply in respect of the LLP.

RISK FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH COVERED BONDS ISSUED UNDER THE PROGRAMME

Risk Factors relating to the Issuer

NPBS Group's results may be adversely affected by general economic conditions and other business conditions

NPBS Group's consolidated results are influenced by general economic and other business conditions. A slowdown in the global and local economies in which the NPBS Group operates may have adverse effects upon the business volumes as well as the mortgage assets that the NPBS Group holds. NPBS Group's results are more specifically affected by the financial health and price and volume level of transactions in the UK housing markets. An economic downturn could increase the Issuer's funding cost which will influence the Society's profitability.

Rating downgrade of the sector or Issuer may have an adverse effect on the marketability and liquidity of the Covered Bonds

If sentiment towards the financial institutions operating in the United Kingdom residential mortgage market (including the Issuer) continues to deteriorate, or if the ratings of the sector are adversely affected, this may have a materially adverse impact on the market value of covered bonds and mortgage-backed securities and result in a reduction in liquidity in the secondary market for such securities. In addition, such sentiment or reduction in ratings could result in an increase in the costs and a reduction in the availability of wholesale market funding across the financial services sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, possibly including the Issuer.

Cyclicality in the UK residential housing markets may affect the Issuer's total income

The UK residential mortgage market is closely correlated to the UK economic cycle. As well as fluctuations at a national level, the UK, residential mortgage market is subject to significant regional variations.

The UK is currently experiencing a slowdown in the housing market, with reduced transaction levels and some falls in prices. In addition, the growth of GDP is forecast to slow significantly. The recent and continuing downturn in the UK economy has reduced demand for housing and consequently reduced house price growth and sales. This has resulted in lower levels of lending, the Issuer's core activity, and, if accompanied by an increase in unemployment, an increase in the number of loans in arrears and repossessions. Moreover, if house prices continue to fall, then some lending may not be fully secured and the Issuer could incur losses on these loans. A worsening of the economic downturn could also increase the Issuer's cost of funding if the risk assessment of the Issuer's mortgage portfolio changes.

United Kingdom Housing Market

The recent downturn in the United Kingdom economy has had a negative effect on the housing market. The fall in property prices resulting from the deterioration in the housing market could result in losses being incurred by lenders where the net recovery proceeds are insufficient to redeem the outstanding loan. If deterioration occurs in the quality of the LLP's Portfolio, this could have an adverse effect on its ability to make payment under the Covered Bond Guarantee. There can be no assurance that the housing market will not continue to deteriorate.

The current United Kingdom economic environment may affect the rate at which the Seller originates new Loans and may also affect the level of attrition of the Seller's existing Borrowers, which could in turn adversely affect the ability of the LLP to make payments under the Covered Bond Guarantee.

Geographic concentration of the Loans

To the extent that specific geographic regions have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions, a concentration of the Loans in such a region may be expected to exacerbate all of the risks relating to the Loans described in this section. The LLP can predict neither when nor where such regional economic declines may occur nor to what extent or for how long such conditions may continue but if the timing and payment of the Loans is adversely affected as described above, the ability of the LLP to make payments under the Covered Bond Guarantee could be reduced or delayed.

Competition in the UK personal financial services markets may adversely affect the Issuer's operations

Developments in the Issuer's industry and increased competition could have a material adverse effect on its operations. The Issuer operates in an increasingly competitive UK personal financial services market. The Issuer competes mainly with other providers of personal finance services, including banks, building societies and insurance companies.

The Issuer believes that the UK mortgage market is a mature market and is becoming a commoditised market driven primarily by price. Within this market, some major lenders are using aggressive pricing to attract new business. Increased competition has resulted in downward pressure on the industry's spread between deposit and loan rates and this, in turn, may negatively affect the Issuer's income and the benefit it is able to return to its members.

Liquidity Risk

Liquidity risk is the risk that the Issuer is unable to meet its current and future financial obligations as they fall due. The financial obligations include investors' deposits, both on demand and those with contractual maturity dates, as well as repayments of other borrowings and loan capital. The Issuer's liquidity policy is to maintain surplus liquid resources to cover cash flow imbalances and fluctuations in funding in order to provide contingency and retain full public confidence in the solvency of the Issuer and to be in a position to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and through management of the growth of the business.

Operational Risk

The Issuer's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately and, as a consequence, there is an inherent exposure to operational risk. Operational risk is the exposure to loss or damage to reputation from inadequate or failed internal processes, people and systems or from external events. For example, employee error, fraud or the failure of external systems. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of the Issuer's suppliers or counterparties. Although the Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks noted above. Notwithstanding anything in this Risk Factor, this Risk Factor should not be taken as

implying that the Issuer or the NPBS Group will be unable to comply with its obligations as a building society with securities admitted to the Official List or as a supervised firm regulated by the FSA.

Management of Financial Risks

The Issuer's success as a financial institution depends on its ability to manage and control its financial risk, which includes liquidity, market and credit risk. The Issuer is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments and changes in market sentiment. The Issuer has market risk exposure as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. Credit risk is the risk that a customer or counterparty is unable to meet its obligations to the Issuer as they fall due. If the Issuer fails to manage and control these risks, the Issuer could become unable to meet its obligations, including those under the Covered Bonds, possibly resulting in a material adverse effect to the Issuer's business and reputation.

Market Risk

The most significant market risks the Issuer faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies.

The performance of financial markets may cause changes in the value of the Issuer's investment portfolios. The Issuer has implemented risk management methods to mitigate and control these and other market risks to which the Issuer is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

Market interest rates may rise, resulting in an increase to monthly payments of borrowers as and when, if applicable, the related mortgage interest rate adjusts upward. This increase in borrowers' required monthly payments (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may also be compounded by any further increases in the related mortgage interest rate at the end of the relevant fixed or introductory period. Together these factors may ultimately result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may not be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

Other risk factors could adversely affect the Issuer's business

Concerns about, or a default by, an institution in the Issuer's market environment could lead to liquidity problems or losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely interlinked as a result of credit, trading, clearing or other relationships between institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Issuer interacts on a daily basis and therefore could adversely affect the Issuer.

The Issuer conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in the markets in which it operates

Changes in governmental policy, legislation or regulatory interpretation applying to the financial services industry in the markets in which the Issuer operates may adversely affect its product range, distribution channels, capital requirements and consequently reported results and financing requirements. These changes include possible changes in governmental and regulatory policies, the regulation of selling practices and solvency and capital requirements.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Covered Bonds and the LLP will make any payments under the Covered Bond Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit other than the Specified Currency (the **Investor's Currency**). These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency-equivalent market value of the Covered Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Further deterioration in wholesale funding markets may have an adverse effect on the Issuer

During the second half of 2007 and during 2008, the wholesale funding markets (including the international debt capital markets) experienced, and continue to experience, significant disruptions. Such disruptions have resulted in an increase in the cost of the Issuer's wholesale market funding. However, during this period, the Issuer has continued to manage its funding requirements through a combination of raising new funds and rolling over existing funding as it matures.

In recognition of the current market conditions, the Issuer has put in place additional funding facilities such as this Programme, a proportion of which are backed by residential mortgage assets. The Issuer is targeting higher customer deposit balances to reduce the proportion of customer loans and advances funded from wholesale funding and focus lending on maintaining strong asset quality and maximising revenues.

A further deterioration in the wholesale funding markets may have an adverse effect on the Issuer. There can be no assurance as to when the wholesale funding market conditions will improve or that they will not deteriorate further.

Demutualisation and consequences of the Building Societies Act for Covered Bondholders

Subject to confirmation by the FSA, NPBS's members and its directors determine whether it remains a building society or if it demutualises (save in circumstances where the FSA makes a direction under section 42B of the Building Societies Act or HM Treasury makes an order under the Banking (Special Provisions) Act 2008, which results in demutualisation taking place).

The Building Societies Act includes provisions under which a building society may demutualise by transferring the whole of its business to a company. At present, the claims of depositors and other unsubordinated creditors of the Issuer would rank ahead of share accounts

(which term excludes any deferred shares) and the members' rights to any surplus in the event of a liquidation of the Issuer and the claims of subordinated creditors of the Issuer would rank behind share accounts but ahead of members' rights to any surplus in the event of a liquidation of the Issuer. If, however, the Issuer transfers its business to a specially formed company or an existing company (as defined in the Building Societies Act), all the liabilities of the Issuer which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of the Issuer's successor.

Under section 90B of the Building Societies Act (which was inserted by the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the **Funding and Mutual Societies Transfers Act**)), HM Treasury may, by order, make provision for the purpose of ensuring that, on the winding up, or dissolution by consent, of a building society, any assets available for satisfying the society's liabilities to creditors (other than liabilities in respect of subordinated deposits; liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to shareholders (other than liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*. The power to make an order under section 90B of the Building Societies Act is exercisable by statutory instrument but may not be made unless a draft of it has been laid before and approved by a resolution of each House of Parliament. No such order has been made as at the date of this Prospectus.

Following a transfer of business to a company by the Issuer the obligations under the Covered Bonds will become obligations of any transferee entity and rank (i) in priority to both the rights of the holders of the equity share capital in the company to any repayment of capital or surplus on a liquidation and any obligations of the company (whether or not created prior to such transfer) expressed to rank junior to such Covered Bonds, (ii) equally with other unsecured and unsubordinated creditors (including inter-bank lenders and retail depositors) and (iii) behind any statutorily preferential creditors.

It is expressed to be a condition of any transfer of business by the Issuer under the Transaction Documents that the Covered Bond Guarantee will remain in place or be modified to apply *mutatis mutandis* in full force and effect and will continue as an obligation of the LLP in respect of the Covered Bonds which, following any transfer, will be obligations of the transferee entity.

There is also a growing consolidation in the Building Society sector as a result of the current state of the market. There are no plans at the date of this Prospectus for the Issuer to enter into any type of merger. However, a condition of any merger by the Issuer under the Transaction Documents is that the Covered Bond Guarantee will remain in place or be modified to apply *mutatis mutandis* in full force and effect and will continue as an obligation of the LLP in respect of the Covered Bonds which, following any transfer, will be obligations of the transferee entity.

Regulation

The Issuer is regulated by the FSA which regulates the sale of residential mortgages and general insurance products. The regulatory regime requires the Issuer to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to be compliant with relevant regulations, there is a risk of an adverse impact on the business due to sanctions, fines or other action imposed by the regulatory authorities.

The FSA, and other bodies such as the Ombudsman, could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Issuer may incur costs in complying with these regulations or obligations relating to its business, including potential compensation and costs relating to sales advice given to retail customers.

One of the current issues in this area is the Office of Fair Trading (the **OFT**) investigation into overdraft fees. This specific issue does not apply to the Issuer at present, as it does not offer current accounts, but should the investigation ever expand to include the topic of fees in general, as opposed to the present focus on overdraft fees, this may then impact upon the Issuer.

Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 established the Financial Services Compensation Scheme, or FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them.

Following the Government's transfer on 29 September 2008 under the Banking (Special Provisions) Act 2008 of Bradford and Bingley's UK and Isle of Man retail deposit business to Abbey National plc a claim was triggered on the FSCS. As a result, the Issuer, in common with all regulated UK deposit takers, will be subject to significantly increased FSCS levies, based on their respective shares of the UK deposit market. These increases are required to enable the FSCS to repay the Bank of England's loan made to the FSCS to facilitate the transfer of retail deposits to Abbey National plc. The increased levies are also required to fund the accrued interest on the FSCS's loan from the Bank of England until such time as the loan is fully repaid. The FSCS levy may have a material impact on the Issuer.

A subsequent transfer of deposits held with Kaupthing Edge to ING Direct has been achieved by a further order under the Banking (Special Provisions) Act 2008 triggering an additional claim against the FSCS and, following the nationalisation of Landsbanki a further call on the FSCS in relation to the UK depositors in IceSavewas triggered and additional calls may occur in the future.

Risk factors 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. Subsequent to a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds, the Bond Trustee may, but is not obliged to, serve an Issuer Acceleration Notice unless and until requested or directed by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single Series or if so directed by an Extraordinary Resolution of all the Covered Bondholders in accordance with Condition 9(a) (Events of Default and Enforcement – Issuer Events of Default). Following service of a Notice to Pay on the LLP, under the terms of the Covered Bond Guarantee the LLP will be obliged to pay Guaranteed Amounts as and when the same are Due for Payment. In these circumstances, the LLP will not be obliged to pay any other amounts which become payable for any other reason.

Payments by the LLP will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. 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 interest on 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 7 (Taxation).

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, but is not obliged to unless requested or directed by holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single Series or if directed by an Extraordinary Resolution of the Covered Bondholders in accordance with Condition 9(b) and indemnified and/or secured to its satisfaction, 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 7 (Taxation)), although in such circumstances the LLP will not be obliged to gross up in respect of any withholding which may be required in respect of any payment. Following service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement and realisation 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 the Covered Bondholders will receive amounts from the LLP on an accelerated basis.

Excess Proceeds received by the Bond Trustee

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may receive 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 monies 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 but only to the extent that such Excess Proceeds are received by the Bond Trustee and are then held by it or under its control). However, the obligations of the LLP under the Covered Bond Guarantee are unconditional and irrevocable (following service on the LLP of a Notice to Pay or an LLP Acceleration Notice) and the receipt by the Bond Trustee of any Excess Proceeds will 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.

Limited resources available to the LLP

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice by the Bond Trustee on the Issuer, all amounts payable under the Covered Bonds will be accelerated 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; (iv) the realisable value of Substitution Assets held by it; and (v) the receipt by it of credit balances and interest on credit balances on the GIC Account and the interest element of Authorised Investments purchased from amounts credited to the GIC Account. Recourse against the LLP under the Covered Bond Guarantee is limited to the aforementioned assets and 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 Security created over the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

In addition, all obligations of the LLP to the Covered Bondholders in respect of the Secured Obligations owing to the Covered Bondholders are limited in recourse to the Charged Property and, upon the Security Trustee giving written notice to the Covered Bondholders that:

- (a) it has received notice from the Servicer that in its sole opinion there is no reasonable likelihood of there being any further realisations in respect of the Charged Property (whether arising from enforcement of the Security or otherwise) which would be available to pay amounts outstanding under the Transaction Documents; and
- (b) all amounts available to be applied to pay amounts owing under the Transaction Documents have been so applied in accordance with the Transaction Documents (including the Priority of Payments),

the Covered Bondholders shall have no further claim against the LLP in respect of any amounts owing to them which remain unpaid and such unpaid amounts shall be deemed to be discharged in full.

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.

If, following enforcement of the Security constituted by or pursuant to the Deed of Charge or the Security Trustee having determined that there is no reasonable likelihood of there being further realisation in respect of the Charged Property, the Secured Creditors have not received the full amount due to them from the LLP 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 has been structured to ensure that the Adjusted Aggregate Loan Amount is equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this – in particular, the sale of further Loans and Related Security by the Seller to the LLP may be required to avoid or remedy a breach of the Asset Coverage Test). The LLP and the Members of the LLP (other than the Liquidation 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*"). The Amortisation Test shall not apply if the Extended Due for Payment of all Series of Covered Bonds is equal to the Long Date Due for Payment Date. The Asset Coverage Test and the Yield Shortfall Test have in the aggregate been structured to ensure that the Asset Pool is sufficient to pay amounts due on the Covered Bonds and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. However no assurance can be given that the Asset Pool will yield sufficient amounts for such purpose.

The LLP or the Cash Manager acting on its behalf may, from time to time, send notification to the Security Trustee of the proposed percentage (used in the computation of the Adjusted Aggregate Loan Amount and the Asset Percentage) selected by it, being the difference between 100 per cent. and the amount of credit enhancement required to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology. However there is no obligation on the LLP to ensure that an Aaa rating is maintained by Moody's and the LLP is under no obligation to change the figure selected by it and notified to Moody's and the Security Trustee in line with such level of credit enhancement necessary to maintain an Aaa rating by Moody's. If the LLP does not send further notification to Moody's and the Security Trustee, the Asset Percentage may not be reduced and may be insufficient to ensure the maintenance of an Aaa rating by Moody's and the Covered Bonds may be downgraded, without resulting in a breach of the Asset Coverage Test. An Issuer Event of Default and/or an LLP Event of Default will not occur solely as a result of a downgrade of the Covered Bonds.

Reliance of the LLP on third parties

The LLP has entered into agreements with a number of third parties, who 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, 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 and the GIC Accounts will be held with the GIC Provider and Transaction Account will be held with the Account Bank. In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if 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 below.

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement, then the LLP with the consent of 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 will be required to be authorised under the FSMA. The ability of a substitute servicer to fully perform 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- it will use reasonable efforts to enter into a master servicing agreement with a third party.

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

Neither the Security Trustee nor the Bond Trustee is obliged in any circumstances to act as a servicer or to monitor the performance by 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 LIBOR for one-month Sterling deposits, 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 Swap and amounts due and payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay or LLP Acceleration Notice) or Due for Payment under the Covered Bond Guarantee in respect of the Covered Bonds (following service on the LLP of a Notice to Pay or LLP Acceleration Notice), the LLP will enter into a Covered Bond Swap Agreement in respect of each Series of Covered Bonds with one or more Covered Bond Swap Provider.

If the LLP fails to make timely payments of amounts due under any Swap Agreement (except where such failure is caused by the assets available to the LLP on a Payment Date being insufficient to make the required payment in full), then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated by the relevant Swap Provider. Further, a Swap Provider is only obliged to make payments to the LLP as long as and to the extent that the LLP complies with its payment obligations under the relevant Swap Agreement. If a Swap Agreement terminates or the Swap Provider is not obliged to make payments or if the Swap Provider 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 (where relevant) and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the Intercompany Loan Agreement or Covered Bond Guarantee.

If a Swap Agreement 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 find a replacement swap counterparty which has sufficiently high ratings as may be required by any of the Rating Agencies in order to avoid an adverse impact on the ratings of the Covered Bonds and which agrees to enter into a replacement swap agreement.

If the LLP is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank (A) in respect of the Interest Rate Swap ahead of amounts due under the Term Advance prior to the service of a Notice to Pay or an LLP Acceleration Notice, the commencement of winding-up proceedings against the LLP and/or realisation of the Security and (B) in respect of both the Covered Bond Swaps and the Interest Rate Swap *pari passu* with amounts due on the Covered Bonds following service of a Notice to Pay or an LLP Acceleration Notice, the commencement of winding-up proceedings against the LLP and/or realisation of the Security, in each case except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate. The obligation to pay a termination payment may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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

With respect to the Covered Bond Swaps, the LLP will pay a monthly amount, on each LLP Payment Date, to each Covered Bond Swap Provider based on LIBOR for one-month Sterling deposits. Each Covered Bond Swap Provider will not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to twelve months until amounts are due and payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay

or LLP Acceleration Notice on the LLP) or are Due for Payment under the Covered Bond Guarantee (after the service of a Notice to Pay or LLP Acceleration Notice on the LLP). If a Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap and such 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 LLP's payment obligations under the Covered Bond Guarantee. Hence, the difference in timing between the obligations of the LLP and those of the Covered Bond Swap Providers under each of the Covered Bond Swaps may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

Change of counterparties

The parties to the Transaction Documents who receive and hold monies pursuant to the terms of such documents (such as the Account Bank) are required to satisfy certain criteria in order that they can continue to receive and hold monies.

These criteria include requirements imposed by the FSA under the FSMA and requirements in relation to the short-term, unguaranteed and unsecured ratings ascribed to such party by Fitch and Moody's. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive monies on behalf of the LLP) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the Transaction Documents.

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Transaction Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Covered Bondholders may not be required in relation to such amendments and/or waivers.

Limited description of the Portfolio

The 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 New Loan Types and their Related Security or Loans originated by entities other than the Seller) to the LLP;
- New Sellers acceding to the Transaction and selling Loans and their Related Security (or New Loan Types and their Related Security) to the LLP; and
- the Seller repurchasing Loans and their Related Security in accordance with the Mortgage Sale Agreement.

There is no assurance that the characteristics of the New Loans assigned to the LLP on a Transfer Date will be the same as those of the Loans in the Portfolio as at that Transfer Date. However, each Loan will be required to meet the Eligibility Criteria and the Representations and Warranties set out in the Mortgage Sale Agreement – see "*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by 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 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 Sterling Equivalent 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.

Fixed charges may take effect under English law as floating charges

Pursuant to the terms of the Deed of Charge, the LLP has purported to grant fixed charges over, amongst other things, its interests in the 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 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 constitute fixed charges. 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 "prescribed part" (referred to below), the expenses of any administration and/or winding up 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.

Liquidation Expenses

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Leyland Daf* in 2004. Accordingly, it is now the case that, in general the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency Rules 1986.

It appears that the provisions referred to above apply in respect of limited liability partnerships in general and/or to owners under the RCB Regulations. On this basis and as a result of the changes described above, in a winding up of the LLP (whether or not the RCB Regulations apply), floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be reduced by at least a significant proportion of any liquidation expenses (including certain super-priority expenses, if the RCB Regulations apply to the LLP). There can be no assurance that the Covered Bondholders will not be adversely affected by such a reduction in floating charge realisations.

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 that the Portfolio is in compliance with the Asset Coverage Test. The consideration payable to

the Seller for the Sale of the Loans and Related Security to the LLP will be a combination of: (i) a cash payment paid by the LLP; and/or (ii) the Seller being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the True 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) Deferred Consideration.

Alternatively, NPBS (in its capacity as Member of the LLP) may make a Cash Capital Contribution to the LLP pursuant to the LLP Deed in order to ensure that the LLP is in compliance with the Asset Coverage Test. If a breach of the Asset Coverage Test occurs which is not cured on the next Calculation Date, an Asset Coverage Test Breach Notice will be served on the LLP, which will result in the consequences set out in "*Summary of Principal Documents – LLP Deed – Asset Coverage Test*". 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 NPBS if it does not make Cash Capital Contributions to the LLP. In addition, Covered Bondholders should be aware that following the Issuer being admitted to the register of issuers pursuant to the RCB Regulations, the FSA may take certain action in relation to the Seller, including prohibiting the Seller from transferring further Loans to the LLP. Any such action by the FSA may have an adverse effect on the ability of the Issuer and the LLP to meet its obligations under the Covered Bonds and the Covered Bond Guarantee, as applicable.

Amortisation Test: Pursuant to the LLP Deed, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the Amortisation Test Aggregate Loan Amount is in an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding under the Covered Bonds. The Amortisation Test is intended to ensure that the assets of the LLP do not fall below a certain threshold and to ensure that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee together with senior expenses that rank in priority to or *pari passu* with amounts due on the Covered Bonds. The Amortisation Test shall not apply if the Extended Due for Payment of all Series of Covered Bonds is equal to the Long Date Due for Payment Date notwithstanding that an Issuer Event of Default may have occurred.

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.

Prior to the occurrence of an Issuer Event of Default, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year on the Calculation Date immediately prior to each anniversary of the Programme Date and more frequently in certain circumstances. Following the occurrence of an Issuer Event of Default, the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortisation Test. See further "*Summary of the Principal Documents – Asset Monitor Agreement*".

Neither the Bond Trustee nor the Security Trustee shall be responsible for monitoring compliance with, or 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 (or may, if the Extended Due for Payment Date of any Series of Covered Bonds is equal to the Long Date Due for Payment Date) sell Selected Loans and their Related Security (selected on a random basis) in order to make payments to the LLP's creditors including 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 the LLP will, in the circumstances where it has the option to, make use of its right to sell Selected Loans or that a buyer will be found to buy Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee. 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: (a) the Final Maturity Date in respect of such Covered Bonds; or (b) (if the same is specified as applicable in the relevant Final Terms) the Extended Due for Payment 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 Due for Payment 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, provided that if the Extended Due for Payment Date of any Series of Covered Bonds is equal to the Long Date Due for Payment Date, the LLP will not be permitted to offer the Selected Loans for sale for a price that is less than the Adjusted Required Redemption Amount. If Selected Loans are not sold for an amount equal to or in excess of the Adjusted Required Redemption Amount, the LLP may have insufficient funds available to pay the Covered Bonds. If the Extended Due for Payment Date of any Series of Covered Bonds is equal to the Long Date Due for Payment Date and the LLP elects not to sell Selected Loans, then the LLP shall make such partial payment, to the extent that the LLP has sufficient monies available to make such payment in accordance with the Guarantee Priority of Payments and as described in Condition 6(a) (Redemption and Purchase – Final redemption) on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as further described in "*Risk Factors – Extendable obligations under the Covered Bond Guarantee*".

On the Final Maturity Date of a Series of Covered Bonds or, as applicable, on each Interest Payment Date up to and including the Extended Due for Payment Date, the LLP will apply all proceeds standing to the credit of the GIC Accounts to redeem the relevant Series of Covered Bonds. Such proceeds will include the sale proceeds of Selected Loans (including any sale proceeds resulting from the sale of Selected Loans sold in respect of another Series of Covered Bonds) and all principal repayments received on the Loans in the Portfolio generally. This may adversely affect later maturing Series of Covered Bonds if the Selected Loans sold to redeem an earlier maturing Series of Covered Bonds are sold for less than the Adjusted Required Redemption Amount and, accordingly, the LLP is required to apply other assets in the Portfolio (i.e. Principal Receipts) to redeem that earlier maturing Series of Covered Bonds.

Realisation of Charged Property following the occurrence of an LLP Event of Default and service of a LLP Acceleration Notice and/or following the commencement of winding-up proceedings against the LLP

If an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP and/or winding-up proceedings are commenced against 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 on the Issuer of an Issuer Acceleration Notice 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;
- the Loans of New Sellers being included in the Portfolio;
- changes to the Lending Criteria of the Seller;
- the LLP not having legal title to the Loans in the Portfolio;
- risks in relation to some types of Loans which may adversely affect the value of Portfolio or any part thereof;
- limited recourse to the Seller under the Mortgage Sale Agreement;
- possible regulatory changes by the Office of Fair Trading (the **OFT**), 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 monies standing to the credit of the LLP Accounts 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 service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay on the LLP (but in each case prior to the service of a LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to or may, as the case may be, 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 will not be permitted to give warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee acting on the instructions of the Bond Trustee, itself acting on the advice of a financial or other adviser (selected or approved by it) opining or confirming that the provisions of any such warranties and/or indemnities is appropriate in the circumstances and in accordance with market practice and neither the Security Trustee nor the Bond Trustee shall have any liability or be liable to any other person for acting upon such advice, opinion or confirmation). The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to release of the Security as set out in Clause 4 of the Deed of Charge are satisfied. 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.

Neither the Bond Trustee nor the Security Trustee shall have any responsibility for the adequacy or sufficiency of, or any deterioration in the value, of the Portfolio or the Loans and their Related Security comprised in the Portfolio, neither shall the Bond Trustee nor the Security Trustee be obliged to monitor the performance of the Loans and their Related Security or be responsible for monitoring whether or not the best price has been achieved for the sale of Loans (including Selected Loans) and their Related Security (and any other related rights under the same) by or on behalf of the LLP or otherwise pursuant to the Transaction Documents or whether or not any such sale has been effected on terms commercially available in the market or effected in a timely manner. Neither the Bond Trustee nor the Security Trustee shall be liable to any Transaction Party, including the Covered Bondholders, or any other person for any loss occasioned thereby.

Default by Borrowers in paying amounts due on their Loans

Borrowers may default on their obligations due under the Loans. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal. Examples of such factors include changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the

amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

The True 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.

The Loans of New Sellers may be included in the Portfolio

New Sellers which are members of the NPBS Group, including without limitation, Norwich and Peterborough (LBS) Limited, trading as Astra Mortgages, may in the future accede to the Programme and sell Loans and their related security to the LLP. However, this would only be permitted if the conditions precedent relating to New Sellers acceding to the Transaction (more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement – New Sellers*", below) are met. Provided that those conditions are met, the consent of the Covered Bondholders to the accession of any New Seller to the Programme will not be obtained.

Any loans originated by a New Seller will have been originated in accordance with the lending criteria of the New Seller, which may differ from the Lending Criteria of Loans originated by the Seller. If the lending criteria differ in a way that affects the creditworthiness of the loans in the Portfolio, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

Additionally, even in circumstances where a New Seller has not acceded to the Programme, NPBS may (in its capacity as Seller) sell and assign Loans originated by a third party member of the NPBS group to the LLP. This could have a similar effect to the accession of such party as a New Seller.

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. It is expected that the Seller's Lending Criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, 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 only that such Loans and Related Security were originated in accordance with the Seller's Lending Criteria applicable at the time of origination. The Seller retains the right to revise its Lending Criteria from time to time. If the Lending Criteria change in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans 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 has taken or will take effect (subject to the CCA Trust) by way of an equitable assignment. As a result, legal title to the Loans and their Related Security will remain with the Seller. The LLP, however, will have the right to demand that the Seller transfers to it legal title to the Loans and the Related Security in the limited circumstances described in "*Summary of the Principal Documents – Mortgage Sale Agreement – Transfer of title to the Loans to the LLP*" and until such right arises the LLP will not give notice of the sale of the Loans and their Related Security to any Borrower or apply to the 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 protected its interest in the Loans and their Related Security by registration of a notice at the Land Registry or otherwise perfected its legal title to the Loans or their Related Security, the following risks exist:

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

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

Once notice has been 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 (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Loan) will not be affected by that notice and will continue to exist. In relation to potential transaction set-off in respect of the Loans, see below.

It should be noted however, that the Asset Coverage Test seeks to take account of the potential set-off risk associated with Borrowers holding deposits with the Seller (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, 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 risk may adversely affect the value of the Portfolio or any part thereof

As described above, the sale by the Seller to the LLP of Loans has been or 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. Therefore, the rights of the LLP may be subject

to the direct rights of the Borrowers against the Seller, including rights of set-off which occur in relation to transactions or deposits made between the Borrowers and the Seller existing prior to notification to the Borrowers of the assignment of the Loans.

A Borrower may also attempt to set off an amount greater than the amount of his or her damages claim against his or her mortgage payments. 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 is obtained.

The exercise of set-off rights by Borrowers may adversely affect the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee. The Asset Coverage Test seeks to take account of these set-off risks.

Limited recourse to the Seller under the Mortgage Sale Agreement

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 notify the LLP and the Security Trustee as soon as reasonably practical after becoming aware of the fact and upon receipt of a request to do the same from the LLP, remedy the breach within 28 Business Days of receipt by it of the request.

If the Seller fails to remedy the breach of a Representation and Warranty within 28 Business Days, then the Seller will be required (but only prior to the occurrence of an Issuer Event of Default and after the service of a Loan Repurchase Notice) to repurchase on or before the next following LLP Payment Date (or such other date that may be agreed between the LLP and the Seller) the relevant Loan and its Related Security and any other Loans of the relevant Borrower that are included in the Portfolio, at their True Balance as of the date of repurchase.

There can be no assurance that the Seller, in the future, will have the financial resources to repurchase a Loan or Loans and its or 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 then the True Balance of those Loans will be excluded from the calculation of the Asset Coverage Test. There is no further recourse to the Seller or the Issuer in respect of a breach of a Representation or Warranty.

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

FSMA

In the UK, regulation of residential mortgage business by the FSA under the FSMA came into force on 31 October 2004 (N(M)).

Since N(M), the following activities: (i) entering into as lender; (ii) servicing (in this context, meaning notifying borrowers of changes in mortgage payments and/or collecting payments due under a mortgage loan); (iii) arranging in respect of; and (iv) advising in respect of regulated mortgage contracts as well as (v) agreeing to do any of those activities, have been (subject to exemptions) regulated activities under the FSMA.

A credit agreement is a **regulated mortgage contract** under the FSMA if it is originated on or after N(M) and at the time it is entered into: (i) the credit agreement is one under which the lender provides credit to an individual or trustee; (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the United Kingdom; and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to a trustee) by an individual who is a beneficiary of the trust, or by a related person.

The main effects are that, on or after N(M), unless an exclusion or exemption applies: (a) each entity carrying on a specified regulated mortgage activity by way of business has to hold authorisation and permission from the FSA to carry on that activity; and (b) generally and subject to exemptions and exclusions, each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation from the FSA. It should be noted that the definition of a "qualifying credit" is broader than that of "regulated mortgage contract" and may include mortgage loans that are regulated by the Consumer Credit Act 1974 (CCA) or treated as such or unregulated and under which the lender is a person (such as the Seller) who carries on the regulated activity of entering into a regulated mortgage contract. If requirements as to authorisation and permission of lenders and brokers or as to the issue and approval of financial promotions are not complied with, the regulated mortgage contract (or, in the case of failure to comply with the financial promotions requirements, the relevant mortgage loan that is "qualifying credit") or other secured credit in question will be unenforceable against the borrower except with the approval of the court. An unauthorised person who administers a regulated mortgage contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

The Seller is required to have permission to enter into and to administer and, where applicable, advise in respect of regulated mortgage contracts. Brokers will, in certain circumstances be required to have authorisation and permission from the FSA to arrange and, where applicable, to advise in respect of regulated mortgage contracts.

However, 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 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 the regulated activity of administering regulated mortgage contracts by having them 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 permission.

Credit agreements that were entered into before N(M) but are subsequently changed such that a new contract is entered into on or after N(M), are regulated under the FSMA where they fall within the definition of a "regulated mortgage contract". However, on and after N(M), no variation has been or will be made to a Loan and no Product Switch or Further Advance has been or will be made in relation to a Loan, where it would result in the LLP advising or arranging in respect of, administering or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the LLP would be required to be authorised under the FSMA to do so.

There is a risk that any credit agreement intended to be a regulated mortgage contract under the FSMA might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a regulated mortgage contract under the FSMA, because of technical rules on:

(a) determining whether the credit agreement or any part of it falls within the definition of "regulated mortgage contract"; and (b) changes to credit agreements.

The FSA's Mortgages and Home Finance: Conduct of Business Sourcebook (**MCOB**), which sets out the FSA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, among other things, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. FSA rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

A borrower who is a private person is entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken. Any such 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.

With the intention of avoiding dual regulation, it is intended that regulated mortgage contracts under the FSMA will not be regulated by the CCA, and the relevant regulations made in 2005 and 2008 under the FSMA are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after N(M) (and credit agreements made before N(M) but subsequently changed such that a new contract is entered into on or after N(M) and constitutes a separate regulated credit agreement). A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage securing a regulated mortgage contract to the extent that the credit agreement would, apart from this exemption, be regulated by the CCA or treated as such.

As some of the Loans to be included in the Portfolio were offered on or after N(M), the FSMA regime as set out above is intended to apply to such Loans. Also, although other Loans to be included in the Portfolio were offered prior to N(M), as subsequent Further Advances and Product Switches relating to such Loans were documented as variations to the existing agreements, it is possible that a court could hold that such variations create a regulated mortgage contract. The Seller has given or, as applicable, will give representations and warranties to the LLP and the Security Trustee in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these representations and warranties, and if the default cannot be remedied, the Seller will be required to repurchase or procure the repurchase of such Loan and its Related Security from the LLP.

Prior to N(M), in the UK, self-regulation of mortgage business existed under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The CML Code set out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998 lender-subscribers to the CML Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1 November, 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme. The CML Code ceased to have effect on 31 October 2004 when the FSA assumed responsibility for the regulation of regulated mortgage contracts.

Distance Marketing of Financial Services

The Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the lender and the borrower). A regulated

mortgage contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive the prescribed information at the prescribed time. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received or, if later, the borrower receives the last of the prescribed information.

If the borrower cancels a credit agreement under these regulations, then: (i) the borrower is liable to repay the principal and any other sums paid by the lender to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending notice of cancellation or, if later, the lender receiving notice of cancellation; (ii) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and (iii) any security is treated as never having had effect for the cancelled agreement.

Financial Ombudsman Service

Under the FSMA, the Financial Ombudsman Service (the **Ombudsman**) is required to make decisions on, *inter alia*, complaints relating to activities and transactions under its jurisdiction, including the Loans, 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. By transitional provisions, the Ombudsman is also required to deal with certain complaints relating to breach of the CML Code. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by an ombudsman.

The Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and 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.

Consumer Credit Act 1974

In the United Kingdom, the OFT is responsible for the issue of licences under, and the superintendence of the working and the enforcement of, 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 consumer credit market in the United Kingdom (except to the extent of the regulation of the market by the FSA under the FSMA, as described above). The licensing regime under the CCA is different from, and where applicable, additional to, the regime for authorisation under the FSMA.

A credit agreement is regulated by the CCA where: (a) the borrower is or includes an "individual" as defined in the CCA, (b) if the credit agreement was made before the financial limit was removed (as described below), the amount of "credit" as defined in the CCA did not exceed the financial limit of £25,000 for credit agreements made on or after 1 May 1998, or lower amounts for credit agreements made before that date, and (c) the credit agreement is not an exempt agreement under the CCA (for example, it is intended that a regulated mortgage contract under the FSMA is an exempt agreement under the CCA).

Any credit agreement that is wholly or partly regulated by the CCA or treated as such has to comply with requirements under the CCA as to licensing of lenders and brokers, documentation and

procedures of credit agreements, and (in so far as applicable) pre-contract disclosure. If it does not comply with those requirements, then to the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower: (a) without an order of the OFT, if the lender or any broker does not hold the required licence at the relevant time; (b) totally, if the credit agreement was made before 6 April 2007 and if the form to be signed by the borrower has not been signed by the borrower personally or omits or mis-states a "prescribed term"; or (c) without a court order in other cases and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability by the lender.

There is a risk that any credit agreement intended to be a regulated mortgage contract under the FSMA, or unregulated, might instead be wholly or partly regulated by the CCA or treated as such because of technical rules on: (a) determining whether any credit under the CCA arises, or whether any applicable financial limit of the CCA is exceeded; (b) determining whether the credit agreement is an exempt agreement under the CCA; and (c) changes to credit agreements.

A court order under Section 126 of the CCA is necessary to enforce a land mortgage securing a credit agreement to the extent that the credit agreement is regulated by the CCA or treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend the credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under section 75 of the CCA in certain circumstances: (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier, and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the loan or under any other loan that the borrower has taken. Any such 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 December 2003, the UK Department for Business, Enterprise and Regulatory Reform (the **DBERR**) (formerly known as the Department of Trade and Industry) published a White Paper proposing amendments to the CCA and to secondary legislation made under it. The Consumer Credit Act 2006 (the **CCA 2006**) was enacted on 30 March 2006. As and when implemented, the CCA 2006 updates and augments the CCA.

The "extortionate credit" regime has been replaced by an "unfair relationship" test. The test explicitly imposes liability to repay the borrower on both the originator and any assignee, such as the LLP. In applying the unfair relationship test, the courts will be able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair", as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in UK legislation, due to the Unfair Contract Terms Act 1977 and the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA for guidance. The FSA principles for businesses may also be relevant, and apply to the way contract terms are used in practice and not just the way they are drafted. Once the borrower alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary.

An alternative dispute resolution scheme for consumer credit matters was established on 6 April 2007. The scheme is mandatory for all businesses licensed under the CCA. The OFT is given far broader powers under the CCA from 6 April 2008. For example, it can apply civil penalties, has far

greater powers of investigation and can issue indefinite standard licences. For appeals against such decisions by the OFT, the CCA introduced an independent Consumer Credit Appeals Tribunal.

The financial limit for CCA regulation has, been removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements, and except for buy-to-let loans made before 31 October 2008. Buy-to-let loans made on or after 31 October 2008 are, irrespective of amount, exempt agreements under the CCA. Regulations define buy-to-let loans for these purposes as being credit agreements secured on land where less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. A court order under Section 126 of the CCA will, however, be necessary to enforce a land mortgage securing a buy-to-let loan to the extent that the loan would, apart from the exemption provisions, be regulated by the CCA or treated as such.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008: (a) the credit agreement shall also be unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower will not be liable to pay interest or, in certain cases, default fees in respect of any period when the lender fails to comply with further requirements as to post-contract disclosure, and (c) interest upon default fees will be restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest.

Charges payable on any early repayment in full are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies to credit agreements made on or after 31 May 2005, and applies retrospectively to all existing credit agreements from 31 May 2007 or 31 May 2010, depending on their term.

These changes to the CCA may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

The Seller has interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or the Ombudsman, then a Loan, to the extent that it is regulated by the CCA or treated as such, would be unenforceable as described above. If such interpretation were challenged by a significant number of Borrowers, then this could lead to significant disruption and shortfall in the income of the LLP. Court decisions have been made on technical rules under the CCA against certain mortgage lenders, but such decisions are very few and are generally county court decisions which are not binding on other courts.

The Seller has given or, as applicable, will give warranties to the LLP and the Security Trustee in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default cannot be remedied, then the Seller will be required to repurchase or procure the repurchase of such Loan and its Related Security from the LLP.

European Directive on Consumer Credit

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit (the **Consumer Credit Directive**), which provides that, subject to exemptions, loans from €200 up to €75,000 between credit providers and consumers will be regulated. This directive will repeal and replace the first consumer credit directive on, and requires Member States to implement the directive by measures coming into force by, 12 May 2010.

Loans secured by a land mortgage are, however, exempted from the Consumer Credit Directive and from the first consumer credit directive. The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010 including, among other things, an assessment of the regulation of early repayment charges, pre-contract disclosure and interest rate restrictions. The European Commission has stated that, in its view, it is too early to decide on whether a mortgage directive would be appropriate.

Until the final text of any initiatives resulting from the White Paper process are decided and the details of the United Kingdom implementation of the Consumer Credit Directive are published, it is not certain what effect the adoption and implementation of the Consumer Credit Directive or any initiatives resulting from the White Paper process would have on the Loans, the Seller, the Issuer, the LLP and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Covered Bonds when due and/or on the ability of the LLP to make payments in full on the Covered Bond Guarantee when due.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **1999 Regulations**), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the **UTCCR**), apply to agreements made on or after 1 July 1995 and affect all or almost all the Loans. These provide that:

- a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the contract itself will continue to bind the parties if it is capable of continuing in existence without the unfair term); and
- the OFT and any "qualifying body" within the 1999 Regulations (such as the FSA) may seek to enjoin a business from 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 (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to be core terms, such as the lender's power to vary the interest rate, and certain terms imposing early repayment charges and mortgage exit administration fees.

For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at 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 or any other loan that the borrower has taken. 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.

The division of responsibilities between the OFT and the FSA for enforcing the UTCCR is set out in concordats made between them in October 2001 and in July 2006. Generally, the FSA is responsible for enforcement of the UTCCR in regulated mortgage contracts under the FSMA and other mortgage loans originated by lenders authorised by the FSA, and the OFT is responsible for enforcement of the UTCCR in other mortgage contracts.

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: (a) notifies the affected borrower in writing at least 30 days before the rate change, and (b) 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 guidance note has been withdrawn from the OFT website, but may remain in effect as the OFT's view and a factor that the FSA may take into account.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers, a firm may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit card default charges, the OFT on 5 April 2006 publicly announced that the principles the OFT considers should be applied in assessing the fairness of credit card default charges shall apply (or are likely to apply) also to analogous default charges in other agreements, including those for mortgages.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. In August 2007, the FSA's Unfair Contract Terms Regulatory Guide came into force. This guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

The broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made or may be made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of such Loans.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission published a Joint Consultation Paper LCCP No. 166/SLCDP 119 on proposals to rationalise the Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair terms, was published in February 2005. 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: (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer, and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable.

No assurance can be given that changes in the 1999 Regulations, if enacted will not have an adverse effect on the Loans, the Seller, the LLP, the Issuer and/or the Servicer and their respective businesses and operations.

Unfair Commercial Practices Directive 2005

In May 2005, the European Parliament and the Council adopted a directive on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, this directive applies full harmonisation, which means that Member States may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this directive

permits Member States to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "unfair" within the directive. This directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The Unfair Practices Directive requires Member States to implement the directive by measures coming into force by 12 December 2007. The United Kingdom has implemented the directive by the Consumer Protection from Unfair Trading Regulations 2008, which came into force on 26 May 2008. In addition, the FSA has taken the Directive into account in reviewing its relevant rules, such as MCOB, and the OFT addresses commercial practices in administering licences under the CCA. The Unfair Practices Directive provides a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

No assurance can be given that the United Kingdom implementation of the Unfair Practices Directive, including full harmonisation in the fields to which it applies, will not have a material adverse effect on the Loans and accordingly on the ability of the Issuer to make payments to the Covered Bondholders.

UK Government's Mortgage Loan Guarantee

On 3 December 2008, the UK Government revealed its intention to guarantee interest payments worth up to £1 billion owed by homeowners. The scheme will allow certain mortgage customers to negotiate deferrals of their loan interest payments. Additional details of the mortgage loan guarantee scheme have not yet been announced. The Seller will give consideration to participating in the scheme, once full details have been finalised and no assurance can be given that the scheme will not have a material adverse effect on the Loans and accordingly the Issuer's ability to make payments to the Covered Bondholders.

General

No assurance can be given that additional regulations or guidance from the DBERR, the FSA, the Ombudsman, the OFT 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 or compliance costs may have a material adverse effect on the Loans, the Seller, the LLP, the Issuer 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.

Implementation of Basel II risk-weighted asset framework may result in changes to the risk-weighting of the Covered Bonds

A framework has been developed by the Basel Committee on Banking Supervision which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the framework was published in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" (**Basel II** and the **Basel II Framework**). The Basel II Framework is being implemented in stages (the Basel II standard approach and foundation IRB approach were implemented from 1 January 2007, and the more advanced Basel II IRB approach and advanced measurement approach for operational risks were required to be implemented from 1 January 2008). However, the Basel II Framework is not self-

implementing and, accordingly, implementation in participating countries is in some cases still in development or has not yet been put into effect.

In the UK, Basel II, through the EU Capital Requirements Directive, has been implemented through the Prudential Sourcebook for Banks, Building Societies and Investment Firms (**BIPRU**) and the Capital Requirements Regulations 2006, although the most advanced approaches have only become available from 1 January 2008.

During the course of its implementation the Basel II Framework could affect risk-weighting of the Covered Bonds for investors who are subject to capital adequacy requirements that follow or are based on the Basel II Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the implementation of the Basel II Framework and any relevant implementing measures. No predictions can be made as to the precise effects of potential changes on any investor or otherwise as a result of the implementation of the Basel II Framework.

Covered Bonds where denominations involve integral multiples: definitive Covered Bonds

In relation to any issue of Covered Bonds that have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Covered Bondholder who, as a result of trading such amounts, holds an amount which (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination. If definitive Covered Bonds are issued, Covered Bondholders should be aware that definitive Covered Bonds that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Limited Liability Partnerships

The LLP is a limited liability partnership. Limited liability partnerships, created by statute pursuant to the LLPA 2000, are bodies corporate for general English law purposes 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 the Covered Bondholders.

Pensions Act 2004

Under the Pensions Act 2004, a person that is 'connected with' or an 'associate' of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction. NPBS is an employer under an occupational scheme and also a member of the LLP. On this basis, the LLP is likely to be treated as 'connected to' NPBS.

A contribution notice could be served on the LLP if it was party to an act, or a deliberate failure to act, the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

A financial support direction could be served on the LLP where the employer is either a service company or insufficiently resourced. An employer is insufficiently resourced if the value of its resources is less than 50 per cent. of the pension scheme's deficit calculated on an annuity buy-out basis and there is a connected or associated person whose resources at least cover that difference. A financial support direction can only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

If a contribution notice or financial support direction were to be served on the LLP this could adversely affect investors in the Covered Bonds.

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without receipts, interest coupons and/or talons attached, or registered form, without receipts, interest coupons and/or talons attached. Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Covered Bonds may be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States or to, or for the benefit of, U.S. persons as described in reliance on Rule 144A or Regulation D under the Securities Act.

Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond without receipts and interest coupons attached (a **Temporary Global Covered Bond**) or, if so specified in the applicable Final Terms (the **applicable Final Terms**), a permanent global covered bond without receipts and interest coupons attached (a **Permanent Global Covered Bond** and, together with the Temporary Global Covered Bonds, the **Bearer Global Covered Bonds** and each a **Bearer Global Covered Bond**) which will:

- (a) if the Bearer Global Covered Bonds (as defined above) are intended to be issued in new global covered bond (**NGCB**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and
- (b) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream Luxembourg.

Whilst any Bearer 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 Bearer Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification to the effect that the beneficial owners of interests in such Bearer Covered Bond are not U.S. persons for U.S. federal income tax purposes 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 Principal Paying 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 Bearer Definitive Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of non-US beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer 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 if the Permanent Global Covered Bond is not intended to be issued in NGCB form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer 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 Principal Paying Agent as described therein; or (ii) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that: (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to the Covered Bondholders of each Series of Bearer Global Covered Bonds in accordance with Condition 13 (Notices) 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 Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Principal Paying 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 Principal Paying Agent.

Bearer Global Covered Bonds and Bearer Definitive Covered Bonds will be issued pursuant to the Agency Agreement.

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

Covered Bonds which are represented by a Bearer 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.

Registered Covered Bonds

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global covered bond in registered form (a **Regulation S Global Covered Bond**). Prior to expiry of the Distribution Compliance Period (as defined in Regulation S) applicable to each Tranche of Covered Bonds, beneficial interests in a Regulation S Global Covered Bond may not be offered or

sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 (Transfers of Registered Covered Bonds) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer.

The Registered Covered Bonds of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions exempt from registration under the Securities Act: (i) to **qualified institutional buyers** within the meaning of Rule 144A under the Securities Act (**QIBs**); or (ii) to **accredited investors** (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are Institutional Accredited Investors who agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof in accordance with the Securities Act.

The Registered Covered Bonds of each Tranche sold to QIBs will be represented by a global covered bond in registered form (a **Rule 144A Global Covered Bond** and, together with a Regulation S Global Covered Bond, the **Registered Global Covered Bonds**).

Registered Global Covered Bonds will either: (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC; or (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. In the case of a Regulation S Global Covered Bond registered in the name of a nominee of DTC, prior to the end of the distribution compliance period (as defined in Regulation S) applicable to the Covered Bonds represented by such Regulation S Global Covered Bond, interests in such Regulation S Global Covered Bond may only be held through the accounts of Euroclear and Clearstream, Luxembourg.

Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

The Registered Covered Bonds of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (**Definitive IAI Registered Covered Bonds**). Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Covered Bonds will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Covered Bonds will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under *Subscription and Sale and Transfer and Selling Restrictions*. Institutional Accredited Investors that hold Definitive IAI Registered Covered Bonds may elect to hold such Covered Bonds through DTC, but transferees acquiring the Covered Bonds in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under *Subscription and Sale and Transfer and Selling Restrictions*. The Rule 144A Global Covered Bonds and the Definitive IAI Registered Covered Bonds will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5(d) (Payments in respect of Registered Covered Bonds)) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, the LLP, the Bond Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5(d) (Payments in respect of Registered Covered Bonds)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that: (i) in the case of Covered Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act; (ii) in the case of Covered Bonds registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, 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 (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form. The Issuer will promptly give notice to the Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 (Notices) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

Transfer of Interests

Interests in a Registered Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bond or in the form of a Definitive IAI Registered Covered Bond and Definitive IAI Registered Covered Bonds may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Covered Bonds in the form of an interest in a Registered Global Covered Bond. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see *Subscription and Sale and Transfer and Selling Restrictions*.

General

Pursuant to the Agency Agreement (as defined under Conditions of the Covered Bonds), the Principal Paying 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 and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Covered Bonds of such Tranche.

Any reference herein to DTC, 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 Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

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

FORM OF FINAL TERMS

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

[Date]

Norwich and Peterborough Building Society

Issue of [Regulated] [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably and unconditionally guaranteed as to payment of principal and interest by Norwich and Peterborough Covered Bonds LLP under the €7 Global Covered Bond Programme

[The Programme has been registered and notice of these Covered Bonds [has been/will be] made, under the Regulated Covered Bonds Regulations 2008 (SI 2008/346).] / [Application has been made for the Programme to be registered, and notice of these Covered Bonds will be made under, the Regulated Covered Bonds Regulations 2008 (SI 2008/346).]

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the **Conditions**) set forth in the Prospectus dated [●] 2009 [and the supplemental Prospectus dated [date]] which [together] constitute[s] listing particulars for the purposes of the Financial Services and Market Act 2000 and the Listing Rules Instrument 2005 by the UK Listing Authority and of Chapter 4 of the FSA's Listing Rules. This document constitutes the Final Terms of the Covered Bonds described herein and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus. Copies of the Prospectus [and the supplemental Prospectus] are available free of charge to the public at the principal office of the Issuer and from the specified office of each of the Paying Agents.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the **Conditions**) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]]. This document constitutes the Final Terms of the Covered Bonds described herein and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [date]], save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the Supplemental Prospectus dated [●]] and are attached hereto. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus dated [original date] and [current date] [and the supplemental Prospectus dated [date]]. Copies of such Prospectus and the supplemental Prospectus are available free of charge to the public at the principal office of the Issuer and from the specified office of each of the Paying Agents.]

[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 guidance for completing the Final Terms.]

1. (i) Issuer: Norwich and Peterborough Building Society
- (ii) Guarantor: Norwich and Peterborough Covered Bonds LLP
2. (i) Series Number: [●]
(If fungible with an existing Series details of that Series, including the date on which the Covered Bonds become fungible)
- (ii) Tranche Number: [●]
(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount of the Covered Bonds admitted to trading:
 - (i) [Series: [●]
 - (ii) [Tranche: [●]]
5. (i) [Issue Price: [●] per cent, of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
- (ii) [Net proceeds
(Required only for listed issues)]
6. (i) Specified Denominations: [●] *(N.B. Where multiple denominations above €50,000 or equivalent are being used the following sample wording should be followed: €50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Covered Bonds in definitive form will be issued with a denomination above [€99,000].)*

(N.B. If an issue of Covered Bonds is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €50,000 minimum denomination is not required.)

2 [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) and a selling restriction to this effect should be included in the Final Terms 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 a selling restriction to this effect should be included in the Final Terms.]

(N.B. If an issue of Covered Bonds is of Definitive IA1 Registered Covered Bonds US\$50,000 and integral multiples of US\$1,000 in excess thereof up to and including [US\$99,000]. No Covered Bonds in definitive form will be issued with a denomination above [US\$99,000].)

(ii) Calculation Amount: [●]

(If only one Specified Denomination, insert the Specified Denomination.

If more than one Specified Denomination, insert the highest common factor. Covered Bond: There must be a common factor in the case of two or more Specified Denominations.)

7. (i) Issue Date: [●]

(ii) Interest Commencement Date: [specify/Issue Date/Not Applicable]

(N.B. An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)

8. (i) Final Maturity Date: [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year, or such earlier Interest Payment Date on which the Issuer serves a Redemption Notice on the Bond Trustee]] [for the purposes of this Final Terms, Redemption Notice means such notice served on the Bond Trustee on a day falling not less than two London Business Days prior to the relevant Interest Payment Date on which the Issuer wishes to redeem the Series [●] Covered Bonds.]

(ii) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [Long Date Due for Payment Date]

[Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month; in each case falling [●] after the Final Maturity Date]] [or, if a Redemption Notice has been served on the Bond Trustee, the Interest Payment Date falling [●] calendar months after the Interest Payment Date specified in the Redemption Notice.]

9. Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate]

- [Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
11. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Covered Bonds into another Interest Basis or Redemption/Payment Basis]*
12. Put/Call Options: [Investor Put] [Issuer Call]/[Not Applicable]
[Further particulars specified below]
13. (i) Status of the Covered Bonds: Senior
(ii) Status of the Guarantee: Senior
(iii) [Date [Board] approval for issuance of Covered Bonds and Guarantee obtained: [] [and [], respectively]]
(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Covered Bonds or related Guarantee)]
14. Listing: [Professional Securities Market of the London Stock Exchange/specify other/None]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE³

16. Fixed Rate Covered Bond Provisions [Applicable/Not Applicable]
(if not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Fixed Rate(s) of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(if payable other than annually, consider amending Condition 4 (Interest))
- (ii) Interest Payment Date(s): [●] in each year up to and including the [Final Maturity Date] [Extended Due for Payment Date, if applicable]/[specify other] (provided however that after the Extension Determination Date, the Interest Payment Date shall be monthly)
(NB: This will need to be amended in the case of

³ This section relates to interest payable under the Covered Bonds and corresponding amounts of Scheduled Interest payable under the Covered Bond Guarantee.

- long or short coupons)*
- (iii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
- (iv) Business Day(s): [●]
Additional Business Centre(s): [New York], [●]
- (v) Fixed Coupon Amount(s): [●] per [●] Calculation Amount
(Applicable to Covered Bonds in definitive form)
- (vi) Initial Broken Amount(s): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
(Applicable to Covered Bonds in definitive form)
- (vii) Broken Amount: [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)*]
- (viii) Day Count Fraction: [30/360 or Actual/Actual ((ICMA)/ISDA) or *specify other*]
- (ix) 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 (ICMA)]*
- (x) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [Not Applicable/*Give details*]
17. Floating Rate Covered Bond Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Periods: [●]
- (ii) Specified Period(s)/Specified Interest Payment Date(s): [●] (provided however that after the Extension Determination Date, the Specified Interest Payment Date shall be monthly). The first Interest Payment Date shall be [●].
NB: Specify the Specified Period(s)/Specified Interest Payment Date(s) up to and including the Extended Due for Payment Date, if applicable
- (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business

- Day Convention/Preceding Business Day
Convention/
[specify other]
- (iv) Additional Business Centre(s): [New York], [●]
- (v) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (vi) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [●]
- (vii) Screen Rate Determination:
- Reference Rate: [●]
(Either LIBOR, EURIBOR or other, although additional information is required if other – including amendment to fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): [●]
(Second day on which commercial banks are open for general business (including dealings in foreign currency deposits) in London 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 TARGET2 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 Due for Payment Date, if applicable
 - Relevant Screen Page: [●]
(In the case of EURIBOR, if not Reuters EURIBORO1 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (viii) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (ix) Margin(s): [+/-] [●] per cent. per annum.

- (x) Minimum Rate of Interest: [●] per cent. per annum
- (xi) Maximum Rate of Interest: [●] per cent. per annum
- (xii) Day Count Fraction: [Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
30E/360 (ISDA)
[Other]
(See Condition 4 (Interest) for alternatives)
[adjusted/not adjusted]
- (xiii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Conditions: [●]
18. Zero Coupon Covered Bond Provisions⁴ [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) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (v) Business Day(s): [●]
Additional Business Centre(s): [New York], [●]
- (vi) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Condition 6(f) (Redemption and Purchase – Early Redemption Amounts) applies/specify other] (Consider applicable day count fraction if not U.S. dollar denominated)
19. Index Linked Interest Covered Bond⁵/other variable-linked interest Covered Bond Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

4 Zero Coupon Covered Bonds not to be issued with an Extended Due for Payment Date unless otherwise agreed with the Dealers and the Bond Trustee.

5 No Index Linked Covered Bonds will be issued except following an amendment of the Programme by way of supplementary prospectus.

- (i) Index/Formula/Other variable: [give or annex details]
 - (ii) Calculation Agent: [give name and address]
 - (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): [●]
 - (iv) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [●]
 - (v) Determination Date: [●]
 - (vi) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●] *(Include a description of market disruption or settlement disruption events and adjustment provisions)*
 - (vii) Specified Period(s): [●]
 - (viii) Specified Interest Payment Dates: [●] (provided however that after the Extension Determination Date, the Specified Interest Payment Date shall be monthly)
 - (ix) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
 - (x) Additional Business Centre(s): [New York], [●]
 - (xi) Minimum Rate of Interest: [●] per cent. per annum
 - (xii) Maximum Rate of Interest: [●] per cent. per annum
 - (xiii) Day Count Fraction: [●]
20. Dual Currency 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) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [●]

- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *(Include a description of market disruption or settlement disruption events and adjustment provisions)*
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]
- (v) Business Day(s): [●]
- (vi) Additional Business Centre(s): [New York], [●]

PROVISIONS RELATING TO REDEMPTION BY THE ISSUER

21. Issuer Call: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
NB: Optional Redemption Dates must be Interest Payment Dates unless otherwise agreed with the Dealers and the Bond Trustee
 - (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
 - (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): [●]
(N.B. 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 Bond Trustee)
22. Investor Put Option: [Applicable/Not Applicable](If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]

- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): per Calculation Amount
- (iii) Notice period:
23. Final Redemption Amount: [Nominal Amount/ per Calculation Amount/specify other/see Appendix]
- In cases where the Final Redemption Amount is Index-Linked or other variable-linked: [If the Final Redemption Amount is linked to an underlying reference or security, the Covered Bonds will constitute derivative securities and the requirements of Annex XII to the Prospectus Directive Regulation No.809/2004 will apply by virtue of LR 4.2.4 and the Issuer will prepare and publish a supplement to the Listing Particulars.]
- (i) Index/Formula/Variable:
- (ii) Party responsible for calculating the Final Redemption Amount (if not the [Agent]):
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/Formula and/or other variable is impossible or impracticable or otherwise disrupted:
- (iv) Determination Date(s):
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:
- (vi) Minimum Final Redemption Amount:
- (vii) Maximum Final Redemption Amount:
24. Early Redemption Amount payable on redemption for taxation reasons, on acceleration following an Issuer Event of per Calculation Amount/specify other/see Appendix]

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 6(f) (Redemption and Purchase – Early Redemption Amounts))

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

25. New Global Covered Bond: [Yes][No]
26. Form of Covered Bonds: [Bearer Covered Bonds:
[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on not less than 60 days' notice]
[Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after the Exchange Date]
[Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on not less than 60 days' notice]]
[Registered Covered Bonds:
Regulation S Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Covered Bond (*specify nominal amounts*)]
[(N.B. The exchange upon notice should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 7 includes language substantially to the following effect: "£50,000 and integral multiples of £1,000 in excess thereof up to and including £99,000."). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Covered Bonds which is to be represented on issue by a Temporary Global Covered Bond exchangeable for Definitive Covered Bonds.]
27. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this item relates to the date and place of payment and not Interest Period end dates to which items 17 (iii) and 19(vi) relate)

28. Talons for future Coupons or Receipts to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
29. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: [Not Applicable/*give details. N.B. a new form of Temporary Global Covered Bond and/or Permanent Global Covered Bond may be required for Partly Paid issues*]
30. Details relating to Instalment Covered Bonds:
- (i) Instalment Amount(s): [Not Applicable/*give details*]
- (ii) Instalment Date(s): [Not Applicable/*give details*]
31. Redenomination: [Not applicable/The provisions in Condition 5(h) (Payments – *Redenomination*) apply]
32. Other terms or special conditions: [Not Applicable/*give details (When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus.)*]

DISTRIBUTION

33. (i) If syndicated, names of Managers: [Not Applicable/*give*]
- (ii) Date of Subscription Agreement: [●]
- (iii) Stabilising Manager (if any): [Not Applicable/*give name [and address]*]
34. If non-syndicated, name of relevant Dealer(s): [Not Applicable/*give*]
35. U.S. selling restrictions: [Reg S Compliance Category, TEFRA D/TEFRA C/TEFRA rules not applicable]

36. Additional selling restrictions: (insert [Not Applicable/*give details*]
here any other relevant codes such as
CUSIP and CINS codes)

LISTING APPLICATION

These Final Terms comprise the final terms required to be admitted to the Official List of the FSA and admitted to trading to the Professional Securities Market of the London Stock Exchange plc the issue of Covered Bonds described herein pursuant to the €7 billion Global Covered Bond Programme of Norwich and Peterborough Building Society.

RESPONSIBILITY

[Each of the Issuer and the LLP accept responsibility for the information contained in these Final Terms. [[*Relevant third party information*] has been extracted from [*specify source*]. Each of the Issuer and the LLP confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced inaccurate or misleading.] [*Delete if not applicable*].

Signed on behalf of the Issuer:

By:

Duly authorised

Signed on behalf of the LLP:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to Trading
- [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on *[specify relevant market (for example the Professional Securities Market of the London Stock Exchange) and, if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)]* with effect from [●].]
- [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on *[specify relevant market, for example the Professional Securities Market of the London Stock Exchange) and, if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)]* with effect from [●].]
- [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [to be disclosed in final terms]

2. RATINGS

- (i) Ratings:
- The Covered Bonds to be issued have been rated:
Moody's: [●]
Fitch: [●]
[Other]: [●]
- (The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)
N.B. consult the relevant Rating Agencies in relation to Covered Bonds which may have a Final Redemption Amount of less than 100 per cent. of the nominal value.*

3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Save as discussed in "*Subscription and Sale and Transfer and Selling Restrictions*", so far as the Issuer and the LLP are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. – *Amend as appropriate if there are other interests*]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Section 81 of the Financial Services and Markets Act 2000.)]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES:

[(i)] Reasons for the offer: [●]

[(ii)] Estimated net proceeds: [●]

[(iii)] Estimated total expense: [●]

5. YIELD (Fixed Rate Covered Bonds only)

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING: (*Index –Linked or other variable-linked Covered Bonds only*)

[Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index, include the name of the index and if the index is composed by the Issuer, include a description of the index. If the index is not composed by the Issuer, include details of where the information about the index can be obtained.] [When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Section 81 of the Financial Services and Markets Act 2000.]

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

7. PERFORMANCE OF RATE[S] OF EXCHANGE: (*Dual Currency Covered Bonds only*)

[Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.] [When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus.]

8. OPERATIONAL INFORMATION

(i) ISIN Code: [●]

(ii) Common Code: [●]

(iii) [*insert here any other relevant codes such as CUSIP AND CINS codes*] [●]

- (iv) [Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification number(s):] [Not Applicable/*give name(s) and number (s)*]
- (v) Delivery: Delivery [against/free of] payment
- (vi) Names and addresses of additional Paying Agent(s) (if any): [●]
- (vii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]
 [Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][*include this text if "yes" selected in which case the Covered Bonds must be issued in NGCB form*]

Signed on behalf of the Issuer:

Signed on behalf of the LLP:

By:

By:

Duly authorised

Duly authorised

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 Final Terms 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 Final Terms (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 Norwich and Peterborough Building Society (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 9 January 2009 (the **Programme Date**) made between the Issuer, Norwich and Peterborough Covered Bonds LLP as guarantor (the **LLP**) and BNY Corporate Trustee Services Limited as bond trustee (in such capacity, the **Bond Trustee**, which expression shall include any successor as Bond Trustee or other bond trustee) and as security trustee (in such capacity, the **Security Trustee**, which expression shall include any successor as Security Trustee).

Save as provided for in Conditions 9 (Events of Default and Enforcement) and 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution), 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 Specified Denomination in the Specified Currency;
- (ii) any Global Covered Bond;
- (iii) any Definitive Covered Bonds in bearer form (**Bearer Definitive Covered Bonds**) issued in exchange for a Global Covered Bond in bearer form; and
- (iv) any Definitive Covered Bonds in registered form (**Registered Definitive Covered Bonds**) (whether or not issued in exchange for a Global Covered Bond in registered form).

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, the Security Trustee and The Bank of New York Mellon, London Branch, as issuing and principal paying agent and agent bank (in such capacity, the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), The Bank of New York Mellon, London Branch, as exchange agent (in such capacity, the **Exchange Agent**, which expression shall include any additional or successor exchange agent), The Bank of New York Mellon, London Branch, as registrar (in such capacity, the **Registrar**, which expression shall include any successor registrar) and as transfer agent (in such capacity, a **Transfer Agent** and together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents. As used herein, **Agents** shall mean the Paying Agents, the Registrar and the Exchange Agent and the Transfer Agents).

Interest-bearing Bearer Definitive Covered Bonds have (unless otherwise indicated in the applicable Final Terms) interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, 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. Bearer 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. Registered Covered Bonds and Global Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Covered Bond (or the relevant provisions thereof) are attached to or endorsed on this Covered Bond and supplement 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 Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

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

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

The LLP has, in the Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of Guaranteed Amounts in respect of the Covered Bonds as and when the same shall become due for payment on certain dates in accordance with the Trust Deed (**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 or service of an LLP Acceleration Notice on the LLP.

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 certain other Secured Creditors.

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

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours and upon reasonable notice at the principal office for the time being of the Bond Trustee being at the Programme Date at One Canada Square, London E14 5AL and the specified office of each of the Paying Agents. Copies of the applicable Final Terms 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 Final Terms which are applicable to them and to have notice of each set of Final Terms 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 Final Terms and/or the master definitions and construction agreement made between the parties to the Transaction Documents on or about the Programme Date (as the same may be amended and/or supplemented and/or restated from time to time, 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 or in registered form as specified in the applicable Final Terms and, in the case of Definitive Covered Bonds (being Bearer Definitive Covered Bond(s) and/or, as the context may require, Registered Definitive Covered Bond(s)), 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 and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and vice versa.

The Covered Bonds may be denominated in any currency or 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 Final Terms, and subject to, where the Covered Bond is denominated in a currency other than Sterling or is a Zero Coupon Covered Bond, an Index Linked Interest Covered Bond, a Dual Currency Interest Covered Bond or any combination of the foregoing, obtaining of confirmation from the Rating Agencies that the then current ratings of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.

This Covered Bond may be an Index Linked Redemption Covered Bond, an Instalment Covered Bond, a Dual Currency Redemption Covered Bond or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms and subject to, where this Covered Bond is an Index Linked Redemption Covered Bond, an Instalment Covered Bond, a Dual Currency Redemption Covered Bond or any combination of the foregoing, obtaining of confirmation from the Rating Agencies that the then current rating of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond.

This Covered Bond may be a Long Dated Covered Bond, depending upon the redemption/payment basis shown in the applicable Final Terms.

Bearer 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.

Bearer Definitive Covered Bonds are issued with Receipts, unless they are not payable in instalments in which case references to Receipts and Receiptholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond, Receipt or Coupon and the registered holder of any Registered Covered Bond 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 is represented by a Global Covered Bond held on behalf of, or, as the case may be, registered in the name of a common depository (in the case of a CGCB (as defined below) or common safekeeper (in the case of a NGCB (as defined below)) for Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) or The Depository Trust Company (**DTC**) or its nominee, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear Clearstream, Luxembourg or DTC 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 or DTC 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, without limitation, 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 with the amount of such holding) shall be treated by the Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, and, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expression **Covered Bondholder** 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 DTC, Euroclear and Clearstream, Luxembourg, as the case may be.

References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits (but not in the case of any NGCB), be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

2. Transfers of Registered Covered Bonds

(a) Transfers of interests in Registered Global Covered Bonds

Transfers of beneficial interests in Rule 144A Global Covered Bonds (as defined below) and Regulation S Global Covered Bonds (as defined below) (together, the **Registered Global Covered Bonds**) will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such

interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

(b) *Transfers of Registered Covered Bonds in definitive form*

Subject as provided in Conditions 2(c) (Registration of transfer upon partial redemption), 2(d) (Costs of registration) 2(e) (Transfers of interests in Regulation S Global Covered Bonds), 2(f) (Transfers of interests in Legended Covered Bonds) and 2(g) (Exchanges and transfers of Registered Covered Bonds generally) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer: (i) the holder or holders must: (A) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent; and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee, the Transfer Agent and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 (Register and Transfer of Registered Covered Bonds) to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

(c) *Registration of transfer upon partial redemption*

In the event of a partial redemption of Covered Bonds under Condition 6 (Redemption and Purchase), the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

(d) Costs of registration

Covered Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) Transfers of interests in Regulation S Global Covered Bonds

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a **Transfer Certificate**), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made:
 - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
 - (B) to a person who is an Institutional Accredited Investor, together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an **IAI Investment Letter**); or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Covered Bond in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Covered Bond in definitive form. Prior to the end of the applicable Distribution Compliance Period beneficial interests in Regulation S Covered Bonds registered in the name of a nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After expiry of the applicable Distribution Compliance Period: (i) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC or indirectly through a participant in DTC; and (ii) such certification requirements will no longer apply to such transfers.

(f) Transfers of interests in Legended Covered Bonds

Transfers of Legended Covered Bonds or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with

Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

- (ii) to a transferee who takes delivery of such interest through a Legended Covered Bond:
 - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
 - (B) where the transferee is an Institutional Accredited Investor,

subject, in the case of (B), to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Covered Bonds transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Covered Bonds which are the subject of such a transfer to be represented by the appropriate Registered Global Covered Bonds, where applicable.

Upon the transfer, exchange or replacement of Legended Covered Bonds, or upon specific request for removal of the Legend therein, the Registrar shall deliver only Legended Covered Bonds or refuse to remove the Legend therein, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) *Exchanges and transfers of Registered Covered Bonds generally*

Holder of Registered Covered Bonds in definitive form, other than Institutional Accredited Investor, may exchange such Covered Bonds for interests in a Registered Global Covered Bond of the same type at any time.

(h) *Definitions*

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

CGCB means a Temporary Global Covered Bond or a Permanent Global Covered Bond, in either case in respect of which the applicable Final Terms specify that it is not a new global covered bond;

Distribution Compliance Period means the period that ends 40 days after the completion of the distribution of the relevant Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

Institutional Accredited Investor means an "accredited investor" (as defined in Rule 501 (a)(1), (2), (3) or (7) under the Securities Act) that is an institution;

Legended Covered Bonds means Registered Covered Bonds in definitive form that are issued to Institutional Accredited Investors and Registered Covered Bonds (whether in definitive form or represented by a Registered Global Covered Bond) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

NGCB means a Temporary Global Covered Bond or a Permanent Global Covered Bond, in either case in respect of which the applicable Final Terms specify that it is a new global covered bond;

QIB means a "qualified institutional buyer" within the meaning of Rule 144A;

Regulation S means Regulation S under the Securities Act;

Regulation S Global Covered Bond means a Registered Global Covered Bond representing Covered Bonds sold outside the United States in reliance on Regulation S;

Rule 144A means Rule 144A under the Securities Act;

Rule 144A Global Covered Bond means a Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A; and

Securities Act means the United States Securities Act of 1933, as amended.

3. 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 constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and (subject to any applicable statutory provisions) *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 Amounts 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 and service by the Bond Trustee on the LLP of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee are direct, (following an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay or an LLP Event of Default and service 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 9 (Events of Default and Enforcement)) discharge *pro tanto* the obligations of the Issuer in respect of such payment 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 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). The obligations of the LLP to the Covered Bondholders pursuant to the Covered Bond Guarantee shall be limited to the Charged Property as set out in Condition 16(Limited Recourse).

4. Interest

(a) *Interest on Fixed Rate Covered Bonds*

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) its date of issue (the **Interest Commencement Date**) at the rate(s) per annum equal to the Rate(s) of Interest payable, subject as provided in these Conditions, 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 Guaranteed Amounts in equivalent amounts to those described above under the Covered Bond Guarantee in respect of the Covered Bonds on the Original Due for Payment Dates or, if applicable, the Extended Due for Payment Date.

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

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Covered Bonds where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (i) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by such Global Covered Bond; or
- (ii) in the case of Fixed Rate Covered Bonds in definitive form, the Specified Denomination;

and in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a) (Interest – Interest on Fixed Rate Covered Bonds):

- (i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
 - (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 Final Terms) 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 Final Terms, 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).

Original Due for Payment Date means, in respect of the payment of Guaranteed Amounts, prior to the occurrence of an LLP Event of Default and following the delivery of a Notice to Pay on the LLP, 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 a Notice to Pay on the LLP in respect of such Guaranteed Amounts or if the applicable Final Terms specified that an Extended Due for Payment 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 Due for Payment Date.

Principal Amount Outstanding means in respect of a Covered Bond on any day the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day.

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 from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (1) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (2) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, 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 Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, the expression **Interest Period** shall mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

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

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds – Interest Payment Dates) below, 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 these Conditions, **Business Day** means a day which is:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (B) in the case of any sum payable, 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 Bonds denominated or payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 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 Final Terms.

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

Where ISDA Determination is specified in the applicable Final Terms 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 Final Terms) 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 Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 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 Final Terms;

- (2) the Designated Maturity is the period specified in the applicable Final Terms; 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 the Euro-zone inter-bank offered rate (**EURIBOR**) for a currency, the first day of that Interest Period; or (ii) in any other case, as specified in the applicable Final Terms.

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

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

Where Screen Rate Determination is specified in the applicable Final Terms 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 the Margin (if any), all as determined by the Principal Paying 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 Principal Paying 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 pursuant to this sub-paragraph (B) 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 Final Terms 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 Final Terms.

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

If the applicable Final Terms 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 Final Terms 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 Principal Paying 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 Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying 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 shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) for any Interest Period:

- (A) if **Actual/Actual** or **Actual/Actual (ICMA)** is specified in the applicable Final Terms, 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);
- (B) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, 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;
- (D) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

- (E) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (F) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30.

- (G) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30;

"D2" is the calendar day, expressed as a number, immediately following the last day of the Interest Period, unless (i) that day is the last day of February but not the Final Maturity Date (or, as the case may be, the Extended Due for Payment Date) or (ii) such number would be 31, in which case D2 will be 30.

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

The Principal Paying Agent (in the case of Floating Rate Covered Bonds) and the Calculation Agent (in the case of Index Linked Interest Covered Bonds) 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 Bond Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with Condition 13 (Notices) as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 4(b)(i) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds – Interest Payment Dates)) thereafter by the Principal Paying Agent. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds are

for the time being listed or by which they have been admitted to listing and to the Covered Bondholders in accordance with Condition 13 (Notices).

(vi) *Determination or Calculation by Bond Trustee*

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying 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 Final Terms, 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 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds), but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), 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. In making any such determination or calculation, the Bond Trustee may appoint and rely on a determination or calculation by a calculation agent. Each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds), whether by the Principal Paying Agent or 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 Principal Paying Agent, the Calculation Agent, the other Paying Agents, the Bond Trustee and all the Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the LLP, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

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

In the case of Dual Currency Interest Covered Bonds where the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest shall be determined in the manner specified in the applicable Final Terms.

(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 on the paid up nominal amount of such Covered Bonds or as otherwise specified in the applicable Final Terms.

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

Interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for

redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused in which event, interest will continue to accrue as provided in the Trust Deed.

5. Payments

(a) Method of payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or electronic transfer to an account in the relevant Specified Currency (which, in the case of a payment in 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; and
- (ii) payments in euro will be made by credit or electronic 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.

In the case of Bearer Covered Bonds, payments in U.S. Dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5 (Payments), means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds 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 but without prejudice to the provisions of Condition 7 (Taxation). References to Specified Currency will include any successor currency under applicable law.

(b) Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons

Payments of principal and interest (if any) will (subject as provided below) be made against presentation and surrender of Bearer Definitive Covered Bonds or Coupons, as the case may be, at any specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments (if any) of principal other than the final instalment, will (subject as provided below) be made against presentation and surrender of the relevant Receipt. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Definitive Covered Bond to which it appertains. If any Bearer Definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be payable only on surrender of such Bearer Definitive Covered Bond together with all unmatured Receipts appertaining thereto. Receipts presented without the Bearer Definitive Covered Bond to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer or the LLP.

Fixed Rate Covered Bonds in definitive bearer form (other than Dual Currency Covered Bonds or Index Linked Covered Bonds or Long Maturity Covered Bonds) should be presented for payment together with all unmaturing Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmaturing Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmaturing Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7 (Taxation)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (Prescription)) or, if later, five years from the date on which such Coupon would otherwise have become due.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer 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, Extended Due for Payment Date), all unmaturing Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond, Dual Currency Covered Bond, Index Linked Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmaturing 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 date for redemption of any Bearer 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 Bearer Definitive Covered Bond.

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

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Bearer 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 if the Bearer Global Covered Bond is not intended to be issued in NGCB form at the specified office of any Paying Agent outside the United States). On the occasion of each payment, (i) in the case of any Bearer Global Covered Bond which is not issued in NGCB form, a record of such payment made on such Bearer Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Covered Bond by the Paying Agent and such record shall be prima facie evidence that the payment in question has been made and (ii) in the case of any Global Covered Bond which is issued in NGCB form, the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

(d) Payments in respect of Registered Covered Bonds

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by electronic transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Register**) at the close of business on the third Business Day ("Business Day" being for the purposes of this Condition 5(d) (Payments – Payments in respect of Registered Covered Bonds) a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Covered Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a **Designated Bank** and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a Business Day) before the relevant due date (the **Record Date**) at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not less than three Business Days before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by electronic transfer on the due date in the manner provided in the preceding paragraph. Any such application for electronic transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition 5 (Payments) arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by electronic transfer by the Registrar to an account in the relevant

Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the LLP, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) General provisions applicable to payments

The holder of a Global Covered Bond (or, as provided in the Trust Deed, 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 will be discharged by payment to, or to the order of, the holder 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 DTC, 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 DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or the LLP 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 holder 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 5 (Payments), payments of principal and/or interest in U.S. Dollars in respect of the Bearer Covered Bonds will only be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of interest on the Bearer Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

(f) 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 of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition 5 (Payments) (unless otherwise specified in the applicable Final Terms), **Payment Day** means any day which (subject to Condition 8 (Prescription)) 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; and
 - (C) any Additional Financial Centre specified in the applicable Final Terms; 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) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
 - (iii) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) *Interpretation of principal and interest*

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

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

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (Taxation) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

(h) Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders, the Receiptholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security Trustee, the Agents, the Registrar (in the case of Registered Covered Bonds), Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13 (Notices), elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms provides for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area, it shall be a term of any such redenomination that the holder of any Covered Bonds held through Euroclear and/or Clearstream, Luxembourg and/or DTC must have credited to its securities account with the relevant clearing system a minimum balance of Covered Bonds of at least euro 50,000.

The election will have effect as follows:

- (i) the Covered Bonds and any Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Covered Bond and Receipt equal to the nominal amount of that Covered Bond or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, in consultation with the Agents and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the competent listing authority, stock exchange and/or market (if any) on or by which the Covered Bonds may be listed and/or admitted to trading and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 50,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 6 (Redemption and Purchase);
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds, Receipts and Coupons so issued will also become void on that date although those Covered Bonds, Receipts and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds, Receipts and Coupons will be issued in exchange for Covered Bonds, Receipts and

Coupons denominated in the Specified Currency in such manner as the Agents may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;

- (v) after the Redenomination Date, all payments in respect of the Covered Bonds, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated
 - (a) in the case of Covered Bonds represented by a Global Covered Bond, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Covered Bonds represented by such Global Covered Bonds; and
 - (b) in the case of definitive Covered Bonds, by applying the Rate of Interest to the Calculation Amount;

and, in each case, 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. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding;

- (vii) if the Covered Bonds are Floating Rate Covered Bonds or Variable Interest Covered Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to this Condition 5 (Payments) (and the Transaction Documents) as the Issuer may decide, after consultation with the Agents and the Bond Trustee, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

(i) Definitions

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

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

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

Rate of Interest means the rate of interest payable from time to time in respect of Fixed Rate Covered Bonds, Floating Rate Covered Bonds and Variable Interest Covered Bonds, as determined in, or as determined in the manner specified in, the applicable Final Terms.

Redenomination Date means (in the case of interest bearing Covered Bonds) any date for payment of interest under the Covered Bonds or (in the case of Zero Coupon Covered Bonds) any date, in each case specified by the Issuer in the notice given to the Covered Bondholders pursuant to Condition 5(h)(i) (Payments – Redenomination) and which falls on or after the date on which the country of the relevant Specified Currency first participates in the third stage of European economic and monetary union.

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

6. Redemption and Purchase

(a) Final redemption

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

Without prejudice to Condition 9 (Events of Default and Enforcement), if an Extended Due for Payment Date is specified as applicable in the Final Terms 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 Final Terms (or after expiry of the grace period set out in Condition 9(a)(i) (Events of Default and Enforcement – Issuer Events of Default)) and following the service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date the LLP has insufficient monies 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 Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i) (Events of Default and Enforcement – LLP Events of Default)) under the terms of the Covered Bond Guarantee or (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 Due for Payment 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 Due for Payment Date. The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four Business Days prior to the Final Maturity Date of a Series of Covered Bonds whether (a) payment will be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date or (b) payment will not be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date. Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension.

The LLP shall notify the relevant Covered Bondholders (in accordance with Condition 13 (Notices)), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the Registrar (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least two Business Days 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 9(b)(i) (Events of Default and Enforcement – LLP Events of Default)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the monies (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. Such failure to pay by the LLP shall not constitute an LLP Event of Default.

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee 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 6(a) (Redemption and Purchase – Final redemption).

For the purposes of these Conditions:

Extended Due for Payment Date means, in relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms 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 Final Maturity Date or the Extension Determination Date, as applicable in accordance with Condition 6(a); and

Extension Determination Date means, in respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds.

Guarantee Priority of Payments means the priority of payments relating to monies standing to the credit of the Transaction Account (to the extent maintained, or otherwise the GIC Accounts) to be paid on each LLP Payment Date in accordance with the Trust Deed.

Rating Agency means any one of Moody's Investors Service Limited and Fitch Ratings Ltd (together, the **Rating Agencies**) or their successors, to the extent they provide ratings in respect of the Covered Bonds.

(b) *Redemption for taxation 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' written notice to the Bond Trustee and, in accordance with Condition 13 (Notices), the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that on the occasion of the next date for payment of interest, the Issuer is or will be required to pay additional

amounts as provided in Condition 7 (Taxation). Covered Bonds redeemed pursuant to this Condition 6(b) (Redemption and Purchase – Redemption for taxation reasons) will be redeemed at their Early Redemption Amount referred to in Condition 6(f) (Redemption and Purchase – Early Redemption Amounts) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having (unless otherwise specified, in the applicable Final Terms) given not less than 15 nor more than 30 days' written notice to the Bond Trustee, the Principal Paying Agent, (in the case of the redemption of Registered Covered Bonds) the Registrar and, in accordance with Condition 13 (Notices), the Covered Bondholders (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. In the event of redemption of only some of the Covered Bonds, such redemption must be for an amount being the Minimum Redemption Amount or a higher redemption amount. 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 DTC, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of DTC, Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), 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 13 (Notices) 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 Dates, 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 Condition 6(c) (Redemption and Purchase – Redemption at the option of the Issuer (Issuer Call)) and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 13 (Notices) at least 30 days prior to the Selection Date.

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

If Investor Put is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 13 not less than 30 nor more than 60 days' written notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before

an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must, if this Covered Bond is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise 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 required to be made by cheque, an address) to which payment is to be made under this Condition 6 accompanied by this Covered Bond or evidence satisfactory to the Paying Agent concerned that this Covered Bond will, following delivery of the Put Notice, be held to its order or under its control. If this Covered Bond is represented by a Global Covered Bond or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Covered Bond is represented by a Global Covered Bond, at the same time present or procure the presentation of the relevant Global Covered Bond to the Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Covered Bond pursuant to this Condition 6(d) shall be irrevocable except where, prior to the due date of redemption, an Issuer Event of Default or an LLP Event of Default has occurred and is continuing and the Bond Trustee has declared the Covered Bonds to be due and payable pursuant to Condition 9, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6(d) and instead to declare such Covered Bond forthwith due and payable pursuant to Condition 9.

(e) *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' written notice to the Bond Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13 (Notices), all the 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 from the Covered Bonds pursuant to 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.

Covered Bonds redeemed pursuant to this Condition 6(e) (Redemption and Purchase – Redemption due to illegality) will be redeemed at their Early Redemption Amount referred to in Condition 6(f) (Redemption and Purchase – Early Redemption Amounts) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(f) Early Redemption Amounts

For the purpose of Conditions 6(b) (Redemption and Purchase – Redemption for taxation reasons) above and 6(k) (Redemption and Purchase – Late payment on Zero Coupon Covered Bonds) below and Condition 9 (Events of Default and Enforcement), each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Covered Bond (other than a Zero Coupon Covered Bond but including an Instalment Covered Bond or a Partly Paid 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 Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:
 - (a) the Reference Price; and
 - (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price 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,

or such other amount as is provided in the applicable Final Terms.

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 Final Terms.

(g) 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 Condition 6(f) (Redemption and Purchase – Early Redemption Amounts) above.

(h) Partly Paid Covered Bonds

Partly Paid Covered Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 (Redemption and Purchase) and the applicable Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6(f) (Redemption and Purchase – Early Redemption Amounts) above.

(i) Purchases

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

(j) Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, 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 surrendered for cancellation pursuant to Condition 6(i) (Redemption and Purchase – Purchases) above and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be held, reissued or resold.

(k) 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 Conditions 6(a) (Redemption and Purchase – Final redemption), (b) (Redemption and Purchase – Redemption for taxation reasons) or (c) (Redemption and Purchase – Redemption at the option of the Issuer (Issuer Call)) above or upon its becoming due and repayable as provided in Condition 9 (Events of Default and Enforcement) 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 Condition 6(f)(iii) (Redemption and Purchase – Early Redemption Amounts) 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) the date on which the full amount of the monies payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent or the Bond Trustee or the Registrar and notice to that effect has been given to the Covered Bondholders either in accordance with Condition 13 (Notices) or individually.

(l) Certification on redemption under Conditions 6(b) (Redemption and Purchase – Redemption for taxation reasons) and 6(d) (Redemption and Purchase – Redemption at the option of the Covered Bondholders (Investor Put))

Prior to the publication of any notice of redemption pursuant to Conditions 6(b) (Redemption and Purchase – Redemption for taxation reasons) and (d) (Redemption and Purchase – Redemption at the option of the Covered Bondholders (Investor Put)), the Issuer shall deliver to the Bond Trustee a certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) 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 holders of the Covered Bonds, Receiptholders and Couponholders.

7. Taxation

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of 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 the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges 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 Covered Bondholders, Receiptholders or Couponholders 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 presented for payment:

- (a) in the United Kingdom; or
- (b) by or on behalf of a holder who (i) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so; or (ii) is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bonds, Receipts or Coupons (as the case may be) by reason of his having some connection with the United Kingdom other than merely by reason of the holding of such Covered Bonds, Receipts or Coupons; or
- (c) where the holder is able to avoid such withholding or deduction by presenting an appropriate certificate; or
- (d) 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 the last day of such period of 30 days; or
- (e) 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 Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such directive; or
- (f) by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

Relevant Date means the date on which such payment in respect of the Covered Bond, Receipt or Coupon first becomes due and payable, except that, if the full amount of the

monies payable on such date has not been duly received by the Bond Trustee, the Registrar or the Principal Paying Agent on or prior to such date, it means the date on which such monies have been so received, notice to that effect having been given to the Covered Bondholders in accordance with Condition 13 (Notices).

Should any payments made by the LLP under the Covered Bond Guarantee be made subject to any withholding or deduction for or on account of taxes or duties of whatever nature imposed or levied by or on account of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, the LLP will not be obliged to pay any additional amounts as a consequence.

8. Prescription

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within ten years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (Taxation)) therefor, subject in each case to the provisions of Condition 5 (Payments).

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 8 (Prescription) or Condition 5 (Payments) or any Talon which would be void pursuant to Condition 5 (Payments).

9. 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 at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding (which for this purpose or the purpose of any Extraordinary Resolution referred to in this Condition 9(a) (Events of Default and Enforcement – Issuer Events of Default) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the holders of Covered Bonds then outstanding shall, (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) if default is made by the Issuer in the payment of any interest or principal due in respect of the Covered Bonds or any of them and the default continues for a period of 7 days or more; or
- (ii) if the Issuer fails to perform or observe any of its other obligations under the Covered Bonds, Receipts or Coupons of any Series, the Trust Deed or any other Transaction Document to which the Issuer is a party (other than the Programme Agreement and the Subscription Agreement) but excluding any obligation of the Issuer to comply with the Asset Coverage Test or any representation or warranty given by the Issuer in respect of the Asset Coverage Test, and such failure continues for a period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by

the Bond Trustee on the Issuer of notice requiring the same to be remedied (except in circumstances where the Bond Trustee considers such failure to be incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required); or

- (iii) if the Issuer ceases to carry on its business or substantially the whole of its business (except in any case in connection with a substitution pursuant to Condition 14 and Clause 22 of the Trust Deed), or for the purpose of or in connection with a reconstruction, union, transfer (of engagements or business), reorganisation, merger or amalgamation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution); or
- (iv) if any payment in respect of any indebtedness for monies borrowed or raised of the Issuer or any Subsidiary of the Issuer is not made on its due date (or by the expiry of any originally applicable grace period) or any such indebtedness of the Issuer or any Subsidiary of the Issuer becomes due and payable prior to its stated maturity by reason of default or if any guarantee of or indemnity in respect of any such payment in respect of any such indebtedness of any third party by the Issuer or any Subsidiary of the Issuer is not honoured when due and called upon, provided that the aggregate amount of such indebtedness (including indebtedness the subject of a guarantee or indemnity as aforesaid) equals or exceeds £10,000,000 (or its equivalent in any other currency or currencies); or
- (v) if the Issuer or any Material Subsidiary becomes insolvent or is unable to pay its debts as they mature, or if an administrative or other receiver or an administrator or other similar official is appointed in relation to the Issuer or any Material Subsidiary or in relation to the whole or a material part (in the opinion of the Bond Trustee) of the assets of any of them or if an encumbrancer takes possession of the whole or any material part (in the opinion of the Bond Trustee) of the assets of the Issuer or any Material Subsidiary or a distress of execution is levied or enforced upon or sued out against the whole or any material part (in the opinion of the Bond Trustee) of the assets of the Issuer or any Material Subsidiary and, in any such case, is not discharged within 60 days; or
- (vi) if, except for the purposes of or pursuant to a Permitted Transfer (as defined below):
 - (1) the Issuer stops payment to its creditors generally or ceases to carry on the whole or (in the opinion of the Bond Trustee) substantially the whole of its business; or
 - (2) the Supervisory Authority presents a petition for the winding up of the Issuer or an effective resolution, instrument of dissolution or award for dissolution is passed, entered into or made or an order is made or an effective resolution is passed for the winding up or the dissolution of the Issuer or the Issuer is wound up or dissolved in any other manner; or
 - (3) an order is made pursuant to the Building Societies Act the effect of which is to prevent the Issuer from accepting the deposit of, or otherwise borrowing, any money or from accepting any payment representing the whole or any part of the amount due by way of subscription for a share in the Issuer, other than a payment which fell due before the making of the said order; or
 - (4) the Issuer ceases to be an authorised person to carry on a deposit-taking business for the purposes of the FSMA or the registration of the Issuer as a

- building society is suspended or cancelled or the Issuer requests any such suspension or cancellation; or
- (5) the Issuer amalgamates with, or transfers the whole or a material part (in the opinion of the Bond Trustee) of its engagements or its business to, another person; or
 - (6) the Issuer gives notice in writing pursuant to the FSMA that it wishes to renounce its authorisation to accept the deposit of, or otherwise borrow, any money; or
- (vii) if, except for the purposes of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution of the Covered Bondholders or for the purposes of a solvent winding up where the assets of a Material Subsidiary attributable directly or indirectly to the Issuer are distributed to any one or more of the Issuer and the other Material Subsidiaries:
- (1) a Material Subsidiary stops payment to its creditors generally or ceases to carry on the whole or substantially (in the opinion of the Bond Trustee) the whole of its business; or
 - (2) an order is made by any competent court or resolution is passed for the winding up or dissolution of any Material Subsidiary,
- (viii) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice,

provided, in the case of any events under sub-paragraphs (ii), (v) and (vii) above, the Bond Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders, provided also that to the extent that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations a breach of any obligation to provide notices, reports or other information to the FSA under the RCB Regulations and/or the RCB Sourcebook shall not, in itself, be treated as materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee.

For the purposes of this Condition 9 (Events of Default and Enforcement):

- (a) a **Material Subsidiary** shall mean any Subsidiary of the Issuer whose total assets (attributable to the Issuer) are equal to 10 per cent. or more of the consolidated total assets of the Issuer and its Subsidiaries, all as more particularly defined in the Trust Deed;
- (b) a **Permitted Transfer** means each of the following (subject to the provisions on Substitution):
 - (1) an amalgamation of the Issuer and one or more other building societies under section 93 of the Building Societies Act; or
 - (2) a transfer by the Issuer of all or substantially all (being 90 per cent. or more of the Issuer's engagements including its obligations under the Covered Bonds, the Trust Deed and the Agency Agreement) or (on

terms which have previously been approved by the Bond Trustee in writing or by an Extraordinary Resolution of the Covered Bondholders) any smaller part of its engagements, in both cases under section 94 of the Building Societies Act; or

- (3) a transfer by the Issuer of its business (including its obligations under the Covered Bonds, the Trust Deed and the Agency Agreement) to a company under sections 97 to 102 of the Building Societies Act; or
 - (4) a transfer by the Issuer of the whole of its business to a subsidiary of a mutual society pursuant to any order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act; or
 - (5) an alteration in the status of the Issuer by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to that of an authorised person under the FSMA or to a body which is regulated on a similar basis to an authorised person under the FSMA, provided that such alteration in status does not affect the Issuer's obligations under the Covered Bonds, the Trust Deed or the Agency Agreement as determined and certified in writing by the Issuer to the Bond Trustee; or
 - (6) any other reconstruction or amalgamation the terms of which have previously been approved by the Bond Trustee in writing or by an Extraordinary Resolution of the Covered Bondholders; and
- (c) **Supervisory Authority** shall mean the FSA and any successor organisation responsible for the supervision of building societies or authorised persons under the FSMA in the United Kingdom.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer pursuant to this Condition 9(a) (Events of Default and Enforcement – Issuer Events of Default), the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP pursuant to the Covered Bond Guarantee and the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an 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 Condition 9(c) (Events of Default and Enforcement – Enforcement).

The Trust Deed provides that all monies received by the Bond Trustee from the Issuer or any receiver, liquidator, administrator 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 LLP Accounts and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP as Available Principal Receipts in the same manner as all other monies from time to time standing to the credit of the LLP Accounts pursuant to the Deed of Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds,

Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds and payments to the LLP of such 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 at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9(b) (Events of Default and Enforcement – LLP Events of Default) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the holders of Covered Bonds then outstanding 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 paragraphs (ii) and (vi) (vii) 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 Bondholder 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 and any other amounts due and payable under the Covered Bonds (other than additional amounts payable under Condition 6), 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 (7) days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 9(a) (Events of Default and Enforcement – Issuer Events of Default) where the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (ii) default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document to which the LLP is a party and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; 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 or threatens to cease to carry on its business or (in the opinion of the Bond Trustee) substantially the whole of its business; or
- (v) 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
- (vi) proceedings are 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 or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) 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
- (vii) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any 14th day of each month (or, if that is not a Business Day, then the immediately preceding Business Day) (the **Calculation Date**) following an Issuer Event of Default; or
- (viii) the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first, second and third paragraphs, respectively, of Condition 9(c) (Events of Default and Enforcement – Enforcement) and the Covered Bondholders (or the Bond Trustee on their behalf) 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 and payable under the Covered Bonds (other than additional amounts payable under Condition 7 (Taxation)) as provided in the Trust Deed in respect of each Covered Bond.

(c) Enforcement

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings, steps or actions against the Issuer and/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 or the Coupons or any other Transaction Documents, but it shall not be bound to take any such proceedings, steps or actions in relation to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken

together and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions the Bond 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.

The Security Trustee may at any time, at its discretion and without further notice, take such proceedings, steps or actions against the Issuer and/or 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 Document 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 the Bond Trustee itself acting in its sole discretion or as directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or a request in writing by the holders of not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid); and (ii) it shall have been 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. In having regard to the interests of the Covered Bondholders, the Security Trustee shall be entitled to rely solely on a written confirmation from the Bond Trustee as to whether, in the opinion of the Bond Trustee, any matter, action or omission is or is not in the interests of or is or is not prejudicial or materially prejudicial to the interests of, the Covered Bondholders.

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, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

10. Replacement of Covered Bonds, Receipts, Coupons and Talons

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds, Receipts or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 13 (Notices) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

11. Principal Paying Agent, Paying Agents, Registrar, Transfer Agent and Exchange Agent

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar, the initial Transfer Agent, the initial Exchange Agent 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 Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for 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 Principal Paying 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 or the Registrar and/or appoint additional or other Paying Agents or the Registrar and/or approve any change in the specified office through which any Paying Agent or the Registrar acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in continental Europe;
- (c) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or as the case may be, other relevant authority;
- (d) so long as any of the Registered Global Covered Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and
- (e) the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that is not 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 26-27 November 2007 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such directive if any.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(e) (Payments – General provisions applicable to payments). Notice of any such variation, termination, appointment or change will be given by the Issuer to the Covered Bondholders as soon as reasonably practicable in accordance with Condition 13 (Notices).

In acting under the Agency Agreement, the 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 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 agent.

12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying 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 Bearer Covered

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

13. Notices

All notices regarding the Bearer Covered Bonds will be valid if published in the Financial Times or any other daily newspaper in London approved by the Bond Trustee or, if this is not possible, in one other English language daily newspaper approved by the Bond Trustee with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed. 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 or where published in such newspapers on different dates, the last date of such first publication.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Covered Bonds are listed, quoted or traded on a stock exchange or are admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

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

14. Meetings of Covered Bondholders, Modification, Waiver and Substitution

Covered Bondholders, Receiptholders, Couponholders and other Secured Parties should note that the Issuer, the LLP and the Principal Paying Agent may without their consent or the consent of the Bond Trustee or the Security Trustee agree to modify any provision of any Final Terms which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provisions of law.

The Trust Deed contains provisions for convening meetings of the Covered Bondholders of any Series to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing the 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 any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the respective interests of such Covered Bondholders, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (Events of Default and Enforcement) 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 Covered Bondholders 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 the 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 aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all the 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 to:

- (a) any modification (other than in relation to a Series Reserved Matter) of the Covered Bonds of one or more Series, the related Receipts and/or Coupons or any Transaction Document provided that in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any Covered Bondholders of any Series;
- (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, in the opinion of the Bond Trustee, of a formal, minor or technical nature or is in the opinion of the Bond Trustee made to correct a manifest error or to comply with mandatory provisions of law; or
- (c) in the case of the Security Trustee (save as otherwise expressly provided in the Deed of Charge) any modification to any Transaction Document only if so directed by (a)

the Bond Trustee, so long as there are Covered Bonds outstanding or (b) all of the other Secured Creditors, if there are no Covered Bonds outstanding.

Notwithstanding the above provisions of paragraphs (a), (b) and (c):

- (i) the Issuer, the LLP and the Principal Paying Agent may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders, Receiptholders or Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.
- (ii) the Issuer and the LLP may request the Bond Trustee and the Security Trustee to agree to modifications to the Transaction Documents and/or the Terms and Conditions of the Covered Bonds to enable the Covered Bonds issued under the Programme to qualify as regulated covered bonds under the RCB Regulations or any replacement or amended regulations. Each of the Bond Trustee and the Security Trustee shall agree to such modifications without the consent or sanction of any of the Covered Bondholders, the Receiptholders or the Couponholders and without the consent or sanction of any other Secured Creditors, subject to receipt by the Bond Trustee and the Security Trustee of: a certificate signed by two directors of the Issuer and a certificate of a Designated Member of the LLP, each certifying to the Bond Trustee and the Security Trustee (i) that the requested amendments are to be made solely for the purpose of enabling the Covered Bonds to qualify as regulated covered bonds under the RCB Regulations or any replacement or amended regulations; and (ii) that the requested amendments are not, in the opinion of the Issuer or the LLP, materially prejudicial to the interests of any Covered Bondholders or any Secured Creditor.
- (iii) neither the Bond Trustee nor the Security Trustee shall be obliged to agree to any amendment which, in the sole opinion of the Bond Trustee or the Security Trustee, as the case may be, would have the effect of (a) exposing the Bond Trustee or the Security Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the protections, of the Bond Trustee or the Security Trustee in the Transaction Documents and/or the Terms and Conditions of the Covered Bonds.

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 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 of any Series. Save as otherwise expressly provided in the Deed of Charge, the Security Trustee shall agree to the waiver or authorisation of any breach or proposed breach of any of the provisions of any Transaction Document only if so directed by (a) the Bond Trustee, so long as there are any Covered Bonds outstanding or (b) all of the other Secured Creditors, if there are no Covered Bonds outstanding.

In respect of any proposed modification, waiver, authorisation or determination in the event that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulation, prior to the Bond Trustee agreeing to any such modification, waiver,

authorisation or determination pursuant to this Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution), the Issuer must send written confirmation to the Bond Trustee that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or result in the Issuer and/or the Programme ceasing to be registered under the RCB Regulations and that either:

- (a) such modification, waiver, authorisation or determination would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or
- (b) if such modification, waiver, authorisation or determination would require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FSA and the FSA has given its consent to such proposed modification, waiver, authorisation or determination.

Any such modification, waiver, authorisation or determination shall be binding on all the 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 consent, approval, modification, waiver, authorisation or determination), 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 Bondholder, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 (Taxation) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (Taxation) pursuant to the Trust Deed.

In having regard to the interests of the Covered Bondholders, the Security Trustee shall be entitled to rely solely on a written confirmation from the Bond Trustee as to whether, in the opinion of the Bond Trustee, any matter, action or omission is or is not in the interests of or is or is not prejudicial or materially prejudicial to the interests of, the Covered Bondholders. The Bond Trustee shall have sole responsibility for resolving conflicts of interest as between Covered Bondholders or any Series or class of them, subject to and in accordance with the provisions of the Trust Deed and the Conditions.

In exercising or performing any of its discretions, rights, powers, trusts or duties under or in relation to these presents or any other Transaction Document (including, without limitation, any consent, approval, modification, waiver, authorisation or determination referred to in these Conditions), the Bond Trustee may have regard to any Rating Agency Confirmation

whether or not any such confirmation is addressed to, or provides that it may be relied on by, the Bond Trustee and irrespective of the method by which such confirmation is conveyed.

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 of any Series, may agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders, to the substitution of any Successor in Business of the Issuer or of a Subsidiary of the Issuer or any such Successor in Business, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to Section 93 of the Building Societies Act or a building society to which the Issuer has transferred all of its engagements pursuant to Section 94 of the Building Societies Act or the successor in accordance with Section 97 to 102 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to any order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act, in place of the Issuer as principal debtor under the Covered Bonds and the Trust Deed, provided (in case of the substitution of any company which is a Subsidiary of the Issuer or such Successor in Business) that the obligations of such Subsidiary in respect of the Covered Bonds and the Trust Deed in respect thereof shall be guaranteed by the Issuer or such Successor in Business in such form as the Bond Trustee may require.
- (b) In the event of a Permitted Transfer, the successor under such a Permitted Transfer will, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed without any prior approval (save in the case of a transfer, reconstruction or amalgamation under paragraph (b) or (f) in the definition of Permitted Transfer) thereof being required from the Covered Bondholders, the Receiptholders, the Couponholders or the Bond Trustee (but without prejudice to the provisions of paragraph (a) above).
- (c) Any substitution pursuant to this Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified by the Issuer to the Covered Bondholders as soon as practicable thereafter in accordance with Condition 13 (Notices).

It shall be a condition of any substitution pursuant to this Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) that:

- (i) the Covered Bond Guarantee shall remain in place or be modified to apply *mutatis mutandis* and continue in full force and effect in relation to any Successor in Business or any Subsidiary of the Issuer or any other successor entity which is proposed to be substituted for the Issuer as principal debtor under the Covered Bonds and the Trust Deed; and
- (ii) any successor to the Issuer, including any Successor in Business or any Subsidiary of the Issuer or of such Successor in Business, is included in the register of issuers pursuant to the RCB Regulations and that all other provisions of the RCB Regulations (including Regulation 20 of the RCB Regulations) are satisfied prior to the substitution of the Issuer.

Rating Agencies

If:

- (a) the obtaining of confirmation of rating or other response by the Rating Agencies is a condition to any action or step under any Transaction Document; and
- (b) a written request for such confirmation or response is delivered to each of the Rating Agencies by any of the LLP, the Issuer, Bond Trustee and/or the Security Trustee, as applicable (each a **Requesting Party**) and the Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances

the Requesting Party shall be entitled to assume that the then current ratings of the Covered Bonds will not be downgraded or withdrawn by such Rating Agency as a result of such action or step.

For the purposes of this Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution):

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;

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;

Successor in Business means:

- (a) any building society (not being a building society which is established by the amalgamation of the Society under and in accordance with the terms of Section 93 of the Building Societies Act) which is validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, registered as a successor society to the Issuer and to another building society or other building societies in order to effect the amalgamation of the Issuer with such other society or societies; or
- (b) any building society (not being a building society which undertakes under and in accordance with the terms of Section 94 of the Building Societies Act to fulfil the engagements of the Issuer) which validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, undertakes to fulfil the obligations of the Issuer as part of a transfer of engagements by the Issuer to such building society; or
- (c) a company or other entity (not being a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to any order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies (Transfers) Act) to which the Issuer validly and effectually, in accordance with all enactments, orders and regulations in force for the time being and from time to time, as part of a transfer of the whole or substantially the whole of its business, undertaking or assets, transfers the whole or substantially the whole of its business, undertaking or assets for the

purpose of such other company or entity assuming and conducting the business of the Issuer in its place and which company or other entity undertakes to fulfil the obligations of the Issuer under the Trust Deed; or

- (d) any other entity (not being a successor within the meaning of Section 93 of the Building Societies Act, a society to which the engagements of the Issuer are transferred under Section 94 of the Building Societies Act or a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to any order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies (Transfers) Act) which in acquiring in any other manner all or a substantial part of the undertaking, property and/or assets of the Issuer or in carrying on as a successor to the Society the whole or a substantial part of the business carried on by the Issuer prior thereto undertakes to fulfil the obligations of the Issuer under the Trust Deed,

where, in each of the cases in paragraphs (a) to (d) above the terms of the proposed transaction have been previously approved by the Bond Trustee or by an Extraordinary Resolution of the Covered Bondholders; and

Series Reserved Matter in relation to Covered Bonds of a Series means: (i) increase, reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds; (ii) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made; (iii) alteration of quorum or the majority required to pass an Extraordinary Resolution; (iv) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the Covered Bondholders of any Series or as otherwise expressly contemplated by the provisions of clause 21 of the Trust Deed); (v) except in accordance with Condition 6(e) (Redemption and Purchase – Redemption due to illegality) or Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) (in so far as it relates to the Substitution of the Issuer), the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, Covered Bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, Covered Bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the Covered Bondholders to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and (vi) alteration of this definition or the proviso to paragraph 5 or paragraph 6 of Schedule 4 (Provisions of meetings for Covered Bondholders) to the Trust Deed.

15. 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 the Bond Trustee or the Security Trustee is of the opinion that the interests of the Covered Bondholders of any one or more Series would be materially prejudiced thereby, the Bond Trustee or the Security Trustee, as the case may be, shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders of the relevant Series by

Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding or as otherwise required under the Transaction Documents.

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 or step 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 any 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.

Each of the Bond Trustee and the Security Trustee may refrain from taking any action or exercising any right, power, authority or discretion vested in it relating to the transactions contemplated in the Transaction Documents until it has been indemnified and/or secured to its satisfaction against any and all actions, charges, claims, costs, damages, demands, expenses, liabilities, losses and proceedings which might be sustained by it as a result and none of them will be required to do anything which may cause it to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights, powers or discretions if it has reasonable grounds for believing that repayment of such funds or adequate indemnity or security against such risk or liability is not assured to it.

16. Limited Recourse

The Covered Bondholders agree with the LLP and the Security Trustee that, notwithstanding any other provision of any Transaction Document, all obligations of the LLP to the Covered Bondholders in respect of the Secured Obligations owing to the Covered Bondholders are limited in recourse to the Charged Property and, upon the Security Trustee giving written notice to the Covered Bondholders that:

- (a) it has determined in its sole opinion that there is no reasonable likelihood of there being any further realisations in respect of the Charged Property (whether arising from enforcement of the Security or otherwise) which would be available to pay amounts outstanding under the Transaction Documents; and
- (b) all amounts available to be applied to pay amounts owing under the Transaction Documents have been so applied in accordance with the Transaction Documents (including the Priority of Payments),

the Covered Bondholders shall have no further claim against the LLP in respect of any amounts owing to them which remain unpaid and such unpaid amounts shall be deemed to be discharged in full.

17. 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.

18. 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.

19. Governing Law

The Trust Deed, the Agency Agreement, the Corporate Services Agreement, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents and any non-contractual obligations arising out of or in relation to such documents are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary.

20. Submission to Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Covered Bonds or the Coupons and accordingly any legal action or proceedings arising out of or in connection with the Covered Bonds or the Coupons may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

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) either to (i) acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations (to the extent that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds maintained under the RCB Regulations) and the Asset Coverage Test and thereafter may be applied by the LLP:

- (i) to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the prescribed limit; and/or
- (ii) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
- (iii) subject to complying with the Asset Coverage Test, to make a Capital Distribution to a Member; and/or
- (iv) to deposit all or part of the proceeds into the GIC Account and/or Reserve GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the Reserve Fund Required Amount).

THE ISSUER

NORWICH AND PETERBOROUGH BUILDING SOCIETY

Introduction

Norwich and Peterborough Building Society (the **Issuer** or **Norwich and Peterborough**) is the thirteenth largest building society in the United Kingdom based on assets as at 31 December 2007 of £4,308 million. Norwich and Peterborough generates business through a variety of distribution channels including 56 traditional high-street branch offices, corporate intermediaries and a contact centre. At 31 December 2007, the Society had over 348,000 investing members, 58,000 borrowers and 69,000 depositors. The Society is authorised and regulated by the Financial Services Authority, with firm reference number 150965, and operates as a building society in accordance with the Building Societies Act and is treated as having permission under Part IV of the FSMA to carry on all of the regulated activities which it was authorised to carry on under the Building Societies Act prior to 1 December 2001.

History

The origins of Norwich and Peterborough Building Society go back to 1852, when the Norwich and District Provident Permanent Benefit Building and Freehold Land Society (the **Norwich Building Society**) was formed. The Peterborough Provincial Benefit Society (the **Peterborough Building Society**) was founded in 1860. Norwich and Peterborough Building Society was formed on 31 October 1986 when the Peterborough Building Society and the Norwich Building Society merged. At that time the Peterborough Building Society's assets were £279 million and the Norwich Building Society's were £172 million.

Its principal office and principal place of business is Peterborough Business Park, Lynch Wood, Peterborough PE2 6WZ. The telephone number of Norwich and Peterborough's principal office is 01733 372372.

Board of Directors

Keith Bedell-Pearce	Chairman
Matthew Bullock *	Chief Executive
Mike Hounsell *	
David Jervis *	
Jeffrey Pritchard *	
Richard Wells *	
Alan Brown	Senior Independent Director
Bernie Foster	
Christopher Ewbank	
Gordon Horsfield	Chairman of the Audit Committee
Simon Loftus	

Janet Turner QC

* Executive Director

Keith Bedell-Pearce joined the Society's Board in February 2001 and was appointed Chairman in May 2001. He is a Solicitor, a Fellow of the Marketing Society and an Honorary Professor of the Warwick Business School, where he is also a member of the Board. He retired from Prudential plc at the end of 2001 after 30 years service, the last 10 of which was as an Executive Director. He is also Chairman of the Student Loans Company Ltd, Chairman of Directgov, Chairman of 4D Data Centres Ltd and a non-executive director of F&C Asset Management plc.

Gordon Horsfield was appointed as a Director of the Society in March 2006. He was non-executive Chairman of Drax Group Plc, Chairman of Partnerships (UK) plc, Chair of Council of the University of York and Chairman of the Ampleforth Abbey Trust. Gordon was Head of Corporate Recovery and Finance at Price Waterhouse UK and following its merger with Coopers and Lybrand, he was Director of Operations of the combined firm of PricewaterhouseCoopers.

Alan Brown was appointed to the Society's Board in October 2004. He is a retired banker with 40 years' experience in financial services. Alan is Chairman of Banquo Credit Management LLP and a member of the Banking Code Standards Board Review Panel. During a distinguished career with Barclays, Alan was latterly a member of the Group Executive with overall responsibility for risk management, including credit, market and operating risk, compliance and internal audit.

Matthew Bullock is the Society's Chief Executive. He joined the Society in February 1999, following a wide-ranging and successful career spanning 25 years with the Barclays Group, and was appointed to the Society's Board three months later. He is Chairman of The Automation Partnership Group plc, a Director of Opportunity Peterborough and a Trustee of International House.

Christopher Ewbank was appointed a Director of the Society in April 2007. He qualified as a solicitor in 1988 and worked for 14 years in investment banking with Schrodgers and then Rothschilds, focussing on mergers, acquisitions and equity capital markets, latterly as Managing Director and Head of Utilities & Natural Resources - Asia. He is Bursar of St. John's College and a Director of St John's Enterprises Ltd, St John's Park Management Company Ltd, Aquila Investments Ltd, RLW Estates Ltd, Saffron Walden Estates Ltd, Eaglet Ltd, LM Tenancies Ltd and Aquivar Ltd.

Simon Loftus was appointed a Director of the Society in April 2007. Simon has been a Director of Adnams plc for 30 years and Chairman for 10 years, until his retirement in August 2006. He remains a non-executive Director of the Brewery. Simon is a member of the Council of Aldeburgh Music and a Director of 1st East.

Janet Turner joined the Society's Board in April 2007. Janet was admitted to the Bar in 1979 and was appointed Queen's Counsel in 1996. She has over 25 years experience as a commercial lawyer. In 1999, Janet became a legal risk management consultant, spanning the private and public sectors, and then worked for more than 5 years as legal counsel to the Women's Royal Voluntary Service. Since March 2007, she has been Head of the team at Taylor Vinters solicitors working for Not For Profit organisations. She is a Director of Alchemy (1480) Ltd and a trustee of Wothorpe Towers Preservation Trust.

Bernie Foster was appointed as a Director in December 2003. Bernie has extensive experience gathered in the retail sector at high street names such as Body Shop, Miss Selfridge, Burton Group and Gap.

David Jervis joined the Society in 1990 from Barclays Bank and was appointed to the Society's Board in August 2006. He has held a wide range of roles throughout the Society. David is Chairman of Norwich and Peterborough (LBS) Ltd and is a member of the Risk Committee

Mike Hounsell joined the Society as Marketing & Sales Director in August 2002. He has a strong marketing background in consumer services and products. Mike is a member of the Risk Committee and Chairman of Norwich and Peterborough Insurance Brokers Limited. He is a Director of East Anglia Children's Hospices.

Richard Wells joined the Society in 1997 and was appointed to the Society's Board in October 2006. Richard is a Board member of a number of the Society's subsidiary companies, a member of the Risk Committee and a Trustee of the Society's Pension and Life Assurance Scheme. He is a director of Renewables East.

Jeffrey Pritchard joined the Society in 2000 and was appointed to the Society's Board in October 2006. Jeffrey is a Board member of Norwich & Peterborough (LBS) Ltd, a member of the Risk Committee and a Trustee of the Society's Pension and Life Assurance Scheme.

The business address of the Directors is Peterborough Business Park, Lynch Wood, Peterborough PE2 6WZ.

No Director has any actual or potential conflict of interest between his or her duties to Norwich and Peterborough and his or her private interests or other duties.

Business

General

As prescribed by the Building Societies Act, the principal purpose of the Society is that of making loans which are secured on residential property and are funded substantially by its members. The aim of the society is to be the best independent regional building society in the UK. In pursuing this objective, the organisation seeks to generate a business environment within which staff can maximise opportunities and provide a caring and efficient service to customers. The Society will continue to offer a broad range of high quality products whilst maintaining a strong financial position.

The Society's operating area runs from Scunthorpe to Chelmsford in Essex and west to Bedford, with a total of 56 branches spread throughout this area, plus a branch in Gibraltar. The business is also operated via a Contact Centre in Peterborough and through a fully functional internet banking facility.

A wide range of financial services are offered: mortgages, savings, bank accounts, personal loans, credit cards, general insurance broking and independent financial advice. The Group also has a strong commercial lending operation.

During 2007, the NPBS Group employed an average of just over 1,000 staff, of whom 460 are based at the principal office in Peterborough. Norwich and Peterborough has approximately 470,000 customers, the majority of whom are members and based within our operating area. At the end of 2007, total assets of the Group stood at £4,308 million.

Details of the NPBS Group and the Issuer's position within it can be found at Note 11 to the audited consolidated accounts of the Issuer for the year ended 31 December 2007. In summary, Norwich and Peterborough has five operating wholly-owned subsidiaries:

Norwich and Peterborough (LBS) Limited – mortgage finance

Norwich and Peterborough Insurance Brokers Limited – insurance broking

Lynchwood Services Limited – computer services

Norwich and Peterborough Estate Agents Limited – estate agents and property management

Flexible Choice Limited – property management

Funding

Norwich and Peterborough obtains funds from the retail market through a range of variable rate instant access and notice accounts, supplemented with fixed rate/fixed term accounts. Norwich and Peterborough also raises funds in the wholesale money markets. Funds raised are advanced primarily to borrowers on the security of first mortgages on freehold and leasehold property, with 25% in 2007 of the funds retained to provide operational liquidity.

Mortgage lending activities – Residential

At 31 December 2007, 89% of the Society's loans and advances to customers were fully secured on residential property. All underwriting decisions relating to residential lending have been made centrally since 2004. Currently, our retail network (branches and our Peterborough-based Contact Centre) generate about 45% of this form of lending, with intermediaries accounting for the remaining 55%.

In consequence, the lending book has a broad geographical spread, with around 30% of lending in East Anglia and the balance spread around the English regions plus 2% in Wales and less than 0.1% in Scotland. Although lending is also undertaken in Gibraltar and Spain, these regions only account for a modest proportion of the overall book at 3.6% and 1.2% respectively.

Norwich and Peterborough competes in the mortgage market by providing a range of innovative and competitive fixed and variable rate products, whilst keeping the emphasis on lending quality. Underwriting criteria is strictly controlled and high loan-to-value lending remains well below the industry average. Norwich and Peterborough normally does not lend above 90% loan-to-value and principally targets mortgages with a loan-to-value up to 80% .

In 2007 Norwich and Peterborough made gross mortgage advances of £974 million, with net lending of £368 million. Fixed rate mortgages represented some 71% of new lending in 2007 and represented 53% of the total book at the end of 2007.

Arrears and Loan Loss Provision

At 31 December 2007 the Society had eight properties in possession and arrears represented 0.49% of total residential balances outstanding. Loan loss reserves of £4.3 million on residential lending to individuals represented 0.15% of balances at 31 December 2007. The Society also lends to Registered Social Landlords, Housing Associations and at 31 December 2007 the book amounted to £48 million. There has been no history of any arrears on these accounts.

Norwich and Peterborough's arrears + possessions at the end of 2007 represented 0.52% of total open mortgage accounts, against an industry (CML data) average of 1.21%. This reflects the effectiveness of Norwich and Peterborough's ongoing commitment to active arrears management and the quality of its new lending.

Mortgage Lending Activities – Commercial

Whilst Lending Managers each have their own personal discretionary limits, the majority of commercial property underwriting decisions are made centrally. Up to 78% of business comes through introducers, and as at 31 December 2007 the balance of loans fully secured on land amounted to £310 million. All lending is fully secured against property up to a maximum 75% LTV or 80% for

owner occupied premises. Indeed the average LTV across the portfolio is currently approximately 50%.

For investment property with leases, these are all fully approved, being tenant full repairing and insuring leases with upwards only rent reviews. In structuring any loan it is assumed the tenant will exercise break clauses and residual values will not typically exceed 25% at the end of the loan term. No finance is provided to Property Developers or Agriculture and lending to certain sectors, e.g. Public Houses, Restaurants and Nursing Homes is restricted to 70% LTV.

At 31 December 2007, there were six cases in arrears of more than six months, representing 0.34% of accounts. There were no commercial properties in possession. The total loss provision stood at £1.2m at the end of 2007, representing 0.39% of balances.

The figures and data contained in the following tables have been extracted without material adjustments from Norwich and Peterborough's 2007 Report and Accounts prepared in accordance with UK GAAP.

Retail Funding

Norwich and Peterborough remains committed to obtaining the major proportion of its funds from retail sources.

The following table sets out the level of total funding provided by shares:

	2007	Percentage of total shares and borrowings	2006
	£m	%	£m
Shares	2,823	69.4	2,364

In addition to retail shares, there are approximately £200 million of other borrowings that are retail funds.

Other Borrowing

Whilst total funding may be dominated by retail sources, wholesale funding is an essential part of the mix and is used tactically to supplement the total funding objective.

	2007	Percentage of total shares and borrowings	2006
	£m	%	£m
Amounts owed to credit institutions.....	129	3.2	86
Amounts owed to other customers.....	943	23.2	800
Debt securities in issue.....	173	4.2	182
	1,245	30.6	1,068

Liquid Assets

All building societies are required to maintain adequate assets in liquid form. The classes of instruments which may be held by Norwich and Peterborough for liquidity purposes are prescribed by the Financial Services Authority.

The following table sets out the level of Norwich and Peterborough's liquid assets as a percentage of total shares and borrowings.

	Investments and cash £m	Percentage of total shares and borrowings %
As at 31 December 2007	1,016	25.0
As at 31 December 2006	762	22.2

Norwich and Peterborough holds liquid assets which are shown at cost less any diminution for impairment. There are no exposures in the portfolio to Icelandic banks.

Profitability and efficiency

The net interest margin of 1.44% in 2007 reflects the highly competitive UK financial services marketplace and pre-tax profits increased from £20.2 million in 2006 to £24.3 million in 2007. One of the key measures of operating efficiency, the costs-to-mean-assets ratio, fell from 1.51% in 2006 to 1.40% in 2007.

Capital Resources

Norwich and Peterborough maintains capital resources commensurate with its risk asset profile. Increasing market competitiveness and consequential erosion of interest margins has reinforced the need to be a low cost provider with high quality assets.

In 2007 capital resources were supplemented by retained profits of £18.1 million (£14.0 million in 2006). This resulted in a group solvency ratio of 12.1% (including the impact of operational risk, market risk and Pillar II adjustments within risk weighted assets) (11.3% in 2006) and a group Tier 1 capital ratio of 11.3% (9.7% in 2006). Subordinated debt of £15 million, with £10 million repayable in 2015 and £5 million in 2017 represented 6.8% of total capital at the end of 2007.

Financial Services Compensation Scheme

It is expected that the Issuer will be required to pay contributions totalling approximately £7.7 million to the Financial Services Compensation Scheme (the **FSCS**) in respect of the amounts paid by the FSCS to enable eligible deposits held in Bradford & Bingley plc and covered by the FSCS to be transferred to Abbey National plc. as well as amounts in respect of some Icelandic banks where the FSCS liability has been triggered. Additionally, the Issuer may from time to time be required to pay further amounts to the FSCS in respect of compensation to eligible depositors of other authorised financial services firms unable to pay claims against them. This would include payments with respect to Icesave and London Scottish Bank, but the Issuer has not yet been made aware of the size of its proposed contribution.

Recent Developments

The Issuer expects that in 2008 the amount of gross mortgage advances and the value of net lending will be less than that which was generated in 2007 as the economy slows down. The Issuer also expects that the number of fixed rate mortgages entered into with the Issuer to drop. It is expected that in 2008 the amount of new retail borrowing (rather than the total retail borrowing), will be less than in 2007 and wholesale funding taken by the Issuer will be greater than that in 2007.

THE LLP

Introduction

The LLP was incorporated under the laws of England and Wales on 4 December 2008 as a limited liability partnership (partnership number OC 341875) with limited liability under the LLPA 2000 by NPBS and the Liquidation Member as its Members, under the name "Norwich and Peterborough Building Society Covered Bonds LLP". The registered office of the LLP is at Peterborough Business Park, Lynch Wood, Peterborough PE2 6WZ (telephone number: 01733 372372). 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 Prospectus are and their principal offices are:

<u>Name</u>	<u>Principal Registered Office</u>
NPBS	Peterborough Business Park, Lynch Wood, Peterborough PE2 6WZ
Liquidation Member	35 Great St. Helen's, London, EC3A 6AP

The LLP has no employees.

Directors of the Members

The following table sets out the directors of the Liquidation Member and their respective business addresses and occupations.

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St. Helen's, London, EC3A 6AP	Corporate Director
SFM Directors (No. 2) Limited	35 Great St. Helen's, London, EC3A 6AP	Corporate Director
Robert Berry	35 Great St. Helen's, London, EC3A 6AP	Director

The directors of NPBS are set out under "*Board of Directors*" above.

LLP Management Board

The LLP Management Board, consisting as at the Programme Date of directors, officers and/or employees of NPBS and one director or officer of the Liquidation Member, 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 LLP Management Board relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

Directors of the corporate directors of the Liquidation Member (SFM Directors Limited and SFM Directors (No. 2) Limited) are (in each case) Jonathan Keighley, James Macdonald, Robert Berry, Paivi Helena Whitaker, Claudia Wallace and John-Paul Nowacki, of 35 Great St. Helen's, London, EC3A 6AP.

No potential conflicts of interest exist between any duties to the LLP of the directors of the Members or (in the case of the Liquidation Member) the directors of such corporate directors, as described above, and their private interests or other duties.

Richard Wells	on behalf of Norwich and Peterborough Building Society as Member
Jeffrey Pritchard	on behalf of Norwich and Peterborough Building Society as Member
Shaun Cubitt	on behalf of Norwich and Peterborough Building Society as Member
Robert Berry	on behalf of the Liquidation Member as Member

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 of any monies 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 and Notice to Pay or, if applicable, an LLP Acceleration Notice) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of itself and the Covered Bondholders), an amount equal to that portion of the Guaranteed Amounts which shall have become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, Extended Due for Payment Date, by the Issuer. Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which an LLP Acceleration Notice is served.

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, following service of an Issuer Acceleration Notice, the Bond Trustee will serve a 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: (i) the day which is two Business Days following service of a Notice to Pay on the LLP; or (ii) the day on which the Guaranteed Amounts are otherwise Due for Payment.

All payments of Guaranteed Amounts by or on behalf of the LLP will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction is 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 additional amount to the Bond Trustee or any holder of Covered Bonds, Receipts or Coupons in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed, the Deed of Charge, the Conditions, the applicable Final Terms, or the Covered Bonds or Receipts or Coupons or any other Transaction Document or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9(b) (Events of Default and Enforcement – LLP Events of Default) of the Conditions, 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 monies from time to time standing to the credit of the GIC Account and shall be applied as Available Principal Receipts. Any Excess Proceeds received by the Bond Trustee shall discharge 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 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.

The Trust Deed will be 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 Principal Amount Outstanding on the Issue Date of the issue of the related Covered Bonds to the LLP by way of a Term Advance pursuant to 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 Final Terms, and if required will be swapped 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) to invest in Substitution Assets in an amount not exceeding the prescribed limit to the extent required to meet the Asset Coverage Test and to the extent that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and thereafter may be applied 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) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (iii) (subject to satisfying the Asset Coverage Test), to make a Capital Distribution to the Seller

(in its capacity as Member); and or (iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (v) to make a deposit in the GIC Account and/or the Reserve GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit). Each Term Advance will bear interest at a rate of interest 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 an Asset Coverage Test Breach Notice (which has not been revoked) or 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 Pre-Acceleration Principal Priority of Payments. The Issuer may use the proceeds of the Term Advances to pay amounts due on the Covered Bonds. 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. For so long as an Asset Coverage Test Breach Notice is outstanding and has not been revoked, the LLP may not borrow any new Term Advances (and the Issuer may not make any new Term Advances) under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by: (i) any amounts paid by the LLP under the terms of the Covered Bond Guarantee to repay the Covered Bonds (the proceeds of which were originally applied to make such Term Advances); and (ii) the Principal Amount Outstanding of any Covered Bonds (the proceeds of which were originally applied to make such Term Advances) purchased by the LLP and cancelled in accordance with Condition 6(j) (Redemption and Purchase – Cancellation).

The Intercompany Loan Agreement will be governed by English law.

Mortgage Sale Agreement

The Seller

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Programme Date between NPBS (in its capacity as Seller), the LLP and the Security Trustee (or, until such time as the LLP obtains a licence under the CCA, the Loans will be held on trust by the Seller for the benefit of the LLP under a bare trust constituted under English law (the **CCA Trust**). References in the Mortgage Sale Agreement and elsewhere in this Prospectus to the "sale" or "repurchase" of a Loan while the CCA Trust is outstanding are deemed to be references to the beneficial interest in the Loans being held on trust for the LLP under the CCA Trust).

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 with characteristics that were not being offered to Borrowers on previous Transfer Dates.

Prior to the occurrence of an Issuer Event of Default or an LLP 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 True 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 (unless an Asset Coverage Test Breach Notice has been served and is unrevoked); and/or
 - (ii) the Seller being treated as having made a Capital Contribution in Kind in an amount equal to the difference between the True 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
 - (iii) Deferred Consideration.
- (b) Second, prior to service of an Asset Coverage Test Breach Notice on the LLP (which has not been revoked), 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, the Seller and the Issuer 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 endeavours to offer to sell sufficient New Loans and their Related Security to the LLP on or before the next Calculation Date so that the Portfolio is in compliance with the Asset Coverage Test in consideration of the Seller being treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and in consideration of the right to receive the Deferred Consideration.

If Selected Loans and their Related Security are sold by or on behalf of the LLP as described below under "*LLP Deed – Requirement to sell Selected Loans following service of a Notice to Pay*", the obligations of the 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*".

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 Further 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 New Portfolio on the relevant Transfer Date would adversely affect the then current ratings by Moody's 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 weighted 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 Loan has a True Balance of more than £1,000,000;
- (e) none of the Loans in the Portfolio shall be buy to let;
- (f) no Loan which is proposed as a New Loan to be sold on the First Transfer Date nor any subsequent Transfer Date relates to a Property which is not a residential property; and
- (g) no Loan constitutes a New Loan Type, in respect of which no Rating Agency Confirmation has been received by the Security Trustee or the LLP or the Issuer in accordance with the terms of the Mortgage Sale Agreement, that such Loan may be sold to the LLP.

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

If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or Further Advances, then if the Eligibility Criteria referred to in paragraphs (c), (d) and (f) above relating to the Loan subject to that Product Switch or Further 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 (f) above) requiring the Seller to repurchase the Loans subject to any Product Switch or Further 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 paragraph (c) above of the Eligibility Criteria is met.

Transfer of Title to the Loans to the LLP

Loans will be sold by the Seller to the LLP by way of equitable assignment. Until the LLP has given notice to the Seller that it has obtained the requisite licence under the CCA, the Seller will hold all Loans on trust for the LLP under the CCA Trust. Following receipt of notice from the LLP that it has obtained such licence, the Loans and their Related Security will be released from the CCA Trust and will be equitably assigned to the LLP. As a result, legal title to all of the Loans and their Related Security will remain with the Seller until legal assignments are delivered by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. If such licence has not been obtained upon the occurrence of one or more of the events referred to in paragraphs (a) to (e) below, notice of the LLP's beneficial interest in the CCA Trust will be given by or on behalf of the LLP to the Borrowers and legal assignment of the Loans and notice of the sale will only be given to the Borrowers upon such licence being obtained. 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 in this paragraph and below.

Subject as described in the above paragraph, legal assignment of the Loans and their Related Security to the LLP (or, where specified, of the Selected Loans and their Related Security) will be completed on or before the 20th Business Day after the later of the date the LLP gives notice to the Seller that it has obtained the requisite licence under the CCA and the earliest of the following:

- (a) either: (i) the occurrence of an Issuer Event of Default under Condition 9(a)(i) (Events of Default and Enforcement – Issuer Events of Default) to (vi) and service on the Issuer of an Issuer Acceleration Notice and the service on the LLP of a Notice to Pay; or (ii) if the Bond Trustee has previously served on the Issuer an Issuer Acceleration Notice and served on the LLP a Notice to Pay in respect of an Issuer Event of Default under Condition 9(a)(vii) (Events of Default and Enforcement – Issuer Events of Default), then the occurrence of any other Issuer Event of Default;
- (b) a written direction is received by the Issuer from the FSA requiring the transfer of all of the engagements of the business of the Issuer to another entity in circumstances where the rights of borrowing members of the Issuer will cease (provided that, where approval of the transfer from the members of the Issuer is required by either the FSA or required by applicable law, such approval is obtained);
- (c) 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;
- (d) the Seller and/or the LLP being required: (i) by law; (ii) by an order of a court of competent jurisdiction; (iii) by a regulatory authority which has jurisdiction over the Seller; or (iv) by any organisation of which the Seller is a member, or whose members comprise, but are not necessarily limited to, mortgage lenders and with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans; and
- (e) the Seller requesting a transfer by way of assignment by giving notice in writing to the LLP and the Security Trustee.

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 in favour of the LLP and the Security Trustee.

Except where lodged with the relevant registry in relation to any registration or recording which may be pending at the Land Registry, and save in relation to Loans which are Dematerialised Loans, the Title Deeds and Loan Files relating to the Loans in the Initial Portfolio will be held by or to the order of the Security Trustee, as the case may be, or by solicitors or licensed conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security.

Representations and warranties

None of the LLP or the Security Trustee or the Bond Trustee 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 (which shall be given if Rating Agency Confirmation has been received by the LLP or the Issuer), amend the Representations and Warranties

in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Transfer Date in respect of the Loans and Related Security to be sold to the LLP only on that date and on the Calculation Date following the making of any Further Advance or Product Switch in respect of the Loan to which the Further Advance or Product Switch relates only:

- each Loan was originated or purchased by the Seller or by Norwich and Peterborough (LBS) Limited, (trading as Astra Mortgages,) in the ordinary course of business not less than three calendar months prior to the relevant Transfer Date and was denominated in pounds Sterling upon origination or acquisition (or was denominated in euro upon origination or acquisition if the euro has been adopted as the lawful currency of the United Kingdom) and in respect of Loans purchased by the Seller: (i) Rating Agency Confirmation has been received that the purchase of such Loans by the Seller would not adversely affect the then current ratings of the Covered Bonds; and (ii) the amount of Loans purchased by the Seller does not exceed 20 per cent. of the Portfolio;
- at least two monthly payments due in respect of each Loan has been paid by the relevant Borrower;
- no Loan has any arrears outstanding;
- no Loan relates to a Property which is not a residential property;
- no Loan has a True Balance of more than £1,000,000;
- each Loan has a remaining term of less than 50 years as at the relevant Transfer Date and no Loan has a maturity date falling later than three years prior to the Long Date Due for Payment Date;
- in cases where the Initial Advance or Further Advance was originated by the Seller (or by Norwich and Peterborough (LBS) Limited (trading as Astra Mortgages)) prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to exceptions and waivers as made on a case by case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- the Lending Criteria are consistent with the criteria that would be used by a Reasonable, Prudent Mortgage Lender;
- all of the Borrowers are individuals (and not partnerships) and were aged 18 years or older at the date he or she executed the relevant Mortgage;
- subject in certain appropriate cases to the completion of an application for registration or recording at the Land Registry, the whole of the True Balance on each Loan is secured by a Mortgage over residential property and each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage;
- the True Balance on each Loan and its Related Security constitute a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower enforceable in accordance with their terms and non-cancellable except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies;

- each Loan and its Related Security is legal, valid, binding and enforceable in accordance with its terms and is non-cancellable, and subject only in certain appropriate cases to requisite applications for registrations at the Land Registry having been made and which are pending and, in relation to such cases, the Seller is not aware of any caution, notice, inhibition or any other matter that would prevent such registration or recording;
- all approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the LLP, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the LLP, the Security Trustee or any of their successors in title or assigns;
- all of the Properties are located in England or Wales;
- unless the Loan is a Loan Without Independent Valuation, not more than 12 months (or a longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the granting of each Mortgage, the Seller received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- prior to the taking of each Mortgage (other than a remortgage), the Seller instructed its solicitor or licensed 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 in accordance with the instructions which the Seller issued to the relevant solicitor or licensed conveyancer as are set out in the CML's Lenders' Handbook for England and Wales (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, the Seller's standard form instructions to solicitors) 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 and received a Certificate of Title from such solicitor or licensed conveyancer relating to such Property the contents of which were such as would have been acceptable to a Reasonable, Prudent Mortgage Lender at that time;
- each Property on completion of the mortgage was insured under: (i) a buildings insurance policy arranged by or on behalf of the Borrower in accordance with the relevant Mortgage Conditions; or (ii) the Block Insurance Policy;
- immediately prior to the purchase of any Loan and the Related Security by the LLP, and subject to registration or recording at the Land Registry, the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security 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 of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan;
- there are no governmental 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 in a court in England and Wales which have not been obtained;
- in the event that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations each Loan and its Related Security will be **eligible property** for the purposes of Regulation 2 of the RCB Regulations;
- the rate of interest under each Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto;
- at the time of origination of the Loan or, as applicable, the date of such Further Advance or Product Switch, the relevant Property was owner-occupied.

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

Repurchase of Loans

If the Seller receives a Repurchase 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) any other Loans secured or intended to be secured by that Related Security that are included in the Portfolio. The repurchase price payable upon the repurchase of any Loan is an amount (not less than zero) equal to the True Balance thereof. The repurchase proceeds received by the LLP will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cashflows*" below).

In addition to the foregoing circumstances, the Seller will also be required to repurchase a Loan or Loans and its or their Related Security sold by the Seller to the LLP where:

- (a) a Further Advance made in respect of a Loan results in certain Eligibility Criteria being breached;
- (b) a Product Switch occurs. In these circumstances, the Seller will be able to offer to sell the affected Loan back to the LLP; or
- (c) a proposed Product Switch or Further Advance would result in the LLP being required to be regulated by the FSA by reason of it entering into a regulated mortgage contract. In these circumstances, if the Seller or Borrower accepts an offer for the Product Switch, the Servicer or administrator (as the case may be) will notify the LLP and the Seller will be required to repurchase the affected Loan or Further Advance before the Product Switch takes place.

Defaulted Loans

If a Seller receives a Repurchase Notice from the Cash Manager identifying any Defaulted Loan, 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 and its Related Security from the LLP for an amount equal to its True 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 or Loans and its Related Security from the LLP for a purchase price equal to the aggregate of the True Balance of the relevant Loan or Loans. 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 Selected Loans Offer Notice offering to sell those Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount, subject to the offer being accepted by the Seller within ten Business Days. 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 the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Loans and their Related Security to other Purchasers (as described under "*LLP Deed – Sale of Selected Loans and their Related Security 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 Business Days of such acceptance, serve a Selected Loan Repurchase Notice on the Seller. 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 Business Days after receipt of the Selected Loan Repurchase Notice by the LLP; and (b) the Final Maturity Date of the Earliest Maturing Covered Bonds).

For the purposes hereof:

Adjusted Required Redemption Amount means the Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of the LLP Accounts 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 by or to the LLP under the Interest Rate Swap Agreement.

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

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

Product Switches and Further Advances

The Seller is solely responsible for funding all Further Advances 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 Further Advances.

The LLP may require the Seller to repurchase any Loan and its Related Security in the event of a material breach of any of the Representations or Warranties or if any of those Representations or Warranties proves to be materially untrue in relation to that Loan. The LLP may also require the Seller to repurchase a Loan if any Product Switch or Further Advance in relation to that Loan will require the LLP to be regulated by the FSA by reason of it entering into or arranging a Regulated Mortgage Contract. If a Loan is subject to a Product Switch or an offer of a Further Advance, then the Seller may (at its sole discretion) offer to repurchase the Loan or Loans under the relevant Mortgage Account and the Related Security from the LLP. In either case, the sale price will be equal to the aggregate True Balance of such Loans.

A Loan will be subject to a **Product Switch** if there is a variation in the financial terms and conditions applicable to the relevant Borrower's Loan other than:

- any variation agreed with a Borrower to control or manage arrears on the Loan;
- any variation in the maturity date of the Loan;
- any variation imposed by statute or any variation in the frequency with which the interest payable in respect of the Loan is charged;
- any variation to the interest rate as a result of the Borrowers switching to a different rate;
- any change to a Borrower under the Loan or the addition of a new Borrower under a Loan or removal of a Borrower;
- any change in the repayment method of the Loan; or
- any partial release of security where, after such release, the Loan continues to satisfy the applicable LTV Ratio requirements.

Authorised Underpayments

In the event that the Seller permits a Borrower to make an Authorised Underpayment, the Seller will be required to pay to the LLP an amount equal to the unpaid interest associated with that Authorised Underpayment and the amount of any such payment representing capitalised interest in respect of that Authorised Underpayment shall constitute a Cash Capital Contribution by the Seller to the LLP.

New Sellers

In the future, any New Seller that wishes to sell loans and their Related Security to the LLP will accede to, *inter alia*, the Mortgage Sale Agreement and the LLP Deed as a Member. The sale of New Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;
- each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) or enters into a new mortgage sale agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;
- each New Seller accedes to the Programme Agreement and enters into such other documents as may be required by the Security Trustee, the Bond Trustee, and/or the LLP (acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;
- each New Seller ensures that any New Loans and their Related Security sold by a New Seller to the LLP comply with criteria equivalent to the Eligibility Criteria and representations and warranties equivalent to the Representations and Warranties set out in the Mortgage Sale Agreement;
- each New Seller procures that either the Servicer services the New Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into a servicing agreement which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (fees payable to the Servicer or the New Seller (or its nominee) acting as servicer of such New Loans and their Related Security would be determined on the date of the accession of the New Seller to the Programme);
- the LLP and the Cash Manager certify in writing to the Security Trustee that they are satisfied any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and
- that notification has been sent to Moody's and that it has received a Rating Agency Confirmation in relation to the accession of a New Seller to the Programme.

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

In addition, where the Seller intends to sell Loans to the LLP originated by a third party (and not the Seller) the sale of any Loans to the LLP shall be subject to Rating Agency Confirmations that the sale will not have an adverse effect on the then current ratings of the Covered Bonds then outstanding.

The Mortgage Sale Agreement will be governed by English law.

Servicing Agreement

Pursuant to the terms of the Servicing Agreement entered into on the Programme Date between the LLP, NPBS (in its capacity as Servicer and Seller) and the Security Trustee, the Servicer has agreed to service on behalf of the LLP (and, in the case of the Loans for so long as they are subject to the CCA Trust, on behalf of the Seller in its capacity as trustee of the CCA Trust) the Loans and their Related Security sold by the Seller to the LLP.

The Servicer will be required to manage the Loans and their Related Security 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 administration, arrears and enforcement policies and procedures forming part of the Seller's policy from time to time 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 management of those Loans and their Related Security.

Undertakings of the Servicer

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

- act as collection agent for the LLP under the Direct Debiting Scheme in accordance with the provisions of the Servicing Agreement;
- notify relevant Borrowers of any change in their Monthly Payments;
- keep records and accounts on behalf of the LLP in relation to the Loans and their Related Security comprised in 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;
- keep the Loan Files and save in relation to Dematerialised Loans, Title Deeds under its control in safe custody and maintain records necessary to enforce each Mortgage and where relevant any other Related Security and to provide the LLP and the Security Trustee with access to the Title Deeds (other than Title Deeds in relation to

Loans which are Dematerialised Loans) and other records relating to the administration of the Loans and their Related Security;

- maintain a register in respect of the Portfolio;
- keep any records necessary for all Taxation, including, without limitation, VAT;
- assist the auditors of the LLP and provide information to them upon reasonable request;
- provide a redemption statement upon the request of a relevant Borrower or the Borrower's solicitor or licensed conveyancer or otherwise at the discretion of the Servicer;
- notify relevant Borrowers of any other matter or thing which the applicable Mortgage Conditions or Offer Conditions require them to be notified of in the manner and at the time required by the relevant Mortgage Conditions or Offer Conditions;
- with effect on and from the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, provide to the FSA such information about the Loans and their Related Security contained in the Portfolio and/or such other information as the FSA may direct pursuant to Regulation 18 the RCB Regulations;
- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;
- take all reasonable steps to recover all sums due to the LLP, including instituting proceedings and enforcing any relevant Loan comprised in the Portfolio or its Related Security, using the discretion of a Reasonable, Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy; and
- take all other action and do all other things which it would be reasonable to expect a Reasonable, Prudent Mortgage Lender to do in servicing its loans and their related security.

The Servicer undertakes that in the event of the short-term ratings of the Account Bank falling below F1 by Fitch or P1 by Moody's, then it shall redirect any direct debits from Borrowers into accounts controlled by it in respect of Loans to a designated account held with another bank which has short-term ratings of at least F1 by Fitch and P1 by Moody's. The Servicer also undertakes that, on the Servicer ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by Fitch of at least BBB-, it will use reasonable efforts to enter into a master servicing agreement (in such form as the LLP and the Security Trustee shall reasonably require) with a third party within 60 days under which such third party will undertake the servicing obligations in relation to the Portfolio.

Setting of Standard Variable Rate and other discretionary rates and margins

Pursuant to the terms of the Mortgage Sale Agreement and in accordance with Mortgage Conditions applicable to certain of the Loans, the Seller has prescribed policies relating to interest rate setting, arrears management and handling of complaints which the LLP (and any subsequent purchaser thereof) will be required to adhere to following the transfer of Loans and their Related Security. Such arrears management and handling of complaints policies are consistent with those to be applied by the Servicer under the terms of the Servicing Agreement. The interest rate setting policy

specified in the Mortgage Sale Agreement is only applicable to Loans with interest rates which may be varied from time to time in the discretion of the lender and requires that such interest rates should be set in accordance with any applicable statement of good practice of the FSA or any other requirements or recommendations of the FSA with which it is customary to comply.

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 LLP Standard Variable Rate and any other discretionary rates and margins (in accordance with the policy to be adhered to by the LLP above) except in the limited circumstances described below in this subsection 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 legal title to the Portfolio (or any part thereof) to the LLP, without the prior consent of the LLP, set or maintain:

- (i) the LLP 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 Standard Variable Rate of the Seller which applies to mortgage loans beneficially owned by the Seller outside the Portfolio; and/or
- (ii) any other discretionary rate 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 or margin which applies to that type of mortgage loan beneficially owned by the Seller 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 LLP 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
- (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 the 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 Intercompany Loan or, if a Notice to Pay has been served, the Covered Bond Guarantee on each LLP Payment Date falling at the end of the Relevant LLP Payment Period and relevant 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 each LLP Payment Date of each Series of Covered Bonds 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 Priority of Payments applicable prior to an LLP Event of Default and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security.

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 Business Day, of the amount of the shortfall. If the LLP or the Security Trustee notifies the Servicer and the Seller that, having regard to the obligations of the LLP and the amount of the shortfall, further Loans and their Related Security should be sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, the Seller will use all reasonable endeavours to offer to sell New Loans and their Related Security to the LLP on or before the next Calculation Date which have a Standard Variable Rate and/or other discretionary rates

or margins sufficient to avoid such shortfall on future Calculation Dates. In consideration of such sale, the Seller will be treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans sold by the Seller as at the relevant Transfer Date) and will be entitled to receive the Deferred Consideration.

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

- (a) the LLP 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 0.20 per cent.

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 Business Day, of the amount of the shortfall and the LLP Standard Variable Rate and the other 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 LLP 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 or the Security Trustee notifies the Servicer that, having regard to the obligations of the LLP, the LLP Standard Variable Rate and/or the other discretionary rates or margins should be increased, the Servicer or replacement Servicer, as the case may be, will take all steps which are necessary to increase the LLP Standard Variable Rate and/or any other discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Terms.

The LLP and the Security Trustee (to the extent it has actual knowledge of the occurrence of a Servicer Event of Default) may terminate the authority of the Servicer to determine and set the LLP Standard Variable Rate and any other variable rates or margins on the occurrence of a Servicer Event of Default as defined under "*Removal or resignation of the Servicer*", in which case the LLP (with the prior written consent of the Security Trustee) will agree to appoint the replacement Servicer to set the LLP Standard Variable Rate and the other discretionary rates or margins itself in accordance with this sub-section.

Compensation

As full compensation for its servicing duties and activities and as reimbursement for any expense incurred by it in connection therewith, the Servicer or any substitute servicer which is a member of the NPBS Group is entitled to receive the fee from the LLP as set out in the Servicing Agreement. If, however, a servicer is appointed from outside the NPBS Group, the level of this fee may be amended.

Removal or resignation of the Servicer

The LLP (subject to the prior written consent of 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, each of the first three events set out below, a **Servicer Event of Default**) occurs:

- the Servicer defaults in the payment of any amount under the Servicing Agreement and fails to remedy that default for a period of three Business Days after the earlier of the Servicer becoming aware of the default and receipt by the Servicer of written notice from the Security Trustee or the LLP requiring the same be remedied;
- the Servicer fails to comply with any of its other obligations under the Servicing Agreement which failure in the opinion of the Bond Trustee is materially prejudicial to the Covered Bondholders and does not remedy that failure within the earlier of 20 Business Days after becoming aware of the failure and receipt by the Servicer of written notice from the Security Trustee or the LLP requiring the same be remedied;
- 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' written notice to the Security Trustee and the LLP provided that the LLP consents in writing, and a substitute servicer qualified to act as such under the FSMA and with a management team with experience of managing mortgages in the United Kingdom has been appointed and 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 Loan Files relating to the Loans managed 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 sold to the LLP and serviced under the Servicing Agreement that have been comprised in the Portfolio.

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

Neither the Bond Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

The Servicing Agreement will be governed by English law and will be made by way of deed.

Asset Monitor Agreement

Under the terms of the Asset Monitor Agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager and the Security Trustee, the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to report on the arithmetic accuracy of the calculations performed by the Cash Manager on the Calculation Date immediately prior to each anniversary of the Programme Date with a view to confirmation of compliance by the LLP with the Asset Coverage Test or the Amortisation Test, as applicable, on that Calculation Date.

If the long-term ratings of the Cash Manager or the Issuer fall below Baa3 or BBB- (by Moody's or Fitch, respectively), or if an Asset Coverage Test Breach Notice has been served and has not been revoked, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to report on such arithmetic accuracy following each Calculation Date and, following a determination by the Asset Monitor of any errors in the calculations performed by the Cash Manager such that the Asset Coverage Test has been failed on the applicable Calculation Date

(where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated 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 reporting on the arithmetic accuracy is true and correct and not misleading, and is not required to report as such or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

As of the Programme Date, the LLP will pay to the Asset Monitor a fee of up to £5,000 per report (exclusive of VAT) for the reports to be performed by the Asset Monitor.

The LLP may, at any time, only with the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor by giving at least 60 days' prior written notice to the Asset Monitor, and the Asset Monitor may, at any time, resign by giving at least 60 days' prior written notice to the LLP and the Security Trustee (such replacement to be approved by the Security Trustee (such approval to be given if the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement).

Upon receipt of a notice of resignation, the LLP shall immediately use its best endeavours to appoint a replacement (such replacement to be approved by the Security Trustee) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement. If a replacement is not appointed by the date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the LLP shall use all reasonable endeavours to appoint an accountancy firm of national standing to carry out the relevant tests on a one-off basis, provided that such appointment is approved by the Security Trustee.

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

The Asset Monitor Agreement will be governed by English law.

LLP Deed

The Members of 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, NPBS, the Liquidation Member, the Bond Trustee and the Security Trustee (the **LLP Deed**).

Members

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

For so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed to the Seller or if the Seller disposes of its interest in the Liquidation Member such that the Seller holds less than 20 per cent. of the share capital of the Liquidation Member (without the consent of the LLP and, whilst any Covered Bonds are outstanding, the Bond Trustee), the Seller will automatically cease to be a Member of the LLP and the outstanding balance of the Seller's Capital Contribution to the LLP will be converted into a subordinated debt obligation (the **Issuer Subordinated Loan**). In these circumstances, the Liquidation Member (acting on behalf of itself and the other Members) will admit a new Member to the LLP and will appoint such new Member as a Designated Member pursuant to the terms of the LLP Deed whilst the Covered Bonds are outstanding.

No New Member may be otherwise appointed without the consent of the Security Trustee which shall be given, upon receipt of a Rating Agency Confirmation.

Capital Contributions

From time to time NPBS (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 NPBS shall be calculated in Sterling on each Calculation Date as the difference between (a) the True Balance of the Portfolio as at the last day of the immediately preceding Calculation Period plus Principal Receipts standing to the credit of the LLP Accounts plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the immediately preceding Calculation Period and (b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the preceding Calculation Period.

The Liquidation Member 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.

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 Members (other than the Liquidation Member) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

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 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 Members (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see "*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Loans and their Related Security*") or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP (subject to the Bond Trustee having actual knowledge or express notice of the same) and the LLP or the Issuer shall send notice of the same to

the FSA pursuant to the RCB Regulations (if applicable). The Bond Trustee (subject to the Bond Trustee having actual knowledge or express notice of such breach) shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied (and it has actual knowledge or express notice of the same) and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

Following service of an Asset Coverage Test Breach Notice (which has not been revoked):

- (a) the LLP will be required to (or may, if the Extended Due for Payment Date of any Series of Covered Bonds is equal to the Long Date Due for Payment Date) sell Selected Loans (as described further under "*LLP Deed – Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice*");
- (b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in "*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below; and
- (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice. On the occurrence of an Issuer Event of Default, the Bond Trustee shall give notice of the same to the FSA pursuant to the RCB Regulations. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the LLP.

For the purposes hereof:

Adjusted Aggregate Loan Amount means the amount calculated on each Calculation Date for the last day of the immediately preceding Calculation Period as follows:

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

where,

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

(i) = the sum of the **Adjusted True Balance** of each Loan in the Portfolio, which shall be the lower of (1) the actual True Balance of the relevant Loan in the Portfolio as calculated on the last day of the immediately preceding Calculation Period and (2) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are less than three months in arrears or not in arrears, M = 0.75, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75 per cent., M = 0.40 and for all Loans that are three months or

more in arrears and have a True Balance to Indexed Valuation ratio of more than 75 per cent., $M = 0.25$),

minus

the aggregate sum of the following deemed reductions to the aggregate Adjusted True 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 was, 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 relevant Loan or Loans and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated in respect of the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the Adjusted True Balance of the relevant Loan or Loans (as calculated in respect of the last day of the immediately preceding Calculation Period); 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 any material term of the Servicing Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated in respect of the last day of the preceding Calculation Period) 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 by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss);

AND

- (ii) = the aggregate **Arrears Adjusted True Balance** of the Loans in the Portfolio which in relation to each Loan shall be the lower of (1) the True Balance of the relevant Loan on the last day of the immediately preceding Calculation Period and (2) the Indexed Valuation relating to that Loan multiplied by N (where for all Loans that are less than three months in arrears or not in arrears, $N = 1$, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75 per cent., $N = 0.40$ and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than 75 per cent., $N = 0.25$);

minus

the aggregate sum of the following deemed reductions to the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio if any of the following occurred:

- (1) a Loan or its Related Security was, 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 relevant Loan or Loans and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated in respect of the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the Arrears Adjusted True Balance of the relevant Loan or Loans (as calculated in respect of the last day of the immediately preceding Calculation Period); 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 Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the last day of the immediately preceding Calculation Period) 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 by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss),

the result of the calculation in this paragraph (ii) being multiplied by the Asset Percentage (as defined below);

- B = the aggregate amount of Principal Receipts on the Loans in the Portfolio during the immediately preceding Calculation Period (as recorded in the Collection Ledger) which have not been applied as at the relevant Calculation Date by or on behalf of the LLP to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;
- C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of any Term Advances which have not been applied as at the relevant Calculation Date by or on behalf of the LLP to acquire further Loans and their Related Security or otherwise applied in accordance with this Deed and/or the other Transaction Documents;
- D = the aggregate outstanding principal balance of any Substitution Assets;
- Y = an amount equal to the aggregate of all Deposit Set Off Amounts for each Borrower whose Loan is included in the Portfolio;
- 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* the Negative Carry Factor where the **Negative Carry Factor** is (i) 0.5 per cent. if the weighted average margin of the interest rate payable on the Covered Bonds is less or

equal to 0.1 per cent. per annum or (ii) 0.5 per cent. plus that margin minus 0.1 per cent., if that margin is greater than 0.1 per cent. per annum (provided that if the weighted average remaining maturity of all Covered Bonds then outstanding is less than one, the weighted average remaining maturity shall be deemed, for the purposes of this calculation, to be one).

Asset Percentage means 93.5 per cent. or such lesser percentage figure (i) as determined from time to time in accordance with the terms of the LLP Deed, being the asset percentage that is necessary to ensure the Covered Bonds maintain the then current rating assigned to them by Fitch and (ii) selected by the LLP (or the Cash Manager on its behalf) and notified to Moody's.

Save where otherwise agreed with Fitch, the Asset Percentage will be adjusted in accordance with its various rating agency methodologies to ensure that sufficient credit enhancement will be maintained. Notwithstanding the above, the Asset Percentage may not, at any time, exceed 93.5 per cent. unless otherwise agreed with the Rating Agencies.

In addition, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to the Security Trustee of the percentage figure selected by it, being the difference between 100 per cent. and the amount of credit enhancement required to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology (regardless of the actual Moody's rating of the Covered Bonds at the time). There is no obligation on the LLP to ensure that an Aaa rating is maintained by Moody's and the LLP is under no obligation to change the figure selected by it and notified to Moody's and the Security Trustee in line with the level of credit enhancement required to ensure an Aaa rating by Moody's, using Moody's expected loss methodology.

Amortisation Test

The LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) 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 shall not apply if the Extended Due for Payment of all Series of Covered Bonds is equal to the Long Date Due for Payment Date.

Following 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 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 and the Bond Trustee shall be entitled to serve an LLP Acceleration Notice in accordance with the Conditions.

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 True Balance** of each Loan, which shall be the lower of (1) the True Balance of the relevant Loan as calculated on the last day of the immediately preceding Calculation Period multiplied by M and (2) 100 per cent. of the Indexed Valuation relating to that Loan multiplied by M.

Where for all the Loans that are less than three months in arrears or not in arrears $M = 1$ or for all the Loans that are three months or more in arrears $M = 0.7$;

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

C = the aggregate 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** the Negative Carry Factor (provided that if the weighted average remaining maturity of all Covered Bonds then outstanding is less than one, the weighted average remaining maturity shall be deemed, for the purposes of this calculation, to be one).

Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice

After service of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security, the LLP (i) shall (if the Extended Due for Payment Date of no Series of Covered Bonds is equal to the Long Date Due for Payment Date) or (ii) may (if the Extended Due for Payment Date of any Series of Covered Bonds is equal to the Long Date Due for Payment Date) sell Selected Loans in the Portfolio and their Related Security in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Sale Agreement and in the case of (ii) only if the sale is for an amount not less than the Adjusted Required Redemption Amount. The proceeds from any such sale shall be credited to the GIC Account and applied as set out in the Priorities of Payments (see "*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below).

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

After a Notice to Pay has been served on the LLP but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the LLP will be (i) obliged (if the Extended Due for Payment Date of no Series of Covered Bonds is equal to the Long Date Due for Payment Date) or (ii) permitted (if the Extended Due for Payment Date of any Series of Covered Bonds is equal to the Long Date Due for Payment Date) to sell Selected Loans in the Portfolio and their Related Security in accordance with the LLP Deed (as described below), in each case 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 and in the case of (ii) only if the sale is for an amount not less than the Adjusted Required Redemption Amount. The proceeds from any such sale or refinancing will be credited to the GIC Account and applied as set out in the Guarantee Priority of Payments.

Method of Sale of Selected Loans

If the LLP is required to or may, as the case may be, sell Selected Loans and their Related Security to Purchasers following either the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will be required to ensure that before offering Selected Loans for sale:

- (a) the Selected Loans have been selected from the Portfolio on a random basis as described in the LLP Deed; and
- (b) the Selected Loans have an aggregate True Balance in an amount (the **Required True Balance Amount**) which is as close as possible to the amount calculated as follows:
 - (1) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their True Balance, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the Payment Date immediately following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or
 - (2) following service of a Notice to Pay:

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

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 LLP Accounts 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).

For the avoidance of doubt, the entire Portfolio may comprise Selected Loans.

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:

- (i) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay) and only if the Extended Due for Payment Date of no Series of Covered Bonds is equal to the Long Date Due for Payment Date, for an amount not less than the True Balance of the Selected Loans; and
- (ii) following service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay, 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, as applicable, (a) if the Earliest Maturing Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date

of the Earliest Maturing Covered Bonds or, (b) if the Earliest Maturing Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the earliest Extended Due for Payment Date in respect of the relevant Series of 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, provided that if the Extended Due for Payment Date of any Series of Covered Bonds is equal to the Long Date Due for Payment Date, the LLP will not be permitted to offer the Selected Loans for sale for a price that is less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay, 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 for sale 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 a Partial Portfolio. Except in circumstances where the portfolio of Selected Loans is being sold within six months of, as applicable, the Final Maturity Date or, (as applicable) if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

The LLP will through a tender process appoint a portfolio manager of recognised standing approved by the Security Trustee (the **Portfolio Manager**) on a basis intended to incentivise the Portfolio Manager to achieve the best price for the sale of the Selected Loans (on terms that 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 pursuant to the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment of the Portfolio Manager shall be in such form as is approved by the Security Trustee. The Security Trustee shall approve the appointment of the Portfolio Manager if (i) the Portfolio Manager is an investment bank or accountant of recognised standing and (ii) two Authorised Signatories of the LLP have certified to the Security Trustee that such appointment is on a basis intended to incentivise the Portfolio Manager to achieve the best price for the sale of the Selected Loans (on terms that are commercially available in the market), which certificate shall be conclusive and binding on all parties.

In respect of any sale or refinancing of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice that has not been revoked or a Notice to Pay, the LLP will instruct the Portfolio Manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable and in accordance with its recommendations (which shall take into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed).

The terms of any sale and purchase agreement with respect to the sale of Selected Loans (which shall give effect to the recommendations of the Portfolio Manager) will be subject to the prior written approval of the Security Trustee with such approval to be given if certain conditions as set out in the LLP Deed are met. 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.

Following the service of a Notice to Pay, if Purchasers accept the offer or offers from the LLP so that some or all of the Selected Loans and their Related Security shall be sold prior to the Final

Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, following the earliest Extended Due for Payment Date in respect of any Series of Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers. Any such sale will not include any warranties or indemnities from the LLP or the Seller in respect of the Loans and the Related Security unless expressly agreed by the Security Trustee in accordance with the terms of the LLP Deed and unless otherwise agreed with the Seller.

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 Deed 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 Committee (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by the Transaction Documents:

- (a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future (unless arising by operation of law) other than as created or permitted in the Deed of Charge;
- (b) transfer, sell, lend, part with or otherwise 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 its properties or assets substantially as an entirety to any other 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 in the United States (directly or through agents) or derive any income from United States sources as determined under the United States income tax principles 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 as determined under United States tax principles;
- (i) establish any “establishment” as the term is used in Article 2(h) of the EU Insolvency Regulation;
- (j) enter into any contracts, agreements or other undertakings;

- (k) compromise, compound or release any debt due to it;
- (l) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or
- (m) be a member of any VAT Group.

In the event that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations as amended, the LLP further covenants that from and including the date on which the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations it will:

- (i) ensure that the Asset Pool will only comprise those assets set out in items (a) to (h) of Regulation 3(1) (*Asset Pool*) of the RCB Regulations;
- (ii) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of "eligible property" in Regulation 2 (*Eligible Property*) of the RCB Regulations;
- (iii) keep a record of those assets that form part of the Asset Pool which, for the avoidance of doubt, shall not include any Swap Collateral; and
- (iv) at all times comply with its obligations under the RCB Regulations and/or the RCB Sourcebook.

Limit on Investing in Substitution Assets and Authorised Investments

Prior to the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances standing to the credit of the LLP Accounts in Substitution Assets, provided that the aggregate amount so invested in Substitution Assets does not exceed 15 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. Depositing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

Following service of an Asset Coverage Test Breach Notice (if not revoked) or 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 LLP Accounts 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.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments.

Other Provisions

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under "*Cashflows*" below.

The LLP Management Committee, comprised as at the Programme Date of directors, officers and/or employees of NPBS and one director, officer or employee of the Liquidation Member, 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 LLP Management Committee relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not dissolve or purport to dissolve the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed *inter alia* not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or the Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

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

Following the appointment of a liquidator to any Member (other than the Liquidation Member), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only.

The LLP Deed will be governed by English law.

Cash Management Agreement

The Cash Manager will provide certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement entered into on the Programme Date between the LLP, NPBS in its capacities as the Cash Manager, Seller and Servicer and the Security Trustee and the Bond Trustee.

The Cash Manager's services include but are not limited to:

- (a) operating the LLP Accounts;
- (b) maintaining the Ledgers on behalf of the LLP;
- (c) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable;
- (d) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under Cashflows, below;
- (e) 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";
- (f) determining whether the Amortisation Test is satisfied on each Calculation Date following an Issuer Event of Default in accordance with the LLP Deed, as more fully described under "*Credit Structure – Amortisation Test*", below;
- (g) to the extent that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, providing the FSA with information on the composition of any Substitution Assets and/or Authorised Investments comprised in the assets of the LLP

and/or such other information as may be required by the FSA in accordance with the RCB Regulations; and

- (h) preparation of Monthly Asset Coverage Reports for the LLP, the Seller, the Rating Agencies, the Security Trustee and the Bond Trustee.

In certain circumstances the LLP, with the consent of the Security Trustee, will have the right to terminate the appointment of the Cash Manager in which event the LLP will appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). 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).

The Cash Management Agreement will be governed by English law.

Interest Rate Swap Agreement

Some of the Loans in the Portfolio from time to time will pay a variable rate of interest for a period of time that may be linked either to the Seller's Standard Variable Rate or linked to an interest rate other than the Seller's Standard Variable Rate, such as a rate that tracks the Bank of England base rate. Other Loans will 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 one-month Sterling deposits. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Loans in the Portfolio; and
- (b) LIBOR for one-month Sterling deposits,

the LLP, the Interest Rate Swap Provider and the Security Trustee will enter into the Interest Rate Swap Agreement on the Programme Date.

Under the terms of the Interest Rate Swap Agreement, in the event that the relevant ratings of the Interest Rate Swap Provider, or any guarantor of the Interest Rate Swap Provider's obligations, is 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 or any guarantor of the Interest Rate Swap Provider's obligations, the Interest Rate Swap Provider will, in accordance with the terms of the Interest Rate Swap Agreement, be required to take certain remedial measures which, depending on the relevant Rating Agency, may include providing collateral for its obligations under the Interest Rate Swap, arranging for its obligations under the Interest Rate Swap to be transferred to an entity with ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swap (such guarantee to be provided in accordance with the then-current guarantee criteria of the relevant Rating Agency), or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the LLP to terminate the Interest Rate Swap Agreement. The Interest Rate Swap Provider will not be obliged to take such remedial action expressed to be required by Fitch in the Interest Rate Swap an appropriate election has been made in accordance with the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances, together with any other events of default and termination events set out in the Interest Rate Swap Agreement (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 (for the avoidance of doubt, no such failure to pay by the LLP will entitle the Interest Rate

Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full);

- upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any guarantor of the Interest Rate Swap Provider's obligations, certain insolvency-related events in respect of the LLP, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap Agreement;
- at the option of the Interest Rate Swap Provider if it becomes obliged to receive payments net of any withholding or is obliged to gross up any payments it makes under the Interest Rate Swap Agreement;
- upon a change in law which results in the illegality of the obligations to be performed by either party under the Interest Rate Swap Agreement;
- if any of the Additional Tax Representations (as defined in Part 2(b) of the Interest Rate Swap Agreement) proves to have been incorrect or misleading in any material respect with respect to one or more Transactions when made or repeated or deemed to have been made or repeated; if any of the Priorities of Payment is amended such that the LLP's obligations to the Interest Rate Swap Provider becomes further contractually subordinated to the LLP's obligations to any other Secured Creditor; or
- upon service by the Bond Trustee of an LLP Acceleration Notice on the LLP.

Upon the termination of the Interest Rate Swap Agreement pursuant to an Interest Rate Swap Early Termination Event, 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 a withholding or deduction for or on account of taxes is imposed on payments made by the Interest Rate Swap Provider to the LLP under the Interest Rate Swap Agreement, the Interest Rate Swap Provider shall always be obliged to gross up those payments so that the amount received by the LLP is equal to the amount which would have been received in the absence of such withholding or deduction. If a withholding or deduction for or on account of taxes is imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap Agreement, the LLP shall not be obliged to gross up those payments.

Any Swap Collateral Excluded Amounts or amounts payable in respect of Tax Credits will be paid to the Interest Rate Swap Provider directly and not via the Priorities of Payments.

The Interest Rate Swap Provider may transfer all its interest and obligations in and under the relevant Interest Rate Swap Agreement to a transferee with the minimum ratings required by each of the Rating Agencies, without any prior written consent of the Security Trustee, subject to certain conditions.

If the LLP is required to or elects to sell Selected Loans in the Portfolio following an Issuer Event of Default and service of a Notice to Pay or LLP Acceleration Notice on the LLP, then the LLP may either:

- (a) require that the Interest Rate Swap in respect of such Selected 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) request that the Interest Rate Swap in respect of such Selected Loans will be partially novated to the purchaser of such Selected Loans, such that each purchaser of Selected Loans will thereby become party to a separate interest rate swap transaction with the relevant Interest Rate Swap Provider.

Under the Interest Rate Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property available for distribution to the Interest Rate Swap Provider under the Priorities of Payment. To the extent that the LLP is unable to make any payment in full under any Interest Rate Swap due to its assets being insufficient to make such payment in full, the relevant Interest Rate Swap Provider's payment obligations will rateably reduce.

If the LLP (or a Member) receives any Tax Credits in respect of an Interest Rate Swap prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, payment in respect of such Tax Credits will be used, to the extent provided for in the Interest Rate Swap Agreement to reimburse the Interest Rate Swap Provider for any gross up in respect of any withholding or deduction made under the Interest Rate Swap Agreement. Prior to the occurrence of an LLP Event of Default and the service of an LLP Acceleration Notice, any Swap Collateral Excluded Amounts in respect of the Interest Rate Swap will be returned to the Interest Rate Swap Provider subject to the terms of the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement will be governed by English law.

Covered Bond Swap Agreements

The LLP will enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers. Each Covered Bond Swap will provide a hedge against certain interest rate and currency risks in respect of amounts received by the LLP under the Loans and the relevant Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP or LLP Acceleration Notice) and amounts that are Due for Payment under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP or LLP Acceleration Notice).

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 each Covered Bond Swap in relation to a Series or Tranche on the relevant Issue Date of such Series or Tranche, the LLP will, if such Series or Tranche of the Covered Bond is denominated in a Specified Currency other than Sterling, pay to the Covered Bond Swap Provider the amount in the Specified Currency 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 Provider will pay to the LLP an amount equal to the Sterling Equivalent of the amount received by the Covered Bond Swap Provider from the LLP. After the relevant Issue Date, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date an amount in the Specified Currency that is equal to the amount that is due and payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan or that is Due for Payment under 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 Provider on each LLP Payment Date an amount in Sterling calculated by reference to LIBOR for one month Sterling deposits plus a spread and, where relevant, the Sterling Equivalent of any interest and principal that is due and payable in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement or that is Due for Payment under the Covered Bond Guarantee.

If a Covered Bond Swap relates to a Series or Tranche of the Covered Bonds that is denominated in a currency other than Sterling and on a date prior to either (i) the Final Maturity Date

in respect of such relevant Series or Tranche of Covered Bonds or (ii) any Interest Payment Date from (but excluding) the Final Maturity Date up to (and including) the relevant Extended Due for Payment Date (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6(a) (Redemption and Purchase – Final redemption) of the Terms and Conditions of the Covered Bonds), the LLP notifies (pursuant to the terms of the Covered Bond Swap) the relevant Covered Bond Swap Provider of the amount in the Specified Currency to be paid by the Covered Bond Swap Provider on such Final Maturity Date or final Interest Payment Date (such amount being equal to the Final Redemption Amount or the relevant portion thereof payable by the LLP on such Final Maturity Date or final Interest Payment Date under the Covered Bond Guarantee in respect of the relevant Series or Tranche of Covered Bonds), then the Covered Bond Swap Provider will pay to the LLP such amount in the Specified Currency and the LLP will pay the Covered Bond Swap Provider the Sterling Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 9(b) (Events of Default and Enforcement – LLP Events of Default), the Covered Bond Swap Provider will pay to the LLP such Early Redemption Amount (or the relevant portion thereof) in the Specified Currency and the LLP will pay the Covered Swap Provider the Sterling Equivalent thereof, following which the notional amount of the relevant Covered Bond Swaps will reduce accordingly.

Each Covered Bond Swap will terminate on the earlier of:

- (a) the Final Maturity Date or, if the LLP notifies the Covered Bond Swap Provider, prior to the Final Maturity Date, of the inability of the LLP to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount, the final Interest Payment Date on which an amount representing the Final Redemption Amount is paid (but in any event not later than the Extended Due for Payment Date); and
- (b) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments, following the enforcement of the Security pursuant to Condition 9(b) (Events of Default and Enforcement – LLP Events of Default).

Under the terms of each Covered Bond Swap Agreement, in the event that the relevant rating of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations under the Covered Bond Swap Agreement are downgraded by a Rating Agency below the ratings specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations under the Covered Bond Swap Agreement, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which, depending on the relevant Rating Agency, may include providing collateral for its obligations under the Covered Bond Swap Agreement, arranging for its obligations under the Covered Bond Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the Covered Bond Swap Agreement (such guarantee to be provided in accordance with the then-current guarantee criteria of the relevant Rating Agency), or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the LLP to terminate the Covered Bond Swap Agreement.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement (for the avoidance of doubt, no such failure to pay by the LLP will entitle the relevant Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full);
- upon the occurrence of the insolvency of the relevant Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations under the Covered Bond Swap Agreement, certain insolvency-related events in respect of the LLP or the merger of the Covered Bond Swap Provider without an assumption of its obligations under the relevant Covered Bond Swap Agreement;
- at the option of the Covered Bond Swap Provider if it becomes obliged to receive payments net of any withholding or is obliged to gross up any payments it makes under the Covered Bond Swap Agreements;
- at the option of either party upon a change in law which results in the illegality of the obligations to be performed by either party under the Covered Bond Swap Agreements;
- upon the redemption and/or cancellation of any series of Covered Bonds in whole or part in accordance with the Conditions;
- if any of the Additional Tax Representations (as defined in Part 2(b) of the Covered Bond Swap Agreement) prove to have been incorrect or misleading in any material respect with respect to one or more Transactions when made or repeated or deemed to have been made or repeated;
- if any of the Priorities of Payment is amended such that the LLP's obligations to the Covered Bond Swap Provider becomes further contractually subordinated to the LLP's obligations to any other Secured Creditor; or
- upon service by the Bond Trustee of an LLP Acceleration Notice on the LLP.

Upon the termination of a Covered Bond Swap Agreement pursuant to a Covered Bond Swap Early Termination Event, the LLP or the relevant 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 the Specified Currency of the related Series or Tranche of Covered Bonds.

Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap Agreement will first be used (prior to the service of a Notice to Pay on the LLP or an LLP Acceleration Notice) to pay one or more replacement Covered Bond Swap Providers to enter into one or more replacement Covered Bond Swaps with the LLP, unless one or more replacement Covered Bond Swap Agreements has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap Agreement, unless such termination payment has already been made on behalf of the LLP.

Any or Swap Collateral Excluded Amounts or amounts payable in respect of Tax Credits will be paid to the Covered Bond Swap Provider directly and not via the Priorities of Payments.

A Covered Bond Swap Provider may transfer all its interest and obligations in and under the relevant Covered Bond Swap Agreement to a transferee with the minimum ratings required by each of the Rating Agencies, without any prior written consent of the Security Trustee, subject to certain conditions.

If a withholding or deduction for or on account of taxes is imposed on payments made by any Covered Bond Swap Provider to the LLP under a Covered Bond Swap Agreement, such Covered Bond Swap Provider shall always be obliged to gross up those payments so that the amount received by the LLP is equal to the amount which would have been received in the absence of such withholding or deduction. If a withholding or deduction for or on account of taxes is imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap Agreement, the LLP shall not be obliged to gross up those payments.

In the event that the Covered Bonds are redeemed and/or cancelled 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 such termination will be taken into account in calculating:

- (i) the Adjustment Required Redemption Amount for the sale of Selected Loans; and
- (ii) the purchase price to be paid for the relevant Covered Bonds purchased by the LLP in accordance with Condition 6(f) (Redemption and Purchase – Early Redemption Amounts).

Under each Covered Bond Swap Agreement, recourse in respect of the LLP's obligations are limited to the Charged Property. To the extent that the LLP is unable to make any payment in full under any Covered Bond Swap due to its assets being insufficient to make such payment in full, the relevant Covered Bond Swap Provider's payment obligations will be rateably reduced.

The Covered Bond Swap Agreements will be governed by English law.

Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement entered into on the Programme Date between the LLP, the Account Bank, the Cash Manager and the Security Trustee, the LLP will maintain with the Account Bank, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge, the Transaction Account (to the extent maintained) into which, amounts may be deposited by the LLP prior to their transfer to the GIC Account. Monies standing to the credit of the GIC Account, and the Reserve GIC Account, if necessary, will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under **Cashflows**.

If the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank cease to be rated P-1 by Moody's, or F1 by Fitch then either:

- the Transaction Account (to the extent maintained) will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a bank whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's and F1 by Fitch; or
- the Account Bank will obtain an unconditional and unlimited guarantee of its obligations under the Bank Account Agreement from a financial institution whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated P-1 by Moody's and F1 by Fitch.

The Bank Account Agreement will be governed by English law.

Guaranteed Investment Contract

The LLP has entered into a Guaranteed Investment Contract (or **GIC**) with the GIC Provider, the Cash Manager and the Security Trustee on the Programme Date, and the LLP will maintain with the GIC Provider:

- (a) the GIC Account into which amounts may be deposited by the LLP (including, following the occurrence of an Issuer Event of Default which is not cured or waived within the applicable grace period, all amounts received from Borrowers in respect of Loans in the Portfolio); and
 - (b) the Reserve GIC Account into which the Reserve Fund may be deposited,
- (collectively, the **GIC Accounts**).

If the short term, unsecured, unsubordinated and unguaranteed debt obligations of the GIC Provider cease to be rated, P-1 by Moody's, or F1 by Fitch then either:

- the GIC Accounts (to the extent maintained) will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a bank whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's and F1 by Fitch; or
- the GIC Provider will obtain an unconditional and unlimited guarantee of its obligations under the Guaranteed Investment Contract from a financial institution whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated P-1 by Moody's and F1 by Fitch.

The Guaranteed Investment Contract is governed by English law.

Corporate Services Agreement

The Liquidation Member and Holdings have entered into a Corporate Services Agreement with, *inter alios*, Structured Finance Management Limited, (as Corporate Services Provider) on the Initial Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the Liquidation Member and Holdings respectively.

The Corporate Services Agreement is governed by English law.

Issuer – ICSDs Agreement

The Issuer has entered into an Issuer-ICSDs Agreement with Euroclear Bank S.A./N.V. and Clearstream Banking SA (the **ICSDs**) in respect of any Covered Bonds issued in NGCB form. The Issuer-ICSDs Agreement provides that the ICSDs will, in respect of any such NGCBs, maintain their respective portion of the issue outstanding amount through their records. The Issuer-ICSDs 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 secured obligations of the LLP and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are

secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

- (a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the Loans and their Related Security and other related rights comprised in the Portfolio;
- (b) an assignment by way of first fixed charge over the rights of the LLP in and to the Insurance Policies;
- (c) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party (and, in respect of the Interest Rate Swap Agreement and Covered Bond Swap Agreement, after giving effect to all applicable netting provisions therein);
- (d) 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 any Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;
- (e) 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
- (f) a first floating charge over all the assets and undertaking of the LLP.

Release of Security

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP), release those Loans from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if:

- (i) the Security Trustee provides its prior consent to the terms of such sale as described under "*LLP Deed – Method of Sale of Selected Loans*" above; and
- (ii) in the case of the sale of Selected Loans, the LLP provides to the Security Trustee a certificate 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 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 and shall if so directed by the Bond Trustee (so long as Covered Bonds are outstanding) or the other Secured Creditors if no Covered Bonds are outstanding 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 or realisation of the Security will

be applied in accordance with the Post-Enforcement Priority of Payments described under "*Cashflows*".

The Deed of Charge is governed by English law.

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. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to the Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds at all times;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP;
- a Reserve Fund (unless NPBS's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's) will be established in the Reserve GIC Account to trap Available Revenue Receipts; 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 Accounts at a rate of (i) with respect to the GIC Account, 0.35 per cent. per annum below LIBOR for one-month Sterling deposits and (ii) with respect to the Reserve GIC Account, 0.18 per cent. per annum below LIBOR for one-month Sterling deposits or such greater amount as the LLP and the GIC Provider may agree from time to time.

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 amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 9 (Events of Default and Enforcement) following the occurrence of an 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 the 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 and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Asset Coverage Test is not satisfied and such failure is not remedied on or before the next following Calculation Date, the Asset Coverage Test will be breached and (subject to the Bond Trustee having actual knowledge or express notice of such breach) the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of set-off on a Borrower's savings accounts held with the Seller 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 Documents – LLP Deed – Asset Coverage Test*", above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.

Amortisation Test

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, 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 and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where the Covered Bondholders may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. The Amortisation Test shall not apply if the Extended Due for Payment of all Series of Covered Bonds is equal to the Long Date Due for Payment Date. See further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*", above.

Reserve Fund

The LLP will be required (unless NPBS's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's), to establish the

Reserve Fund as a ledger held within the Reserve GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount. 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 in 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 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 or LLP Acceleration Notice 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 Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority:

- (a) prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;
- (b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);
- (c) following service of a Notice to Pay; and
- (d) following service of an LLP Acceleration Notice, realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

If the Transaction Account is closed in accordance with the terms of the Bank Account Agreement, any payment to be made to or from the Transaction Account shall, as applicable, be made to or from the GIC Account, or no payment shall be made at all if such payment is expressed to be from the GIC Account to the Transaction Account.

LLP Payment Dates will occur monthly.

Allocation and distribution of Available Revenue Receipts prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the security

Prior to the service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security and whilst amounts are outstanding in respect of the Covered Bonds, Available 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 the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date and the Reserve Fund Required Amount (if applicable).

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 and the Reserve GIC Account to the extent necessary to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments described below (after taking into account any Available Revenue Receipts standing to the credit of the Transaction Account) and (b) the amount of Available Revenue Receipts standing to the credit of the GIC Accounts.

If an LLP Payment Date is the same as an Interest Payment Date and the LLP or the Covered Bond Swap Provider has not been instructed by the Issuer or the LLP, as applicable, to pay amounts due to the Issuer under the Intercompany Loan to the Bond Trustee (or if so directed by the Bond Trustee) Principal Paying Agent under the Intercompany Loan Agreement, then the distribution of Available Revenue Receipts under items (e)(ii) to (k) of the Pre-Acceleration Revenue Priority of Payments will be delayed until the Issuer has made the scheduled interest and/or principal payments on that Interest Payment Date.

Prior to service on the LLP of an Asset Coverage Test Breach Notice that has not been revoked, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts as calculated on the immediately preceding Calculation Date will be applied by the LLP (or by the Cash Manager on its behalf) on each LLP Payment Date (except for amounts due to the Bond Trustee and the Security Trustee or to other third parties by the LLP or the Issuer under paragraphs (a) and (b) or Third Party Amounts, 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 *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 (including remuneration payable to it) in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee (including remuneration payable to it) in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable VAT (or other 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 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 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;
 - (ii) any remuneration and other amounts (including costs and expenses) then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the terms of the Agency Agreement, together with applicable VAT (or other similar taxes) thereon to the extent 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 and payable or to become due and payable to the Servicer pursuant to the terms of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager pursuant to the terms of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (iii) amounts (if any) then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Account Bank and/or GIC Provider (including costs) pursuant to the terms of the Bank Account Agreement and the Guaranteed Investment Contract respectively, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (iv) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (v) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (i) below), together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
 - (vi) in the event that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, amounts (if any) due and payable or to become due and payable in the immediately succeeding LLP Payment Period by the LLP to the FSA in respect of fees and to the FSA under the RCB Regulations (other than the initial registration fee);
- (d) *fourth*, in or towards payment of any amount due and payable 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) (except to the extent that such amounts have been paid out of any premium received from the replacement Interest Rate Swap Provider)) pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts (other than principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of:

- (i) any amounts due and payable or to become due and payable to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Provider) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) any amounts due and payable or to become due and payable (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (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 Collection Ledger maintained in respect of that account) until such Servicer Event of Default is either remedied by the Servicer or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
 - (g) *seventh*, in or towards a credit to the Reserve Ledger on the Reserve 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;
 - (h) *eighth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to each Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
 - (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement and any indemnity amount due to the Members pursuant to the LLP Deed;
 - (j) *tenth*, in or towards payment of the Subordinated Loan Interest Amount;
 - (k) *eleventh*, in or towards repayment of the Subordinated Loan;
 - (l) *twelfth*, to pay all remaining Available Revenue Receipts (except for an amount equal to the fee payable to the Liquidation Member in accordance with sub-paragraph (m) below and an amount equal to the profit to be paid to the Members in accordance with sub-paragraph (n) below) to the Seller in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP;
 - (m) *thirteenth*, in or towards payment of the fee of £50 (inclusive of any VAT) per annum due to the Liquidation Member; and
 - (n) *fourteenth*, towards payment *pro rata* and *pari passu* per annum to the Members of a certain sum (specified in the LLP Deed) as their profit for their respective interests as Members of the LLP.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap to each relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement or, as the case may be, to the Issuer in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and has not been revoked.

Any amounts (other than in respect of principal and other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable to the Issuer in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and has not been revoked.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement and any amounts (other than in respect of principal and other than Swap Collateral Excluded Amounts) received under the Covered Bond Swap Agreements on the LLP Payment Date but prior to the next following LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (e) above or the preceding two paragraphs, will be credited to the Collection Ledger on the relevant LLP Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If the LLP requires any Available Revenue Receipts or Available Principal Receipts to be exchanged into a currency other than Sterling, and such exchange would not be subject to or covered by the terms of a Covered Bond Swap Agreement, then the LLP (or the Cash Manager on its behalf) shall perform all necessary currency conversions at the then prevailing spot rate of exchange.

In accordance with the Intercompany Loan Agreement, the LLP shall (i) direct each Covered Bond Swap Provider to pay any amounts due to the LLP under a Covered Bond Swap, the proceeds of which would otherwise be applied by the LLP in accordance with item (e)(ii) of the Pre-Acceleration Revenue Priority of Payments or (iii)(b) of the Pre-Acceleration Principal Priority of Payments or (ii) pay such amounts that would be paid under item (e)(ii) of the Pre-Acceleration Revenue Priority of Payments or (iii)(b) of the Pre-Acceleration Principal Priority of Payments, in each case, directly to the Bond Trustee or (if so directed by the Bond Trustee) to the Principal Paying Agent, unless the Issuer has paid or discharged the corresponding payment under the relevant Series of Covered Bonds (in which case, the relevant amount shall be paid by the LLP to such account of the Issuer as is notified to the LLP by the Issuer for this purpose). In addition, the Issuer has directed the LLP to pay all sums to be paid to the Issuer under the Intercompany Loan to be paid to the Bond Trustee (or if so directed by the Bond Trustee) to the Principal Paying Agent.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such amounts shall be applied by the LLP (or by the Cash Manager on its behalf) on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

Each Member acknowledges that the profit paid pursuant to paragraph (n) of the Pre-Acceleration Revenue Priority of Payments above to each Member represents a reasonable commercial return to the Member from its involvement in the LLP and also agrees that such profits

will not be paid to the Members at a time when they knew or ought to have known that there was no reasonable prospect of avoiding an insolvent liquidation of the LLP as a result of such profit distribution.

If at any time after an Account Bank Relevant Event, there are amounts representing Revenue Receipts or Principal Receipts standing to the credit of the Transaction Account which are not available to be applied in accordance with paragraphs (a) to (n) of the Pre-Acceleration Revenue Priority of Payments above or paragraphs (i) to (iv) of the Pre-Acceleration Principal Priority of Payment below, such amounts will be credited to the appropriate ledger in the GIC Account on the LLP Payment Date.

Allocation and Distribution of Available Principal Receipts prior to service of an Asset Coverage Test Breach Notice which has not been revoked, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or the realisation of the security

Prior to service on the LLP of an Asset Coverage Test Breach Notice which has not been revoked, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security and whilst amounts are outstanding in respect of the Covered Bonds, Available Principal Receipts will be allocated and distributed as described below.

On each Calculation Date, the LLP (or the Cash Manager on its behalf) shall calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date, the LLP (or the Cash Manager on its behalf) will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments or credits described below (taking into account any Available Principal Receipts standing to the credit of the Transaction Account) and (b) the amount of all Available Principal Receipts standing to the credit of the GIC Account.

If an LLP Payment Date is an Interest Payment Date, then distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest and/or principal payments due and payable under the Covered Bonds on that Interest Payment Date save as provided for in the LLP Deed.

Pre-Acceleration Principal Priority of Payments

Subject to provisions of the LLP Deed relating to payments when the Covered Bonds have been repaid in full, prior to service on the LLP of an Asset Coverage Test Breach Notice that has not been revoked, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Principal Receipts (other than Cash Capital Contributions made from time to time by the Seller (in its capacity as a Member)) as calculated on the immediately preceding Calculation Date 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**) (in each case only if and to the extent that payments or provisions of a higher priority have been paid in full to the extent the same are payable on the relevant LLP Payment Date):

- (i) *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;

- (ii) *second*, to deposit the remaining Principal Receipts in the GIC Account(s) (with a corresponding credit to the Collection Ledger) in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test;
- (iii) *third*, in or towards repayment *pro rata* and *pari passu* on the LLP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine after taking into account any provisions previously made and, if applicable, any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine):
 - (a) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
 - (b) any amounts (in respect of principal) due or to become due and payable to the Issuer *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement; and
- (iv) *fourth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution to NPBS (as a Member) by way of distribution of its equity in the LLP in accordance with the LLP Deed.

Any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date to make payments in accordance with the Pre-Acceleration Revenue Priority of Payment or (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling in the future as the Cash Manager may reasonably determine, unless an Asset Coverage Test Breach Notice has been served on the LLP and has not been revoked.

Any amounts of principal (other than Swap Collateral Excluded Amounts) received by the LLP under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (c) above or the preceding paragraph will be credited to the Collection Ledger on the relevant LLP Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

Any Cash Capital Contributions made by NPBS (in its capacity as Member) other than those deemed to be Revenue Receipts or Principal Receipts from time to time shall, unless an Asset Coverage Test Breach Notice has been served and has not been revoked, be distributed to NPBS as a Capital Distribution by way of distribution of NPBS' equity in the LLP.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice

At any time after service on the LLP of an Asset Coverage Test Breach Notice that has not been revoked, but prior to service on the LLP of a Notice to Pay or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, respectively, save that, whilst any Covered Bonds remain outstanding, no monies will be applied under paragraphs (e)(ii) (unless such amounts are to be paid directly to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent), (i) (to the extent only that such amounts are payable to the Members), (j) or (k) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (i), (iii)(b) unless such amounts are to be paid directly to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent) or (iv) of the Pre-Acceleration Principal Priority of Payments. For the avoidance of doubt, after service of an Asset Coverage Test Breach Notice but prior to service of a Notice to Pay, any amounts due from the Covered Bond Swap Provider shall be paid directly to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent.

Allocation and Distribution of Monies following service of a Notice to Pay

At any time after service on the LLP of a Notice to Pay, but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings in respect of the LLP and/or realisation of the Security, Available Revenue Receipts and Available Principal Receipts standing to the credit of the LLP Accounts will be applied as described below under "*Guarantee Priority of Payments*".

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Collection Ledger, the Reserve Ledger or the Capital Account Ledger, as the case may be, to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the LLP Accounts.

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 dates thereof.

Guarantee Priority of Payments

On each LLP Payment Date after the service on the LLP of a Notice to Pay (but prior to the service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings in respect of the LLP and/or realisation of the Security), the LLP (or the Cash Manager on its behalf) will apply Available Revenue Receipts and Available Principal Receipts as calculated on the immediately preceding Calculation Date 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 applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any remuneration and other amounts (including costs and expenses) then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the terms of the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent 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 and payable or to become due and payable to the Servicer in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (iii) amounts (if any) due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Account Bank and/or GIC Provider (including costs) pursuant to the terms of the Bank Account Agreement and/or the Guaranteed Investment Contract, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (iv) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Corporate Services Provider pursuant

to the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

- (v) to the extent that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, amounts (if any) due and payable to the FSA or to become due and payable in the immediately succeeding LLP Payment Period under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
 - (vi) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor (other than the amounts referred to in paragraph (k) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (d) *fourth*, in or towards payment 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) (except to the extent that such amounts have been paid out of any premium received from the replacement Interest Rate Swap Provider) 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) the amounts due and payable (or to become due and payable in the immediately succeeding LLP Payment Period) to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Provider)) pursuant to 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,

but, in the case of any such payment or provision, after taking into account any amounts received or receivable from the Interest Rate Swap Provider in respect of the Interest Rate Swap and, if applicable, any amounts (other than in respect of principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received or to be received from the relevant 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 sub-paragraph (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 Covered Bond Swap under sub-paragraph (e)(i) above shall be reduced by the amount of the shortfall applicable to the Series of 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 (or to become due and payable in the immediately succeeding LLP Payment Period) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to 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,

but, in the case of any such payment or provision, after taking into account any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received or to be received from the relevant 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 relevant Series of Covered Bonds under sub-paragraph (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 Covered Bond Swap under sub-paragraph (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*, in respect of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date (the **Extended Covered Bonds**) where the Extended Due for Payment Date is one year or less from the relevant LLP Payment Date and any relevant Covered Bond Swap in respect thereof, on a *pro rata* and *pari passu* basis according to the respective amounts thereof:

(i) the amounts (in respect of principal) due and payable to each relevant Covered Bond Swap Provider (or to become due and payable in the immediately succeeding LLP Payment Period) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to 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* the Final Redemption Amount or the relevant proportion thereof under the relevant Covered Bond Guarantee in respect of each relevant Series of Extended Covered Bonds,

but, in the case of any such payment, after taking into account any amounts (in respect of principal) received or receivable from the relevant Covered Bond Swap Provider in respect of the relevant Covered Bond Swap corresponding to the Extended Covered Bonds on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (g) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final Redemption Amount in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (g)(ii) above, the shortfall shall be divided amongst all such Series of Extended Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (g)(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;

(h) *eighth*, in respect of any Extended Covered Bonds where the Extended Due for Payment Date is more than one year from the relevant LLP Payment Date and any relevant Covered Bond Swap in respect thereof, on a *pro rata* and *pari passu* basis according to the respective amounts thereof:

(i) the amounts (in respect of principal) due and payable to each relevant Covered Bond Swap Provider or to become due and payable in the immediately succeeding LLP Payment Period *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to 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* the Final Redemption Amount or the relevant proportion thereof under the relevant Covered Bond Guarantee in respect of each relevant Series of Extended Covered Bonds,

but, in the case of any such payment, after taking into account any amounts (in respect of principal) received or receivable from the relevant Covered Bond Swap Provider in respect of the relevant Covered Bond Swap corresponding to the Extended Covered Bonds on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (h) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final Redemption Amount in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (h)(ii) above, the shortfall shall be divided amongst all such Series of Extended Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (h)(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;

(i) *ninth*, to deposit the remaining monies in the GIC Accounts for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (h) (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);

- (j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to each Covered Bond, the relevant Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (k) *eleventh*, 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 monies will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;
- (l) *twelfth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed (and if NPBS is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (m) *thirteenth*, in or towards payment of the Subordinated Loan Interest Amount;
- (n) *fourteenth*, in or towards repayment of the Subordinated Loan; and
- (o) *fifteenth*, thereafter any remaining monies will be applied in accordance with the LLP Deed.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement or, as the case may be, to the Issuer in respect of Scheduled Interest that is Due for Payment (or will become Due for Payment) under the Covered Bond Guarantee in respect of each relevant Series of Covered Bonds.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap Agreement (whether or not in respect of principal) after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments of interest or principal, as the case may be, in respect of the relevant Series of Covered Bonds under the Covered Bond Guarantee.

Any amounts (other than Swap Collateral Excluded Amounts) received under the Interest Rate Swap Agreement or any Covered Bond Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (e), (f), (g) or (h) of the Guarantee Priority of Payments and of the two preceding paragraphs will be credited to the Collection Ledger and the relevant LLP Account and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding LLP Payment Date.

If the LLP requires any Available Revenue Receipts or Available Principal Receipts to be applied to be exchanged into a currency other than Sterling, and such exchange would not be subject to or covered by the terms of a Covered Bond Swap Agreement, then the LLP (or the Cash Manager on its behalf) shall perform all necessary currency conversions at the then prevailing spot rate of exchange.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such amounts shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

Termination payments, certain amounts received in respect of Swaps, and premiums received in respect of replacement Swaps

If the LLP receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) with the LLP, unless a replacement Swap Agreement(s) has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap Agreement, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap Agreement(s), unless such termination payment has already been made on behalf of the LLP.

Any termination payments received by the LLP which are not applied to pay any premium to a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) will be credited to the Collection Ledger and the LLP Accounts and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

Any premium received by the LLP from replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) which are not applied to pay a termination payment to the replaced Swap Provider will be credited to the Collection Ledger or the LLP Accounts and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If the LLP is required under the terms of any Swap Agreement to make a payment to a Swap Provider in consequence of the receipt by a Member of a credit, set off or payment in respect of any taxation (an **LLP Tax Payment**), then such Member shall pay to the LLP an amount equal to the LLP Tax Payment on the date on which such LLP Tax Payment is due to be made by the LLP under the terms of such Swap Agreement.

In certain circumstances, the LLP may receive (pursuant to section 2(d)(ii) of the relevant Swap Agreement) payment of certain amounts from the Swap Provider on a Member's behalf. The LLP shall account for such amounts to any Member that suffered loss due to the circumstances giving rise to the Swap Provider Tax Payment and shall pay amounts upon receipt to such a Member.

Amounts received by the LLP, in accordance with this section shall not be funds of the LLP and will not be construed to be amounts received in respect of Available Revenue Receipts or Available Principal Receipts.

Application of monies received by the Security Trustee following the occurrence of an LLP Event of Default and enforcement of the Security, realisation of the Security and/or the commencement of winding-up proceedings against the LLP

All monies received or recovered by the Security Trustee (or a Receiver appointed by it) (excluding all amounts due or to become due in respect of Tax Credits, Third Party Amounts, Swap Collateral Excluded Amounts or Swap Provider Tax Payments) after the service of an LLP Acceleration Notice, the commencement of winding-up proceedings against the LLP and/or realisation of the Security, for the benefit of the Secured Creditors in respect of the Secured Obligations, shall be held by it in the LLP Accounts on trust to be applied (save to the extent required

otherwise by law) in the following order of priority and, in each case, only if and to the extent that payments of a higher order of priority have been made in full (the **Post-Enforcement Priority of Payments**):

- (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:
 - (A) the Bond Trustee (including remuneration payable to it) under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and
 - (B) the Security Trustee (including any remuneration payable to it) and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) any remuneration and other amounts (including costs and expenses payable to it) then due and payable to the Agents under the provisions of the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (iii) amounts in respect of:
 - (A) 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, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (B) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (C) amounts (if any) due and payable to the Account Bank and the GIC Provider (including costs) pursuant to the terms of the Bank Account Agreement and the Guaranteed Investment Contract, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
 - (D) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (iv) 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;
 - (v) the amounts due and payable:

- (A) 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
- (B) under the Covered Bond Guarantee to the Bond Trustee or, if so directed by the Bond Trustee, to the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds;

provided that if the amount available for distribution under this paragraph (a)(v) (excluding any amounts received from any Covered Bond Swap Provider in respect of amounts referred to in sub-paragraph (A) above) 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 sub-paragraph (B) 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 Covered Bond Swap under (A) above shall be reduced by the amount of the shortfall applicable to the Series of Covered Bonds in respect of which such payment is to be made;

- (b) *second*, 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 each Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (c) *third*, after the Covered Bonds have been fully repaid, any remaining monies shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;
- (d) *fourth*, towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts overdue to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (e) *fifth*, thereafter any remaining monies shall be applied in or towards payment to the Members (and, if the Society is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan pursuant to the LLP Deed),

provided that if the Programme or any Series of Covered Bonds issued under the Programme has not been admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations and in the absence of Regulations 28 and 29 of the RCB Regulations being applicable, items (i) to (v) of (a) above shall not be applied *pari passu* but shall be applied in accordance with the order of priority set out in paragraph (a), with amounts being applied in respect of paragraph (a)(i) (with items (A) and (B) thereof being paid on a *pro rata* and *pari passu* basis), then paragraph (a)(ii), then paragraph (a)(iii) (with items (A) to (D) thereof being paid on a *pro rata* and *pari passu* basis), then paragraph (a)(iv) and then paragraph (a)(v) (with items (A) and (B) thereof being paid on a *pro rata* and *pari passu*

basis), in each case only if and to the extent that payment in respect of a higher order of priority has been made in full.

If the LLP receives any amounts in respect of Tax Credits in respect of a Swap following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, such Tax Credits will be used to reimburse the relevant Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Swap. Following the occurrence of an LLP Event of Default and the service of an LLP Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Swap will be returned to the relevant Swap Provider subject to the terms of the relevant Swap Agreement and any Third Party Amounts will be returned to the Seller.

If the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations, the above Post-Enforcement Priority of Payments will be subject to the provisions of Regulations 28 and 29 of the RCB Regulations. In particular, under the RCB Regulations costs properly incurred by a receiver, liquidator, administrator, provisional liquidator, administrative receiver or manager of the LLP in relation to:

- (i) persons providing services for the benefit of Covered Bondholders (which are likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));
- (ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and
- (iii) any other persons (other than the Issuer) providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in paragraphs (i) and (ii) above (e.g. liquidity loans),

shall be expenses of the winding-up, administration, administrative receivership or receivership, as the case may be, and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further, "*Risk Factors – Expenses of Insolvency officeholders*".

THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**) consists (or will consist) 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 will be delivered on the First Transfer Date pursuant to the Mortgage Sale Agreement (other than any Loans and their Related Security which have been redeemed in full prior to the First Transfer Date), and all right, title, interest and benefit of the Seller in and to:

- (a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Interest, Capitalised Expenses Capitalised Arrears), and any Further Advances 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 monies, 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 Conditions;
- (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; and
- (e) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof.

New Portfolio means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (e) above in relation to such New Loans and their Related Security.

See also the following risk factors under "*Risk Factors – Risk Factors relating to the LLP – Limited description of the Portfolio – Maintenance of Portfolio– Changes to the Lending Criteria of the Seller*".

DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

The Regulated Covered Bonds Regulations 2008 (SI 2008/346) (the **RCB Regulations**) and the corresponding implementation provisions, set out in the new RCB Sourcebook to the FSA's Handbook (the **RCB Sourcebook**), came into force in the UK on 6 March 2008. In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 22(4) of Directive 85/611 EC on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting. The FSA will notify the European Commission of an issuer's inclusion in the register of issuers, a covered bond included in the register of regulated covered bonds and the status of the guarantee offered in respect of such covered bonds once the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made, covered bonds are not UCITS compliant.

The RCB Regulations and the RCB Sourcebook include various requirements related to issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FSA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FSA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above). While the framework has been shaped to generally accommodate existing UK covered bond structures (such as that contemplated in respect of Covered Bonds issued under the Programme), certain changes are required to ensure such structures to meet the requirements of the RCB Regulations.

The FSA will perform certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FSA has certain powers under the RCB Regulations. In particular, in certain circumstances the FSA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

The Issuer does not currently intend to apply to the FSA for the Issuer, the Programme nor any Series of Covered Bonds to be admitted to the register of regulated covered bonds under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme will be so registered or regulated.

See also "*Risk Factors – UK regulated covered bond regime*" and "*– Expenses of insolvency officeholders*".

DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England and Wales under the Limited Liability Partnership Act 2000 (the **LLPA 2000**). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

Corporate characteristics

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, 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 (as amended by the Limited Liability Partnerships (Amendment) Regulations 2005) 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

A limited liability partnership which carries on a trade, profession or other business with a view to profit (and which is not the subject of certain insolvency proceedings) is, generally speaking, treated as a partnership for corporation tax purposes. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are subject to corporation tax in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are subject to corporation tax in relation to the business of that partnership.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Covered Bonds

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

Transfers of Covered Bonds Represented by Registered Global Covered Bonds

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered

Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom law and HM Revenue & Customs (HMRC) practice. They relate only to the position of persons who are the absolute beneficial owners of their Covered Bonds and all payments made thereon and may not apply to certain classes of persons such as dealers. They do not necessarily apply where the income is deemed for tax purposes to be income of any other person. Any holders of Covered Bonds who are in doubt as to their tax position should consult their professional advisers. The following comments relate only to withholding and do not deal with any other aspect of the United Kingdom taxation treatment that may be applicable to holders of Covered Bonds (including, for instance, income tax, capital gains tax and corporation tax). Prospective holders of Covered Bonds should note that the particular terms of issue of any Series of Covered Bonds as specified in the applicable Final Terms may affect the tax treatment of that and any other Series of Covered Bonds and should be treated with appropriate caution. The comments below do not deal with the tax consequences of any substitution of the Issuer in accordance with Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) of the Covered Bonds.

Holders of Covered Bonds who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of Covered Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Covered Bonds. In particular, holders of Covered Bonds should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Payment of interest by the Issuer in respect of the Covered Bonds

Interest on the Covered Bonds may be paid by the Issuer without withholding or deduction for or on account of United Kingdom income tax where (a) the Covered Bonds are and continue to be listed on a "recognised stock exchange", as defined in Section 1005 of the Income Tax Act 2007 (ITA) (the London Stock Exchange is a recognised stock exchange and securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the Professional Securities Market of the London Stock Exchange); or (b) at the time the interest on the Covered Bond is paid, the Issuer reasonably believes (and any person by or through whom interest on the Covered Bond is paid reasonably believes) the interest constitutes an "excepted payment" within the meaning of any of sections 933 to 937 of ITA, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available 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 generally be withheld from payments of interest on the Covered Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any direction to the contrary by HMRC under an applicable double taxation treaty. In the event of a withholding or deduction for or on account of United Kingdom income tax being made in respect of a payment of interest made by the Issuer in respect of the Covered Bonds, the Issuer will, save in the circumstances described in "*Terms and Conditions of the Covered Bonds – Taxation*" pay

such additional amounts as are described in “*Terms and Conditions of the Covered Bonds – Taxation*”.

Covered Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to, or receives interest for the benefit of, a Covered Bondholder (regardless of whether tax is required to be withheld or deducted from such interest), or who either pays amounts payable on the redemption of the Covered Bonds which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to, or receives amounts for the benefit of, a Covered Bondholder, although HMRC published practice is that it will not exercise its power to require this information in respect of amounts payable on the redemption of such Covered Bonds where such amounts are paid or received on or before 5 April 2009. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Covered Bondholder is resident for tax purposes.

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 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 1005 of ITA. The LLP will not be required to pay any additional amounts in the event of a payment being made net of any withholding or deduction.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, a Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, or to certain limited types of entities established in that other Member State except that, for a transitional period, Belgium, Luxembourg and Austria are instead 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 other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). The attention of Covered Bondholders is drawn to Condition 7(e) (Taxation) and page 36 in the Risk Factors.

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

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

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 9 January 2009, 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 for any particular purchase by a Dealer will extend to those matters stated under "*Form of the Covered Bonds and Terms and Conditions of the Covered Bonds*" above. The Issuer may pay the Dealers commission from time to time in connection with the sale of any Covered Bonds and in the Programme Agreement, the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

Transfer Restrictions

As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A, (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;
- (ii) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, unless it holds an interest in a Regulation S Global Covered Bond and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is two years after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if

available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

- (iv) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, that Covered Bonds offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Covered Bonds and that Covered Bonds offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (vi) that the Covered Bonds, other than the Regulation S Global Covered Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A **QUALIFIED INSTITUTIONAL BUYER** (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL **ACCREDITED INVESTOR** (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN INSTITUTIONAL ACCREDITED INVESTOR); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE AGENCY AGREEMENT) AND, PRIOR TO THE DATE WHICH IS TWO YEARS AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OR REGULATION S UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; and

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the

foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Covered Bonds in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Covered Bonds will be issued in definitive registered form, see *Form of the Covered Bonds*.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Prospectus and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Covered Bonds is subject to certain restrictions and conditions set forth in the Prospectus and the Covered Bonds (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Covered Bonds except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited investor invests in or purchases securities similar to the Covered Bonds;
- (iv) that the Institutional Accredited Investor is an institution that is an accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Covered Bonds, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Covered Bonds purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Covered Bonds, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Covered Bonds, it will acquire Covered Bonds having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Covered Bonds in the United States to any one purchaser will be for less than U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or the approximate equivalent in another Specified Currency) principal amount and no Legended Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person (or whom it is acting must purchase at least U.S.\$100,000 (or the approximate equivalent in another Specified Currency) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent in another Specified Currency).

Selling Restrictions

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 in bearer form 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 Regulation S (**Regulation S Covered Bonds**), each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer, sell or deliver such Regulations S Covered Bonds (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. 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 commencement of the offering of a Tranche of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent in another Specified Currency).

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 Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Notes referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Articles 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression of **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection

with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the LLP; and

- (b) 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.

Republic of Italy

The offering of the Covered Bonds has not been registered by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 31, second paragraph, of CONSOB (the Italian Securities Exchange Commission) Regulation No. 11522 of 1 July 1998, as amended (**Regulation No. 11522**) by CONSOB; or
- (ii) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended (**Regulation No. 11971**).

Furthermore, the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that any offer, sale or delivery of the Covered Bonds or distribution of copies of the Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993 (the **Banking Act**), as amended; and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

General

The Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will 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 Prospectus 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. Furthermore, they will not directly or indirectly offer, sell or deliver

any Covered Bonds or distribute or publish any form of application, prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

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 additional or modified restrictions (if any) as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer or sell Covered Bonds a copy of the Prospectus as then amended or supplemented or, unless delivery of the Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The Dealers are not authorised to give any information or to make any representation not contained in the Prospectus in connection with the offer and sale of Covered Bonds to which the Prospectus relates.

This Prospectus may be used by the Dealers for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the Dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the Dealers has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The Dealers are participating in the initial distribution of the Covered Bonds.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by resolutions of the board of directors of the Issuer dated 19 November 2008. The giving of the Covered Bond Guarantee has been duly authorised by a resolution of a committee appointed by the board of directors of NPBS in NPBS's capacity as Member of the LLP dated 16 December 2008.

Listing of Covered Bonds

The admission of Covered Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the Professional Securities Market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond, a Rule 144A Global Covered Bond or a Definitive IAI Registered Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche.

Application has been made to the UK Listing Authority for Covered Bonds issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Covered Bonds to be admitted to trading on the Professional Securities Market of the London Stock Exchange. The listing of the Programme in respect of Covered Bonds is expected to be granted on or about 13 January 2009.

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 to the Covered Bondholders during usual business hours and upon reasonable notice on any weekday (Saturdays, Sundays and public holidays excepted) from the principal office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (i) the constitutive documents of the LLP and the Issuer;
- (ii) the consolidated audited financial statements of the Issuer in respect of the financial periods ended 31 December 2006 and 31 December 2007. The Issuer currently prepares audited 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 consolidated unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares audited consolidated accounts on an annual basis. The LLP will prepare unaudited non-consolidated accounts on an annual basis;
- (iv) the forms of the Global Covered Bonds, the Definitive Covered Bonds, the Receipts, the Coupons and the Talons;
- (v) a copy of this Prospectus;
- (vi) any future prospectus, prospectuses, information memoranda and supplements including Final Terms (save that Final Terms relating to an unlisted Covered Bond will be available for inspection only by the relevant Dealer or Dealers specified in

such Final Terms or, upon proof satisfactory to the Principal Paying Agent or the Registrar, as the case may be, as to the identity of the holder of any Covered Bond to which such Final Terms relate) to this Prospectus and any other documents incorporated herein or therein by reference; and

- (vii) each Transaction Document.

In addition, copies of this Prospectus and each Final Terms relating to the Covered Bonds which are admitted to trading on the Professional Securities Market of the London Stock Exchange will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/engb/pricesnews/marketnews/.

Clearing Systems

The Bearer Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the NPBS Group since 31 December 2007, and there has been no material adverse change in the financial position or the prospects of the Issuer or the NPBS Group since 31 December 2007, in each case other than as set out in "*Financial Services Compensation Scheme - The Issuer*" on page 145 and "*Recent Developments - The Issuer*" on page 145-146.

There has been no significant change in the financial or trading position of the LLP since the date of its incorporation on 4 December 2008, and there has been no material adverse change in the financial position or the prospects of the LLP since the date of its incorporation on 4 December 2008.

Litigation and Investigations

In April 2007, the OFT commenced an investigation into the fairness of unarranged overdraft charges on personal current accounts. At the same time, it commenced a market study into wider questions about competition and price transparency of personal current accounts. In July 2007, the OFT entered into an agreement with the United Kingdom's largest current account providers in relation to bringing a test case in order to ensure an orderly resolution of the legal issues associated with its investigation. In April 2008, the High Court ruled on preliminary issues that, among other things, those providers' terms in relation to unarranged overdraft charges are assessable for fairness under the 1999 Regulations. An appeal by those providers against that ruling started in October 2008. Other hearings may be required to determine the substantive issue of whether the charges are fair. Cases before the Financial Ombudsman Service and the county courts on this issue are, in general, stayed while the FSA waives its complaints handling rules in relation to unarranged overdraft charges, and this waiver will be reviewed in January 2009. The Society is not a party to the test case, but High Court decisions are binding on county courts. Depending on the High Court's determinations, a range of outcomes is possible that could have a variety of effects on the NPBS Group. The Society made a provision against this and other customer claims in the 2007 year end accounts. In accordance with its obligations as an entity with securities admitted to the Official List, the Society will provide further

information in relation to this litigation and its potential effect on the NPBS Group to the extent that such information is material to the NPBS Group, and when such information becomes available

Neither the Issuer nor the NPBS Group nor the LLP is or has been involved in any governmental, legal or arbitration proceedings which may have or have had in the 12 months prior to the date hereof, a significant effect on the financial position or profitability of the NPBS Group or the Issuer or the LLP nor, so far as the Issuer, the NPBS Group or the LLP is aware, are any such proceedings pending or threatened.

Auditors

The auditor of the Issuer is PricewaterhouseCoopers LLP, chartered accountants and registered auditor, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the three financial years ended on 31 December 2007.

The auditor of the LLP is PricewaterhouseCoopers LLP, chartered accountants and registered auditor. The LLP has not prepared any financial statements.

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.

Contracts

There are no material contracts having been entered into outside the ordinary course of Issuer's business, and which could result in any member of the NPBS Group being under an obligation or entitlement that is material to our ability to meet our obligation to covered bondholders in respect of the Covered Bonds being issued.

Bond Trustee and Security Trustee

Under the Covered Bonds and the Transaction Documents, neither the Bond Trustee nor the Security Trustee shall be obliged to take any proceeding, action or step in relation to the Trust Deed, the Covered Bonds, the Receipts or the Coupons, the Charged Property or any other Transaction Document unless (i) in the case of the Bond Trustee, it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series) or so requested in writing by holders of not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into Sterling at the relevant Covered Swap Rate), (ii) in the case of the Security Trustee (save as otherwise expressly provided in the Deed of Charge), it shall have been so directed by the Bond Trustee so long as there are Covered Bonds outstanding or, if there are no Covered Bonds then outstanding, all of the other Secured Creditors and (iii) in each case, it shall have been indemnified and/or secured to its satisfaction.

GLOSSARY

30/360, 360/360, or Bond Basis	The meaning given in Condition 4(b)(iv)(E) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 105;
30E/360 or Eurobond Basis	The meaning given in Condition 4(b)(iv)(F) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 105;
1999 Regulations	The Unfair Terms in Consumer Contracts Regulations 1999, as amended;
€ or euro	The lawful currency for the time being of the member states of the European Union that have adopted or may adopt the single currency in accordance with the treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the treaty on European Union;
£ and Sterling	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;
\$ and U.S. Dollars	The lawful currency for the time being of the United States of America;
¥, Yen and JPY	The lawful currency for the time being of Japan;
Account Bank	Barclays Bank PLC;
Account Bank Relevant Event	Means: <ul style="list-style-type: none">(a) a termination of the Bank Account Agreement pursuant to Clause 7 (Termination) thereof; or(b) the total amounts standing to the credit of the LLP Accounts exceeding 20 per cent. of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds;
Accrual Period	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;
Accrued Interest	In respect of a Loan as at any date the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Date immediately preceding the relevant date to (but excluding) the relevant date;
Act	Banking (Special Provisions) Act 2008;
Actual/360	The meaning given in Condition 4(b)(iv)(D) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds – Determination of Rate of Interest and

	calculation of Interest Amounts) on page 104;
Actual/365 (Fixed)	The meaning given in Condition 4(b)(iv)(B) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds – Determination of Rate of Interest and calculation of Interest Amounts) on page 104;
Actual/365 (Sterling)	The meaning given in Condition 4(b)(iv)(C) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds – Determination of Rate of Interest and calculation of Interest Amounts) on page 104;
Actual/Actual or Actual/Actual (ICMA)	The meaning given in Condition 4(b)(iv)(A) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds – Determination of Rate of Interest and calculation of Interest Amounts) on page 104;
Adjusted Aggregate Loan Amount	The meaning given in " <i>Summary of the Principal Documents</i> " on page 169;
Adjusted Required Redemption Amount	The Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of the LLP Accounts 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;
Agency Agreement	The agency agreement (as amended and/or supplemented and/or restated from time to time) dated the Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agents;
Agent	Means each of the Paying Agents, the Registrar, the Exchange Agent, any Calculation Agent and the Transfer Agent;
Amortisation Test	The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
Amortisation Test Aggregate Loan Amount	The meaning given in " <i>Summary of the Principal Documents</i> " on page 172;
Amortisation Test True Balance	The meaning given in " <i>Summary of the Principal Documents</i> "

	on page 173;
Amortised Face Amount	The meaning given in Condition 6(f) (Redemption and Purchase – Early Redemption Amounts) on page 119;
applicable Final Terms	The meaning given on page 74;
Arranger	Barclays Bank PLC and any other entity appointed as an arranger for the Programme or in respect of any particular issue of Covered Bonds under the Programme;
Arrears Adjusted True Balance	The meaning given in " <i>Summary of the Principal Documents</i> " on page 170;
Arrears of Interest	As at any date in respect of any Loan, the aggregate of all interest (other than Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date;
Asset Coverage Test	The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
Asset Coverage Test Breach Notice	The notice required to be served by the Bond Trustee if the Asset Coverage Test has not been met on two consecutive Calculation Dates;
Asset Monitor	A reputable institution appointed as such under the Asset Monitor Agreement;
Asset Monitor Agreement	The asset monitor agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Issuer and the Security Trustee;
Asset Monitor Report	The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee;
Asset Percentage	The meaning given in " <i>Summary of the Principal Documents</i> " on page 172;
Asset Pool	All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts and all amounts standing to the credit thereto and, in the event that the Issuer, the Programme or any Series of Covered Bonds issued under the Issuer, the Programme is admitted to the register of regulated covered bonds under Regulation 14 of the RCB Regulations, any other assets referred to in Regulation 3(1) (<i>Asset Pool</i>) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB

Regulations;

Authorised Investments

(a) Sterling gilt-edged securities and (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) **provided that** in all cases such investments have a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1 by Moody's and F1 by Fitch or their equivalents by two other internationally recognised rating agencies, provided that, in the event that the Issuer, that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under Regulation 14 of the RCB Regulations, such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations;

Authorised Underpayment

A Borrower making either no Monthly Payment under a Loan or a payment in an amount less than the Monthly Payment then due on the Loan, in each case, where the Seller has authorised such underpayment or non-payment;

Available Principal Receipts

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 Collection Ledger on the LLP Accounts (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls) less any Principal Receipts applied during such Calculation Period to acquire New Portfolios;
- (b) any other amount standing to the credit of the Collection Ledger including: (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Portfolios or invest in Substitution Assets); (ii) any Cash Capital Contributions received from a Member and (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreements; and
- (c) any Excess Proceeds;

less

- (a) any Swap Collateral Excluded Amounts;

- (b) Tax Credits and any amount received by the LLP from a Member in respect of Tax Credits (to the extent otherwise constituting Available Principal Receipts); and
- (c) Swap Provider Tax Payments received from Swap Providers (to the extent otherwise constituting Available Principal Receipts).

Available Revenue Receipts

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 Collection Ledger on the LLP Accounts;
- (b) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and Authorised Investments in the previous Calculation Period but excluding amounts received by the LLP under the Interest Rate Swap Agreement (other than any premium not used to make a termination payment) and in respect of interest received by the LLP under each Covered Bond Swap Agreement;
- (c) prior to the service of a Notice to Pay amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (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 Collection Ledger on the LLP Accounts;
- (e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund; and
- (f) the proceeds of the Subordinated Loan;

Less

Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller;

and excluding (for the avoidance of doubt):

- (a) Tax Credits and any amount received by the LLP from a Member in respect of Tax Credits (to the extent otherwise constituting Available Revenue Receipts);
- (b) Swap Provider Tax Payments received from Swap

Providers (to the extent otherwise constituting Available Revenue Receipts); and

(c) Swap Collateral Excluded Amounts;

Bank Account Agreement	The bank account agreement entered into on the Programme Date between the LLP, the Account Bank in its capacity as account bank, Norwich and Peterborough in its capacity as Cash Manager and the Security Trustee;
Basel II Framework	means a comprehensive framework, the text of which was published by the Basel Committee on Banking Supervision in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: a Revised Framework – Comprehensive Version";
Bearer Covered Bonds	Covered Bonds in bearer form;
Bearer Definitive Covered Bonds	A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 (Form of Bearer Definitive Covered Bond) of Schedule 2 (Form of Global and Definitive Covered Bonds, Coupons, Receipts and Talons) to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated Issues) and having the Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bonds in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue;
Bearer Global Covered Bond	The meaning given on page 69;
Beneficial Owner	Each actual purchaser of each DTC Covered Bond;
Block Insurance Policy	The block insurance policy written by Norwich Union Insurance Limited in favour of the Seller and any endorsements or extensions thereto as issued from time to time, or any such similar alternative or replacement block insurance policy or policies as may be effected from time to time to cover the Seller and the LLP in respect of Loans and their Related Security;

Bond Trustee	BNY Corporate Trustee Services Limited, in its capacity as bond trustee under the Trust Deed together with any successor or other bond trustee or additional bond trustees appointed from time to time thereunder;
Borrower	in relation to a Loan, each individual or individuals specified as such in the relevant Mortgage together with each individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it;
Building Societies Act	Building Societies Act 1986, as amended;
Buildings Insurance Policies	All buildings insurance policies relating to Property or Properties arranged by the Seller and taken out in the name of the relevant Borrower;
Business Day	The meaning given in Condition 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 102;
Calculation Agent	In relation to all or any Series of the Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor or separately appointed calculation agent in relation to all or any Series of the Covered Bonds;
Calculation Date	The 14th day of each month (or if such day is not a Business Day, then the next following Business Day). The first Calculation Date will be on the 14th day of February 2009;
Calculation Period	The period from, and including, the first day of each month to and including the last day of each month, except that for the first Series of Covered Bonds the first Calculation Period means the period from and including the Programme Date, to and including, the last day of January 2008;
Capital Account Ledger	The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time;
Capital Balance	For a Loan at any date the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues;
Capital Contribution	In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed;
Capital Contribution Balance	The balance of each Member's Capital Contributions as recorded from time to time in the relevant Member's Capital

	Account Ledger;
Capital Contribution in Kind	A contribution of Loans and their Related Security to the LLP in an amount equal to (a) the aggregate of the True Balance of those Loans as at the relevant Transfer Date minus (b) any cash payment paid by the LLP for such Loans and their Related Security on that Transfer Date together with (i) the principal amount of all Further Advances in respect of such Loans which are funded by the Seller as a Member of the LLP and (ii) Capitalised Arrears added to the principal amount outstanding of such Loans;
Capital Distribution	Any return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration);
Capitalised Arrears	For any Loan at any date, interest or other amounts which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower;
Capitalised Expenses	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 Capital Balance of that Loan in accordance with the relevant Mortgage Conditions;
Capitalised Interest	For any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that date);
Cash Capital Contribution	means a Capital Contribution made in cash;
Cash Management Agreement	The cash management agreement entered into on the Programme Date as may be amended, supplemented and/or restated from time to time <i>inter alios</i> , the LLP, NPBS (in its capacity as the Cash Manager, Seller and Servicer) and the Bond Trustee and the Security Trustee;
Cash Manager	NPBS, in its capacity as cash manager under the Cash Management Agreement together with any successor cash manager appointed from time to time;
CCA	Consumer Credit Act 1974, as amended from time to time;
CCA 2006	Consumer Credit Act 2006;
CCA Trust	The meaning given to it in Clause 2.6 (Sale and Purchase of Initial Portfolio) of the Mortgage Sale Agreement;
CGCB	The meaning given on page 96;

Certificate of Title	A solicitor's or licensed conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation;
Charged Property	The property charged by the LLP pursuant to the Deed of Charge;
Clearing Systems	means DTC, Euroclear and/or Clearstream, Luxembourg and shall be deemed to include references to any additional or alternative clearing system as is approved by the Issuer, the Principal Agent and the Bond Trustee or as may otherwise be specified in the applicable Final Terms;
Clearstream, Luxembourg	Clearstream Banking, société anonyme;
CML	Council of Mortgage Lenders;
CML Code	means the mortgage code issued by the CML;
Collection Ledger	The ledger in connection with the LLP Accounts of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of the Principal Receipts and Revenue Receipts in accordance with the terms of the LLP Deed;
Common Depository	The common depository for Euroclear and Clearstream, Luxembourg;
Conditions	means the terms and conditions of the Covered Bonds, (as set out in the Trust Deed), as modified and/or supplemented or amended by the applicable Final Terms relevant to a particular Series of Covered Bonds, as any of the same may from time to time be modified in accordance with the provisions of the Trust Deed;
Consent Agreement	An agreement whereby a person in or intended to be in occupation of a Property agrees with the Seller to postpone his or her interest (if any) in the Property so that it ranks after the interest created in the relevant Mortgage;
Consumer Credit Directive	The second directive on consumer credit adopted by the European Parliament and the Council in April 2008;
Corporate Services Agreement	The corporate services agreement entered into by the Liquidation Member, Holdings, the Corporate Services Provider and the LLP dated the Programme Date;
Corporate Services Provider	Structured Finance Management Limited, a company incorporated in England and Wales in its capacity as corporate services provider to Holdings and to the Liquidation Member under a Corporate Services Agreement, together with any successor corporate services provider appointed from time to

	time;
Couponholders	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons);
Coupons	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 92;
Covered Bond	Each covered bond issued or to be issued or, where applicable, pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements or a Covered Bond issued pursuant to Condition 10 (Replacement of Covered Bonds, Receipts, Coupons and Talons);
Covered Bondholders	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 92;
Covered Bond Guarantee	An unconditional and irrevocable guarantee by the LLP in the Trust Deed for the payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment;
Covered Bond Swap	Swap transactions governed by the Covered Bond Swap Agreements;
Covered Bond Swap Agreement	Each agreement between the LLP and a Covered Bond Swap Provider governing Covered Bond Swaps entered into with such Covered Bond Swap Provider in the form of an ISDA Master Agreement, including a schedule and confirmations in relation to each such Covered Bond Swap confirmation;
Covered Bond Swap Early Termination Event	The meaning given in " <i>Summary of the Principal Documents</i> " on page 183;
Covered Bond Swap Provider	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement;
Covered Bond Swap Rate	In relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate;
Custodian	Any custodian with whom the relevant Registered Global Covered Bonds have been deposited;
Day Count Fraction	In the case of a Fixed Rate Covered Bond, the meaning given in Condition 4(a) (Interest – Interest on Fixed Rate Covered Bonds) on page 100 and in the case of a Floating Rate Covered Bond, the meaning given in Condition 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 104;

DBERR	Department for Business, Enterprise and Regulatory Reform;
Dealer	Barclays Capital and any other dealers appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus 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;
Deed of Charge	The deed of charge (as amended and/or supplemented and/or restated from time to time) dated the Programme Date and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors;
Deed of Postponement	A deed or agreement whereby a mortgagee of or the heritable creditor in relation to a Property agrees with the Seller to postpone its mortgage or standard security (as appropriate) over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;
Defaulted Loan	Any Loan in the Portfolio which is more than three months in arrears;
Defaulted Loans Notice	A notice from the Cash Manager to the Seller identifying any Defaulted Loans;
Deferred Consideration	The consideration payable to the Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priorities of Payments;
Definitive Covered Bond	A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond;
Definitive IAI Registered Covered Bonds	The meaning given in " <i>Form of Covered Bonds</i> " on page 71;
Definitive Regulation S Covered Bond	A Registered Covered Bond in definitive form sold to non-U.S. persons outside the United States in reliance on Regulation S;
Definitive Rule 144A Covered Bond	A Registered Covered Bond in definitive form sold to QIBs pursuant to Rule 144A;
Dematerialised Loan	A Loan completed on or after 1 January 2004 over a Property located in England or Wales in respect of which the Seller does not retain the Title Deeds;
Deposit Set Off Amount	means, for each Borrower whose Loan is included in the Portfolio, the lesser of (a) 100% of the aggregate balance of each savings account held at the Seller by such Borrower (provided that where the Borrower has a joint account and the joint deposit holder is not a Borrower under a Loan that is in

the Portfolio, the whole amount standing to the credit of the joint account shall be taken into account for the purposes of calculating (a) and where the joint deposit holder is a Borrower under a Loan that is included in the Portfolio (whether as co-Borrower or otherwise) the amount credited to the joint account shall be taken into account in respect of only one such Borrower), and (b) the aggregate True Balance of such Borrower's Loan which is included in the Portfolio, in each case as calculated on any day after the last day of the immediately preceding Calculation Period but prior to the Calculation Date;

Designated Account	The meaning given in Condition 5(d) (Payments – Payments in respect of Registered Covered Bonds) on page 110;
Designated Bank	The meaning given in Condition 5(d) (Payments – Payments in respect of Registered Covered Bonds) on page 110;
Designated Maturity	The meaning given in the ISDA Definitions;
Designated Member	Each Member appointed and registered as such from time to time and having those duties and obligations set out in sections 8 and 9 of the LLPA 2000 and in the LLP Deed;
Determination Date	The meaning given in the applicable Final Terms;
Determination Period	The meaning given in Condition 4(a) (Interest – Interest on Fixed Rate Covered Bonds) on page 100;
Direct Participants	The meaning given in " <i>Book-Entry Clearance Systems</i> " on page 211;
Directors	The board of directors for the time being of the Issuer;
Distribution Compliance Period	The period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);
DM Regulations	Financial Services (Distance Marketing) Regulations 2004, as may be amended from time to time;
DTC	The Depository Trust Company;
DTC Covered Bonds	Covered Bonds accepted into DTC's book-entry settlement system;
DTCC	The Depository Trust & Clearing Corporation;
Dual Currency Covered Bonds	Covered Bonds in respect of which payments (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms);

Dual Currency Interest Covered Bond

A Covered Bond in respect of which payments whether in respect of principal or of interest are made in such different currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms);

Dual Currency Redemption Covered Bond

A Covered Bond in respect of which payments of principal are made or to be made in such different currencies, and at rates of exchange calculated upon such basis, as the Issuer and the relevant Dealers) may agree (as indicated in the applicable Final Terms);

Due for Payment

The requirement by the LLP to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the LLP:

- (a) (i) prior to the occurrence of an LLP Event of Default, on 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 a Notice to Pay on the LLP in respect of such Guaranteed Amounts, or if the applicable Final Terms specified that an Extended Due for Payment 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 Due for Payment Date (the **Original Due for Payment Date**); and
- (ii) 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 Due for Payment Date, but only (i) if in respect of the relevant Series of Covered Bonds, the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms and (ii) to the extent that the LLP having received a Notice to Pay no later than the date falling one Business Day 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 because 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 (or, in each

case, after the expiry of the grace period set out in Condition 9(b)(i) (Events of Default and Enforcement – LLP Events of Default)) under the terms of the Covered Bond Guarantee or (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 save as provided in paragraph (b) below; or

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

Earliest Maturing Covered Bonds

At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the LLP Accounts) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default);

Early Redemption Amount

The meaning given in the relevant Final Terms;

Eligibility Criteria

The meaning given on page 154;

EU

European Union;

EURIBOR

Euro-zone inter-bank offered rate;

Euroclear

Euroclear Bank S.A/N.V.;

Excess Proceeds

Monies received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer;

Exchange Act

The U.S. Securities Exchange Act of 1934, as amended;

Exchange Agent

The Bank of New York Mellon, London Branch) in its capacity as exchange agent (which expression shall include any successor exchange agent);

Exchange Date

A date on or after the date which is 40 days after a Temporary Global Covered Bond is issued;

Exchange Event

In the case of Bearer Covered Bonds, the meaning given in "*Form of Covered Bonds*" on page 69 and in the case of

	Registered Covered Bonds, the meaning given in " <i>Form of Covered Bonds</i> " on page 72;
Excluded Scheduled Interest Amounts	has the meaning given to it in the definition of Scheduled Interest;
Excluded Scheduled Principal Amounts	has the meaning give to it in the definition of Scheduled Principal;
Excluded Swap Termination Amount	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider;
Existing Covered Bonds	The Covered Bonds of all Series then outstanding;
Extended Due for Payment Date	In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms 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 Final Maturity Date or the Extension Determination Date as applicable, in accordance with Condition 6(a);
Extension Determination Date	In respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds;
Extraordinary Resolution	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed;
Final Maturity Date	The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions;
Final Redemption Amount	means in relation to any Series of Covered Bonds, the amount due on the Final Maturity Date of such Covered Bonds as set out in relevant Final Terms;
Final Redemption Date	has the meaning given in the relevant Final Terms;
Final Terms	means the final terms document substantially in the form set out in the Prospectus which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading on the Professional Securities Market of the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds;
First Transfer Date	The date on which the Initial Portfolio is transferred to the LLP pursuant to the Mortgage Sale Agreement or, if earlier, the date

	on which the Initial Portfolio becomes subject to the CCA Trust;
Fitch	Fitch Ratings Ltd.;
Fixed Interest Period	The meaning given in Condition 4(a) (Interest – Interest on Fixed Rate Covered Bonds) on page 99;
Fixed Rate Covered Bond	means a Covered Bond on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms);
Floating Rate	The meaning given in the ISDA Definitions;
Floating Rate Convention	The meaning given in Condition 4(b)(i) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 101;
Floating Rate Covered Bonds	means a Covered Bond which bears interest at a rate determined: <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms;
Floating Rate Option	The meaning given in the ISDA Definitions;
Following Business Day Convention	The meaning given in Condition 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 101;
Framework	"International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" published by the Basel Committee on Banking Supervision;
FSA	Financial Services Authority;
FSMA	Financial Services and Markets Act 2000, as amended;
Funding and Mutual Societies Transfers Act	Building Societies (Funding) and Mutual Societies (Transfers) Act 2007;
Further Advance	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, excluding the amount of any retention in respect of the Initial Advance;
GIC or Guaranteed Investment Contract	The guaranteed investment contract dated the Programme Date between the LLP, the Cash Manager, the GIC Provider and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time);
GIC Account	The account or accounts in the name of the LLP held with the GIC Provider and maintained subject to the terms of the Guaranteed Investment Contract and the Deed of Charge, or such additional or replacement account as may for the time being be in place with the prior written consent of the Security Trustee;
Global Covered Bond	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require;
Guaranteed Amounts	Prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after 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, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed and/or the Conditions;
Guarantee Priority of Payments	The meaning given in " <i>Cashflows</i> " on page 198;
Halifax Index	The quarterly index of increases or decreases in house prices issued by Halifax, a division of Bank of Scotland plc, in relation to residential properties in the United Kingdom;
Halifax Price Indexed Valuation	In relation to any Property at any date means the Latest Valuation of that property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Latest Valuation;
HMRC	HM Revenue & Customs;
Holdings	Norwich and Peterborough Covered Bonds Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6765273);
IAI Investment Letter	The meaning given in Condition 2(e) (Transfers of Registered Covered Bonds – Transfers of interests in Regulation S Global

	Covered Bonds) on page 96;
ICTA	Income and Corporation Taxes Act 1988;
Index Linked Covered Bonds	means an Index Linked Redemption Covered Bonds or an Index Linked Interest Covered Bond;
Index Linked Interest Covered Bond	means a covered Bond in respect of which the payments of interest will be calculated by reference to such index and/or a formula or to changes in the prices of securities or commodities and/or to such other factors as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms);
Index Linked Redemption Covered Bond	means in respect of which the amount payable in respect of principal is calculated by reference to such index and/or formula or to changes in the prices of securities or commodities and/or to such other factors as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms);
Indexed Valuation	means at any date in relation to any Loan secured over any Property: <ul style="list-style-type: none"> (a) where the Latest Valuation of that Property is equal to or greater than the average of the Halifax Price Indexed Valuation as at that date, the average of the Halifax Price Indexed Valuation; or (b) where the Latest Valuation of that Property is less than the average of the Halifax Price Indexed Valuation as at that date, the Latest Valuation plus 85 per cent. of the difference between the Latest Valuation and the average of the Halifax Price Indexed Valuation;
Indirect Participants	The meaning given in " <i>Book-Entry Clearance Systems</i> " on page 211;
Initial Advance	In respect of any Loan, the original principal amount advanced by the Seller to the relevant Borrower and for the avoidance of doubt excluding any Further Advance;
Initial Portfolio	The meaning given in " <i>The Portfolio</i> " on page 208;
Insolvency Act	Insolvency Act 1986, as amended;
Insolvency Event	Means: <ul style="list-style-type: none"> (a) an order is made or an effective resolution passed for the winding up of the relevant entity; or (b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or

substantially the whole of its business; or

- (c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied or enforced upon or sued out against the whole or any material part of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or
- (d) the relevant entity is unable to pay its debts as they fall due,

other than where the Seller, Servicer or the Cash Manager is NPBS and any of the events set out in paragraphs (a) to (c) occurs in connection with a substitution in accordance with Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution);

Instalment Covered Bonds	Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms;
Institutional Accredited Investor	An institution that is an "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions;
Intercompany Loan	means the term loan entered into on the Programme Date made between the Issuer, the Cash Manager, the LLP and the Security Trustee and Intercompany Loan Agreement means the related term loan agreement;
Interest Amount	The amount of interest payable on the Floating Rate Covered Bonds or Index Linked Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period;
Interest Commencement Date	The meaning given on page 99;
Interest Determination Date	The first day of the Interest Period for which the relevant rate will apply;
Interest Payment Date	In relation to any Series of Covered Bonds, the Specified Interest Payment Date or the meaning given in the applicable Final Terms (as the case may be);
Interest Period	The period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;
Interest Rate Swap	The interest rate swap transaction entered into between the LLP, NPBS (in its capacity as Interest Rate Swap Provider) and the Security Trustee dated the Programme Date;

Interest Rate Swap Agreement	The agreement between the LLP and the Interest Rate Swap Provider dated the Programme Date governing the Interest Rate Swap in the form of an ISDA Master Agreement, including a schedule, credit support annex and confirmation thereto;
Interest Rate Swap Early Termination Event	The meaning given in " <i>Summary of the Principal Documents</i> " on page 179;
Interest Rate Swap Provider	NPBS, in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider;
Investor Report	The quarterly report made available to the Covered Bondholders, the Security Trustee, the Bond Trustee and the Rating Agencies detailing <i>inter alia</i> compliance with the Asset Coverage Test and which are to be posted on the NPBS website at www.npbs.co.uk ;
ISDA	International Swaps and Derivatives Association, Inc.;
ISDA Definitions	2006 ISDA Definitions, as published by ISDA;
ISDA Master Agreement	The 1992 ISDA Master Agreement (Multicurrency Cross Border), as published by ISDA;
ISDA Rate	The meaning given in Condition 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 102;
Issue Date	Each date on which the Issuer issues Covered Bonds to Covered Bondholders as specified in the applicable Final Terms;
Issue Price	The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which the Covered Bonds will be issued;
Issuer	Norwich and Peterborough Building Society, a building society incorporated in England and Wales under the Building Societies Act, whose principal office is Peterborough Business Park, Lynch Wood, Peterborough PE2 6WZ;
Issuer Acceleration Notice	The meaning given in Condition 9(a) (Events of Default and Enforcement – Issuer Events of Default) on page 122;
Issuer Event of Default	The meaning given in Condition 9(a) (Events of Default and Enforcement – Issuer Events of Default) on page 122;
Issuer Subordinated Loan	The meaning given in Clause 6 (Termination of Membership) of the LLP Deed;
Latest Valuation	In relation to any Property, the value given to that Property by the most recent valuation addressed to the Seller;

Ledger	Each of the Collection Ledger, the Reserve Ledger and the Capital Account Ledgers and any additional ledger operated in accordance with the Cash Management Agreement;
Legended Covered Bonds	The meaning given in Condition 2(h) (Transfers of Registered Covered Bonds – Definitions) on page 98;
Lending Criteria	The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender;
LIBOR	London Interbank Offered Rate;
Liquidation Member	means Norwich and Peterborough Covered Bonds Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6765224);
LLP	Norwich and Peterborough Covered Bonds LLP, a limited liability partnership incorporated under the laws of England and Wales (partnership no. OC341875), whose first members are NPBS and the Liquidation Member;
LLP Acceleration Notice	A notice in writing given by the Bond Trustee to the Issuer and the LLP, that: (a) 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) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest; and (b) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with interest in each case as provided in and in accordance with the Trust Deed and thereafter the Security shall become enforceable if any of the LLP `Events of Default shall occur and be continuing;
LLP Accounts	Each of the GIC Account, the Reserve GIC Account, the Swap Collateral Account(s), the Transaction Account (to the extent maintained) and any additional or replacement accounts opened in the name of the LLP from time to time;
LLP Deed	The limited liability partnership deed entered into on the Programme Date between the LLP, NPBS, in its capacity as Seller, the Issuer, the Liquidation Member, the Bond Trustee and the Security Trustee;
LLP Event of Default	The meaning given in Condition 9(b) (Events of Default and Enforcement – LLP Events of Default) on page 126;
LLP Management Committee	The Management Committee which will act on behalf of the LLP and 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;

LLP Payment Date

means the 19th day of each month or if not a Business Day the next following Business Day;

LLP Payment Period

means the period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date and in respect of the first LLP Payment Date for the first Series of Covered Bonds the period from and including the Programme Date to but excluding the LLP Payment Date falling on 19th February 2009;

LLP Standard Variable Rate

The LLP standard variable rate applicable to the Loans in the Portfolio, as set, other than in limited circumstances, by the Servicer in accordance with the Servicing Agreement;

LLPA 2000 or LLP Act

The Limited Liability Partnership Act 2000 as amended from time to time and any regulations made pursuant to that Act;

Loan

Any mortgage loan which is, or is to be, sold, assigned and transferred by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement (or, prior to the Effective Date, held upon the CCA Trust) (including, without limitation, all Further Advances which are, or are to be, sold, assigned and transferred by the Seller to the LLP under the terms of the Mortgage Sale Agreement) and referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including, without limitation, all Further Advances and Product Switches) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage over Property located in England and Wales from time to time outstanding, or, as the context may require, the Borrower's obligations in respect of the same but excludes any mortgage loan which is repurchased by the Seller or otherwise sold by the LLP and no longer beneficially owned by it;

Loan Account

As the context requires, either: (a) all Loans secured on the same Property; or (b) an account maintained by the Servicer in respect of a particular Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof;

Loan Files

The file or files relating to each Loan (including files kept in microfiche format or similar electronic data retrieval system or the substance of which is transcribed and held on an electronic data retrieval system) containing *inter alia* correspondence between the Borrower and the Seller and including mortgage documentation applicable to that Loan, each letter of offer for that Loan, the Valuation Report (if applicable) and, to the extent available, the solicitor's or licensed conveyancer's

	Certificate of Title;
Loan Without Independent Valuation	A Loan where an updated Valuation Report was not obtained in relation to an Further Advance;
London Stock Exchange	London Stock Exchange plc's regulated market or any body to which its functions have been transferred;
Long Dated Covered Bond	Any Covered Bond issued by the Issuer in respect of which the Extended Due for Payment Date is set at the Long Date Due for Payment Date and identified as such in the applicable Final Terms;
Long Date Due for Payment Date	12 December 2050
Long Maturity Covered Bond	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;
Losses	All realised losses on the Loans;
Master Definitions and Construction Agreement	The master definitions and construction agreement made between the parties to the Transaction Documents on or about the Programme Date as amended, restated or varied from time to time;
MCOB	Mortgages and Home Finance: Conduct of Business Sourcebook, implemented by the FSA on 31 October 2004 as amended, revised or supplemented from time to time;
Member	Each member of the LLP, from time to time;
Modified Following Business Day Convention	The meaning given in Condition 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 102;
Monthly Asset Coverage Report	The report substantially in the form set out in Schedule 3 (form of LLP Monthly Asset Coverage Report) to the Cash Management Agreement;
Monthly Payment	The amount which the relevant Mortgage Conditions require a Borrower to pay on each Monthly Payment Date in respect of that Borrower's Loan;
Monthly Payment Date	In relation to a Loan, the date in each month on which the relevant Borrower is required to make a payment of interest and, if applicable, principal for that Loan, as required by the applicable Mortgage Conditions;

Moody's	Moody's Investors Service Limited;
Mortgage	In respect of any Loan each first fixed charge by way of legal mortgage which is, or is to be, sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement (or, prior to the Effective Date, help upon the CCA Trust), which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it;
Mortgage Conditions or Loan Conditions	All the terms and conditions applicable to a Loan, including without limitation those set out in the Seller's relevant mortgage conditions booklet and the Seller's relevant general conditions each as varied from time to time by the relevant Loan Agreement and the relevant Mortgage Deed;
Mortgage Deed	In respect of any Mortgage, the deed in written form creating that Mortgage;
Mortgage Sale Agreement	The mortgage sale agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee;
N(M)	A further stage of the FSMA which came into effect on 31 October 2004;
Negative Carry Factor	The meaning given on page 172;
New Loan Type	A new type of mortgage loan originated or acquired by the Seller, which the Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts and/or rate guarantees;
New Loans	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 (or, prior to the Effective Date, which the Seller may hold subject to the CCA Trust pursuant to Clause 2.6 of the Mortgage Sale Agreement);
New Member	Any new Member who shall be admitted to the LLP after the Programme Date;
New Portfolio	The meaning given in " <i>The Portfolio</i> " on page 206;
New Portfolio Notice	A notice in the form set out in Schedule 7 (New Portfolio Notice) to the Mortgage Sale Agreement subject to any amendment as may be agreed between the parties thereto served in accordance with the terms of the Mortgage Sale

	Agreement;
New Seller	Any member of the NPBS Group (other than NPBS) and, in the event that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds by the FSA pursuant to Regulation 14 of the RCB Regulations, to the extent that the Issuer intends to apply, is a "connected person" as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents and sells Loans and their Related Security to the LLP;
NGCB	The meaning given on page 69;
NIPs	Non-Investment Products Code;
Norwich and Peterborough	Norwich and Peterborough Building Society, a building society incorporated in England and Wales under the Building Societies Act, whose principal office is Peterborough Business Park, Lynch Wood, Peterborough, PE2 6WZ;
Notice to Pay	The meaning given in Condition 9(a) (Events of Default and Enforcement – Issuer Events of Default) on page 125;
NPBS	NPBS means Norwich and Peterborough;
NPBS Group	NPBS and its Subsidiaries collectively;
offer of Notes to the Public	The meaning given in " <i>Subscription and Sale and Transfer and Selling Restrictions – Selling Restrictions – Public Offer Selling Restriction under the Prospectus Directive</i> " on page 223;
Official List	Official list of the UK Listing Authority;
OFT	Office of Fair Trading;
Ombudsman	Financial Ombudsman Service under the FSMA;
Order	The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), as amended;
Original Due for Payment Date"	Has the meaning given in paragraph (a)(i) of the definition of Due for Payment;
Overpayment	A payment by a Borrower in an amount greater than the amount due on a Monthly Payment Date which (a) is permitted by the terms of such Loan or by arrangement with the Borrower and (b) reduces the True Balance of such Loan;
Partial Portfolio	Part of any portfolio of Selected Loans;

Partly Paid Covered Bonds	Covered Bonds which are only partly paid up on issue, in respect of which interest will accrue in accordance with Condition 4(d) (Interest – Interest on Partly Paid Covered Bonds) on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer(s) and indicated in the applicable Final Terms;
Paying Agents	The meaning given in on page 91;
Payment Day	The meaning given in Condition 5(f) (Payments – Payment Day) on page 111;
Permanent Global Covered Bond	The meaning given in " <i>Form of the Covered Bonds</i> " on page 69;
Permitted Transfer	<p>Each of (subject to the provisions in the Conditions on Substitution):</p> <ul style="list-style-type: none"> (a) an amalgamation of the Issuer and one or more other building societies under section 93 of the Building Societies Act; (b) a transfer by the Issuer of all or substantially all (being 90 per cent. or more of the Issuer's engagements including its obligations under the Covered Bonds, the Trust Deed and the Agency Agreement) or (on terms which have previously been approved by the Bond Trustee in writing or by an Extraordinary Resolution of the Covered Bondholders) any smaller part of its engagements under section 94 of the Building Societies Act; (c) a transfer by the Issuer (including its obligations under the Covered Bonds, the Trust Deed and the Agency Agreement) of its business to a company under section 97 to 102 of the Building Societies Act; (d) a transfer by the Issuer of the whole of its business to a subsidiary of a mutual society pursuant to any order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act; (e) an alteration in the status of the Issuer by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to that of an authorised person under the FSMA or to a body which is regulated on a similar basis to an authorised person under the FSMA, provided that such alteration in status does not affect the Issuer's obligations under the Covered Bonds, the Trust Deed or the Agency Agreement as determined and certified in writing by the Issuer to the Bond Trustee; or

	(f) any other reconstruction or amalgamation the terms of which have previously been approved by the Bond Trustee in writing or by an Extraordinary Resolution of the Covered Bondholders.
Portfolio	The Initial Portfolio and each New Portfolio acquired by the LLP;
Post-Enforcement Priority of Payments	The meaning given in " <i>Cashflows</i> " on page 204;
Potential Issuer Event of Default	The meaning given in Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) on page 135;
Potential LLP Event of Default	The meaning given in Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) on page 135;
Pre-Acceleration Principal Priority of Payments	The meaning given in " <i>Cashflows</i> " on page 196;
Pre-Acceleration Priority of Payments	The Pre-Acceleration Principal Priority of Payments and the Pre-Acceleration Revenue Priority of Payments
Pre-Acceleration Revenue Priority of Payments	The meaning given in " <i>Cashflows</i> " on page 191;
Preceding Business Day Convention	The meaning given in Condition 4(b) (Interest – Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds) on page 102;
Principal Amount Outstanding	In respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof;
Principal Paying Agent	The Bank of New York Mellon, acting through its London Branch at its office at One Canada Square, London E14 5AL or, if applicable, any Successor principal paying agent in relation to all or any Series of the Covered Bonds;
Principal Receipts	<ul style="list-style-type: none"> (a) principal repayments under the Loans (including payments of arrears, Capitalised Interest and Capitalised Expenses and Capitalised Arrears); (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 Mortgaged Property in connection with a Loan in the Portfolio;

- (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); and
- (e) any deemed Principal Receipts;

Priorities of Payments

The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts in different circumstances;

Product Switch

A variation to the financial terms or conditions included in the Mortgage Conditions applicable to a Loan other than:

- (a) any variation agreed with a Borrower to control or manage arrears on a Loan;
- (b) any variation in the maturity date of a Loan;
- (c) any variation imposed by statute or any variation in the frequency with which the interest payable in respect of the Loan is charged;
- (d) any variation to the interest rate as a result of the Borrowers switching to a different rate by operation of the Loan;
- (e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan;
- (f) any partial release of security, where, after such release, the Loan continues to satisfy the applicable LTV Ratio requirements; or
- (g) any change in the repayment or payment method of the Loan;

Professional Securities Market

A listed, exchange-regulated market of the London Stock Exchange.

Programme

€7 billion covered bond Programme established by, or otherwise contemplated in, the Programme Agreement and the Trust Deed;

Programme Agreement

The agreement dated the Programme Date between the Issuer, the LLP and the Dealer concerning the purchase of Covered Bonds to be issued pursuant to the programme together with any accession letters and/or agreements supplemental thereto;

Programme Date

9 January 2009;

Programme Resolution

The meaning given to it in Condition 14 (Meetings of Covered

	Bondholders, Modifications, Waiver and Substitution) of the Conditions;
Property	A freehold, leasehold or commonhold property which is subject to a Mortgage;
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC;
Purchaser	Any third party or the Seller to whom the LLP offers to sell Selected Loans;
QIB	A "qualified institutional buyer" within the meaning of Rule 144A;
Rating Agencies	Moody's and Fitch, to the extent such rating agencies are appointed by the Issuer to provide ratings in relation to the Covered Bonds and each a "Rating Agency";
Rating Agency Confirmation	A confirmation in writing by Moody's and Fitch that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter provided that if: (a) a confirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and (b) a written request for such confirmation or response is delivered to that Rating Agency by any of the LLP, the Issuer, Bond Trustee and/or the Security Trustee, as applicable (each a Requesting Party) and the Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances, the Requesting Party shall be entitled to assume that the then current ratings of the Covered Bonds on issue will not be downgraded or withdrawn by such Rating Agency as a result of such action or step. However, nothing herein shall in any way affect the right of a Rating Agency to downgrade or withdraw its then current ratings of the Covered Bonds in such a manner as it sees fit;
RCB Regulations	The Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714) and as further amended from time to time;
RCB Sourcebook	The FSA Regulated Covered Bond Sourcebook;
Reasonable, Prudent Mortgage Lender	The Seller 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/or Wales who generally satisfy the lending criteria of traditional sources of residential mortgage capital;
Receiptholders	The holders of the Receipts;

Receipts	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 92;
Record Date	The meaning given in Condition 5(d) (Payments – Payments in respect of Registered Covered Bonds) on page 101;
Redeemed Covered Bonds	The meaning given in Condition 6(c) (Redemption and Purchase – Redemption at the option of the Issuer (Issuer Call)) on page 117;
Reference Assets	In respect of Equity Linked Covered Bonds, shares or other securities, as indicated in the applicable Final Terms;
Register	The register of holders of the Registered Covered Bonds maintained by the Registrar;
Registered Covered Bonds	Covered Bonds in registered form;
Registered Definitive Covered Bond	A Registered Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being in the form or substantially in the form set out in Part 8 (Form of Registered Definitive Covered Bond) of Schedule 2 (Forms of Global and Definitive Covered Bonds, Coupons, Receipts and Talons) to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon;
Registered Global Covered Bonds	The Rule 144A Global Covered Bonds together with the Regulation S Global Covered Bonds;
Registrar	The Bank of New York (Luxembourg) S.A., in its capacity as registrar (and any additional or successor registrar);
regulated mortgage contract	The meaning given in " <i>Regulatory changes by the Office of Fair Trading, the Financial Services Authority and any other regulatory authorities</i> " on page 59;
Regulation S	Regulation S under the Securities Act;

Regulation S Covered Bonds	The meaning given in " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " on page 222;
Regulation S Global Covered Bond	The meaning given in " <i>Form of Covered Bonds</i> " on page 70;
Related Security	<p>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 which is, or is to be, sold to (or held on trust for) the LLP pursuant to Clause 4 (Sale and Purchase of New Portfolios) of the Mortgage Sale Agreement including (without limitation):</p> <ul style="list-style-type: none"> (a) the benefit of all affidavits, consents, renunciations, guarantees, indemnities, waivers and postponements (including, without limitation, Deeds of Consent and Deeds of Postponement) from occupiers and other persons having an interest in or rights in connection with the relevant Property or third parties; (b) each right of action of the Seller against any person (including, without limitation, any valuer, licensed or qualified conveyancer, solicitor and any registrar or registry) in connection with any report, valuation, opinion, certificate or other statement of fact or opinion (including, without limitation, each Certificate of Title and Valuation Report) given or received in connection with all or part of any Loan and its Related Security or affecting the decision of the Seller to make or offer to make all or part of the relevant Loan; and (c) the benefit of (including, without limitation, the rights as the insured person under and as notations of interest on, returns of premium and proceeds of claims under) insurance and assurance policies (including, the Buildings Insurance Policies) deposited, charged, obtained, or held in connection with the relevant Loan, Mortgage and/or Property and Loan Files;
Relevant Date	The meaning given in Condition 7 (Taxation) on page 122;
Representations and Warranties	The representations and warranties set out in the Mortgage Sale Agreement, which are made by any Seller;
Repurchase Notice	A notice from the Cash Manager to the Seller 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), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement;
Required Redemption Amount	The meaning given in " <i>Summary of the Principal Documents</i> " on page 160;

Required True Balance Amount	The meaning given in " <i>Summary of the Principal Documents</i> " on page 174;
Reserve Fund	The reserve fund that the LLP will be required to establish in the Reserve GIC Account which will be credited with part of a Term Advance (in the LLP's discretion) and the proceeds of Available Revenue Receipts up to an aggregate amount equal to the Reserve Fund Required Amount;
Reserve Fund Required Amount	If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's, nil or such other amount as NPBS shall direct the LLP from time to time and otherwise, an amount equal to the Sterling Equivalent of one month's interest due on each Series of Covered Bonds together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (c) and if applicable (e) of the Pre-Acceleration Revenue Priority of Payments plus £600,000;
Reserve GIC Account	The reserve guaranteed investment contract account or accounts in the name of the LLP held with the GIC Provider and maintained subject to the terms of the Guaranteed Investment Contract 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;
Reserve Ledger	The ledger in connection with the Reserve GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts and (where applicable) proceeds of Term Advances to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed;
Reset Date	The meaning given in the ISDA Definitions;
Revenue Receipts	<ul style="list-style-type: none"> (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 from defaulting Borrowers under Loans being enforced; (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed; and (d) any deemed Revenue Receipts;
Rule 144A Global Covered Bond	A Global Covered Bond in registered form representing a Registered Covered Bond of a Tranche sold to QIBs pursuant

to Rule 144A and in the form or substantially in the form set out in Part 7 (Form of Registered Global Covered Bond) of Schedule 2 (Forms of Global and Definitive Covered Bonds, Coupons, Receipts and Talons) to the Trust Deed;

Rules	The rules, regulations and procedures creating and affecting DTC and its operations;
Sale Proceeds	The cash proceeds realised from the sale of Selected Loans and their Related Security;
Sarbanes-Oxley Act	The U.S. Sarbanes-Oxley Act of 2002;
Scheduled Interest	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 (Interest) (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 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 Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment 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 Due for Payment Date), 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 7 (Taxation);
Scheduled Payment Date	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	An amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6(a) (Redemption and Purchase – Final redemption) and Condition 6(g) (Redemption and Purchase – Instalments) (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 Final Terms specifies that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if

	the maturity date of the Covered Bonds had been the Extended Due for Payment Date;
SEC	U.S. Securities and Exchange Commission;
Secured Creditors	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), any Receiver or other appointee of the Security Trustee or the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), any appointee of the Bond Trustee, the Covered Bondholders, the Receipholders, the Couponholders, the Issuer, the Seller, the Servicer, the Account Bank, the GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Paying Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge;
Secured Obligations	Any and all moneys, obligations and liabilities and all other amounts due, owing, payable or owed by the LLP which the LLP covenants and undertakes in Clause 2 (Covenant to Pay Secured Obligations and Discharge Secured Obligations) of the Deed of Charge to pay and discharge and all claims, demands or damages for breach of any such covenant, and references to Secured Obligations includes references to any of them;
Securities Act	U.S. Securities Act of 1933, as amended;
Securities and Exchange Law	The Securities and Exchange Law of Japan;
Security	The meaning given in " <i>Summary of the Principal Documents</i> " on page 186;
Security Trustee	BNY Corporate Trustee Services Limited, in its capacity as security trustee under the Trust Deed and the Deed of Charge together with any successor security trustee appointed from time to time thereunder;
Selected Loan Offer Notice	A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount;
Selected Loan Repurchase Notice	A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice;
Selected Loans	Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required True Balance Amount;
Selection Date	The meaning given in Condition 6(c) (Redemption and Purchase – Redemption at the option of the Issuer (Issuer Call)) on page 117;
Seller	means NPBS any New Seller;

Seller Arranged Policy

Any Buildings Insurance Policy arranged by the Seller for the purposes of the Borrower insuring the Property for an amount equal to the full rebuilding cost of the Property;

Series

A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;

Series Reserved Matter

In relation to Covered Bonds of a Series:

- (a) increase, reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds;
- (b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;
- (c) alteration of the quorum or majority required to pass an Extraordinary Resolution;
- (d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of Covered Bonds of such Series);
- (e) except in accordance with Condition 6(e) (Redemption and Purchase) or Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) (in so far as it relates to the Substitution of the Issuer), the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be

exchanged or sold respectively; and

- (f) alteration of this definition or the proviso to paragraph 5 or paragraph 6 of Schedule 4 (Provisions for Meetings of Covered Bondholders) to the Trust Deed;

Servicer	NPBS in its capacity as servicer under the Servicing Agreement and/or any successor servicer appointed from time to time;
Servicer Event of Default	The meaning given in " <i>Summary of the Principal Documents</i> " on page 166;
Servicer Termination Event	The meaning given in " <i>Summary of the Principal Documents</i> " on page 166;
Services	The services listed in Schedule 1 (The Services) to the Servicing Agreement to be provided by the Servicer pursuant to the Servicing Agreement;
Servicing Agreement	The servicing agreement entered into on the Programme Date between the LLP, the Servicer and the Security Trustee;
Share Trustee	SFM Corporate Services Limited having its registered office at 35 Great St. Helen's, London, EC3A 6AP;
Society	NPBS;
Specified Currency	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars and such other 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 and specified in the applicable Final Terms;
Specified Denomination	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms;
Specified Interest Payment Date	The meaning given in the applicable Final Terms;
Specified Period	The meaning given in the applicable Final Terms;
Standard Documentation	The standard documentation, annexed to the relevant exhibit of the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;
Standard Variable Rate	The NPBS standard variable rate;
Sterling Equivalent	In relation to a Term Advance which is denominated in (i) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap

Rate relating to such Term Advance and (ii) Sterling, the applicable amount in Sterling; and

in relation to a Covered Bond which is denominated in (i) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Covered Bond and (ii) Sterling, the applicable amount in Sterling;

Subsidiary	Any company which is for the time being a subsidiary (within the meaning of Section 736 of the Companies Act 1985);
Substitution	The meaning given in Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) on page 134;
Substitution Assets	Each of: <ul style="list-style-type: none">(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 P-1/Aa3 by Moody's and F1+ by Fitch or their equivalents by two other internationally recognised rating agencies;(c) Sterling denominated government and public securities, as defined from time to time by the FSA, provided that such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's and F1+ by Fitch or their equivalents by two 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 and F1+ by Fitch or their equivalents by two other internationally recognised rating agencies,

provided that if the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the

	register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations, such Substitution Assets comply with the requirements of Regulation 2(1)a of the RCB Regulations;
sub-unit	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;
Successor in Business	The meaning given in Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) on page 135;
Swap Agreements	Means the Interest Rate Swap Agreement(s) and the Covered Bond Swap Agreement(s);
Swap Collateral	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 Accounts	Any account in the name of the LLP held with the Account Bank or any other account bank from time to time, into which collateral in respect of an Interest Rate Swap or a Covered Bond Swap may be deposited in accordance with the terms of any such Swap Agreement;
Swap Collateral Available Amounts	At any time, the amount of Swap Collateral which under the terms of the relevant Swap Agreement may be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP following termination of a Swap to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Priority of Payments or the Guarantee Priority of Payments;
Swap Collateral Excluded Amounts	At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the LLP, including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement;
Swap Provider Default	The occurrence of an Event of Default or Termination Event (each as defined in each of the relevant Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in the relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event;
Swap Provider Downgrade Event	The occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant the 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;
Swap Provider Tax Payment	The meaning given in Clause 16.5 of the LLP Deed;
Swap Providers	The Covered Bond Swap Providers and the Interest Swap Provider, and each a Swap Provider ;
Swaps	The Covered Bond Swaps together with the Interest Rate Swap;
Talons	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 92;
TARGET2 System	Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System;
Tax Credit	The meaning given in the relevant Swap Agreement;
Temporary Global Covered Bond	The meaning given in " <i>Form of Covered Bonds</i> " on page 69;
Term Advance	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;
Third Party Amounts	Each of: <ul style="list-style-type: none"> (a) payments of insurance premiums, if any, due to the Seller in respect of any Seller Arranged Policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Further Advance which is not purchased by the Seller to reimburse the Seller); (b) amounts under an unpaid direct debit which are repaid by the Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account; (c) amounts paid to the Seller by way of a cheque which the Seller is unable to recoup from the bank of such payee, or which cheque is dishonoured for any reason whatsoever; (d) payments by the Borrower of any fees and other charges (including Early Repayment Charges) which are due to the Seller; (e) 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 any of that Borrower or the Seller or the LLP;

- (f) any amounts due or arising from any overpayment by any person or arising from any reimbursement by any person of any such over payment (including, for the avoidance of doubt, where arising from the failure of a direct debit);
- (g) (subject to any right to refuse or withhold payment or of set- off that has arisen by reason of the Borrower's breach of the terms of the relevant Mortgage or Loan) any amount payable to a Borrower under the terms of the Mortgage or the Loan to which that Borrower is a party (other than a Further Advance);
- (h) any amounts owed to the Seller pursuant to Clause 6 (Trust of Monies) of the Mortgage Sale Agreement;
- (i) any amount received from a Borrower for the express purpose of payment being made or having been made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the LLP; and
- (j) any amounts representing overpayments made on behalf of a Borrower by the Department of Work and Pensions which the Department of Work and Pensions subsequently seeks to recover,

which amounts may be paid daily from monies on deposit in the LLP Accounts;

Title Deeds

In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents which relate to the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage;

Transaction Account

The account designated as such in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such other account as may for the time being be in place with the prior consent of the Security Trustee and designated as such;

Transaction Documents

- (a) Mortgage Sale Agreement
- (b) Servicing Agreement
- (c) Asset Monitor Agreement
- (d) Intercompany Loan Agreement
- (e) LLP Deed

- (f) Cash Management Agreement
- (g) the Interest Rate Swap Agreement
- (h) each Covered Bond Swap Agreement
- (i) Bank Account Agreement
- (j) Guaranteed Investment Contract
- (k) Corporate Services Agreement
- (l) Deed of Charge (and any documents entered into pursuant to the Deed of Charge)
- (m) Trust Deed
- (n) Agency Agreement
- (o) Programme Agreement
- (p) each set of Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)
- (q) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)
- (r) Master Definitions and Construction Agreement;
- (s) Each document, agreement or indenture ancillary or supplemental to any of the documents specified in paragraphs (a) to (r) (inclusive) above; and
- (t) any other agreement or document from time to time designated as such by the Issuer, the LLP and the Bond Trustee and/or the Security Trustee;

Transfer Agent The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 91;

Transfer Certificate The meaning given in Condition 2(e) (Transfers of Registered Covered Bonds – Transfers of interests in Regulation S Global Covered Bonds) on page 96;

Transfer Date Each of the First Transfer Date and the date of transfer of any New Portfolio to the LLP in accordance with the Mortgage Sale Agreement (or, if earlier, the date on which such new Portfolio becomes subject to the CCA Trust);

True Balance For any Loan as at any given date, the aggregate (but avoiding double counting) of:

- (a) the original principal amount advanced to the relevant Borrower and any further amount (including any Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and
- (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been property capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by that Mortgage; and
- (c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by that Loan,;

as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Further Advances committed to be made but not made by the end of the Business Day immediately preceding that given date

Trust Deed

The Trust Deed dated the Programme Date (as amended, restated or varied from time to time) and made between the Issuer, the LLP, the Security Trustee and the Bond Trustee under which Covered Bonds will, on issue, be constituted and which sets out the terms and conditions on which the Bond Trustee has agreed to act as bond trustee and includes any trust deed or other document executed by the Issuer, the LLP, the Security Trustee and the Bond Trustee in accordance with the provisions of the Trust Deed and expressed to be supplemental to the Trust Deed.

UCITS Directive

Directive 85/611/EEC of 20 December 1985 on undertakings for collective investment in transferable securities, as amended;

UK Listing Authority

The UK Listing Authority which is the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the FSMA;

Unfair Practices Directive

The directive on unfair business-to-consumer commercial practices adopted by the European Parliament and the Council in May 2005;

UTCCR

Unfair Terms in Consumer Contracts Regulations 1999 (SI

1999/2083), as amended, and the Unfair Terms in Consumer Contracts Regulations 1994 (SI 1994/3159);

Valuation Report

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

Valuer

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 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 acting for the Seller in respect of the valuation of a Property;

Yield Shortfall Test

The test as to whether the aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement to be received by the LLP during the Relevant LLP Payment Period would give a yield on the Loans of at least LIBOR plus 0.20 per cent.;

Zero Coupon Covered Bonds

Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

APPENDIX 1

2006 AUDITED CONSOLIDATED ACCOUNTS OF THE ISSUER

2006

Report & Accounts





Norwich and
Peterborough
BUILDING SOCIETY




The first financial services organisation in the UK to have FSA approval to introduce Basel II risk models



Group pre-tax profit up 26% to £20.2m



Total income grew by 9.2% to £75.7m while costs grew by only 3.1%



Management expense ratio down to 1.51% from 1.55%

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**Return on capital
increased to 11.7%
from 9.8%**

**Total mortgage assets
up 8.1% to £2,858m
(with new mortgage
advances of £809m)**

**Current accounts grew
by 9% to 130,000**

4

Business Highlights 2006



Keith Bedell-Pearce, Chairman and Matthew Bullock, Chief Executive

Economic background

The UK economy grew strongly during 2006, driven largely by the buoyant services sector. Rising house prices, record employment and a mild recovery in manufacturing, helped the economy to recover from a slowdown in 2005. High energy prices contributed to the upward pressure on inflation and the Bank of England's Monetary Policy Committee responded with two quarter-point increases during the year, taking the official Bank Base Rate to 5% at the year-end.

By historic standards, UK mortgage rates are still at relatively low levels, while at the same time the rate increases will have been welcomed by savers.

House prices increased steadily from recent low levels seen around the middle of 2005 and many forecasters were surprised by the resilience of the domestic housing market. London prices drove up the national average while at the same time mortgage approvals unexpectedly rose to a record high in November

at £33.1 billion. Prices rose by 13% in East Anglia, slightly above the UK average. Sales volumes in the region grew by 22% to 135,000.

Much press coverage was given to the fact that some lenders relaxed their lending criteria significantly during the year, causing concern that some borrowers might be tempted to overstretch themselves. Both the Financial Services Authority and the Bank of England were prominent in calling for these lenders to exercise more caution.

Over the course of the year the UK stock market performed well, despite reacting negatively for a period during the second quarter along with other world markets to concerns about higher inflation. The FTSE 100 index increased by over 600 points to end the year at 6,221. As in 2005, this provided long-term investors with some excellent returns.

OUR SERVICES

Savings and investments

In 2006, the Society's savings portfolio saw a significant increase in new balances. N&P appeared in 'best buy' tables throughout the year. A very popular product was the 50 Plus Savings Account which was launched in September and is available to savers who are aged 50 and over. End of year figures show a net savings inflow of £229m, an increase in market share and a large rise in the number of new savings customers.

In March, the Society launched its first Club Savers Account - an internet-based affinity savings account

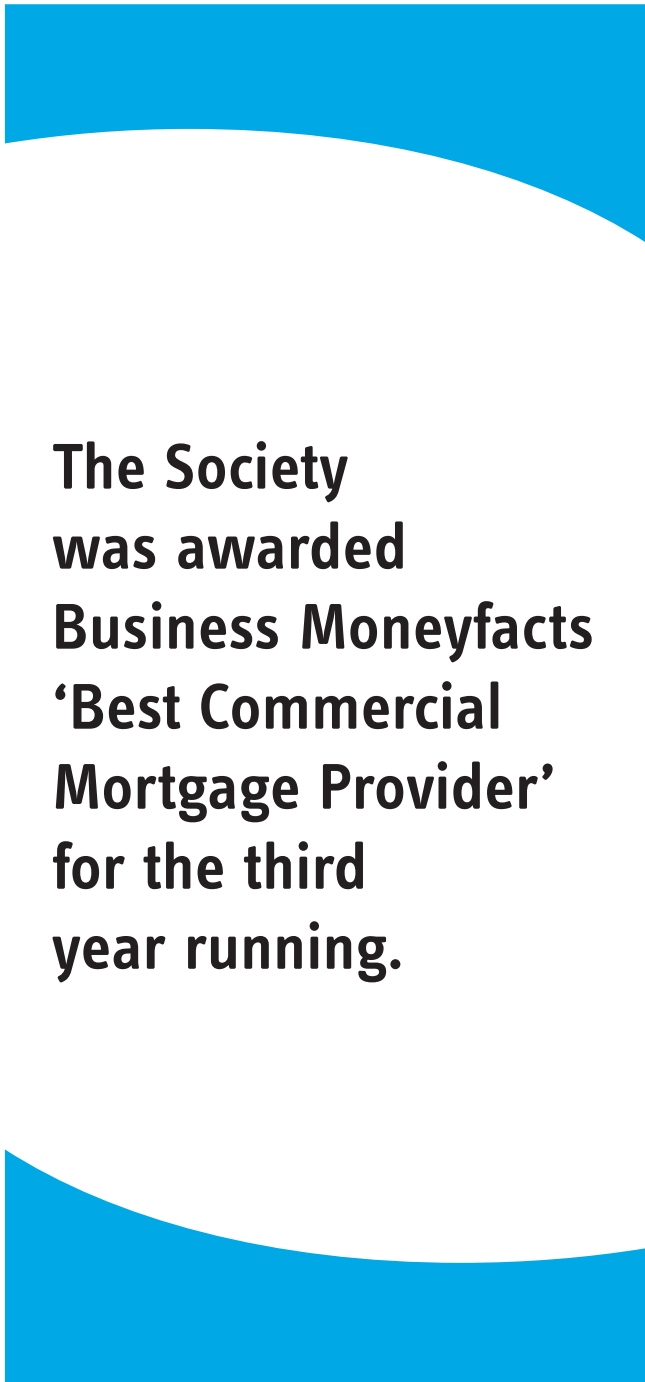
through which savers can support a selected football club. Earlier, the Football League endorsed N&P as its preferred provider of affinity savings accounts to Championship and lower league clubs. Each year the Society pays a bonus of up to 1.25% to the club, calculated on the average total balance held in all of the supporters' accounts for that club. In total, 27 clubs went live in 2006. The Society also has three long-running, established and successful accounts with Norwich City, Peterborough United and Lincoln City.

Financial Advice Service

Since the introduction of the independent Financial Advice Service in October 2003, 13,000 customers have received independent advice and expertise from N&P's financial planners on areas such as Inheritance Tax, investments, protection and pensions. In 2006 alone, our advisers invested £100 million for our customers. We will continue to provide every opportunity for customers to access this service in 2007 through our branch network and over the telephone, with a supporting series of seminars to be held throughout the region. We also see our advisory service to businesses growing, following the appointment of financial planners who will focus on providing a range of advice for both employers and their employees.

Banking

Throughout 2006, the Society's Gold Current Account was continuously mentioned as a 'best buy' in the national press. We have grown our personal and business current account base by more than 9% to just under 130,000 open accounts this year and have



**The Society
was awarded
Business Moneyfacts
'Best Commercial
Mortgage Provider'
for the third
year running.**

6

helped over 3,000 new customers switch their current account to N&P. In October we launched the Business Gold multi-function card (which is similar to our personal current account card) for sole traders and partnership accounts.

Mortgages


One of the major aims of the Society's mortgage portfolio is to provide our customers with good value and choice, which is why we continue to develop our wide range of mortgage products. In July we launched a new category of lending - 100% loan to value mortgages, ideal for first time buyers. 2006 has seen good volumes of mortgages distributed through both our customer-facing and intermediary channels. We have also seen a significant increase in the number of buy to let loans released, which we plan to build on in 2007.

We have continued to streamline our mortgage processes with a view to reducing internal processing costs and speeding up turnaround times, whilst still ensuring high quality service.


Commercial lending had another very successful year which, with advances exceeding £100m, has generated a profit contribution of around £5m for the year. Another significant achievement for this year was winning the Business Moneyfacts "Best Commercial Mortgage Provider" for the third year running. The Society was also awarded the Credit Today "Business Lender of the Year" award, beating off strong competition from the high street banks.

Insurance

Customers now have a wide choice in the way they can purchase insurance from Norwich and Peterborough Insurance Brokers - by telephone,



**Norwich and
Peterborough gives
"Best service on
the high street"**



in-branch and now online. In 2006, the Society launched online 'quote and buy' facilities for travel, motor and home insurance.

EXPERTISE AND QUALITY

Capital

A new legislative framework (the Capital Requirements Directive, commonly referred to as Basel II) governing how much capital all banks and building societies must hold to protect their members, depositors and shareholders, was introduced by the European Union from the beginning of 2007. In the UK, this is being implemented by our regulator, the Financial Services Authority (FSA). The FSA reviews the methods used in lending decisions and if an organisation is judged to be in control of its risk profile, with a detailed understanding of its customer base, it is permitted to set capital levels using internally developed models rather than through ratios set by the FSA.

N&P has worked over a number of years to develop models predicting potential losses that can arise in a recession from its lending activities in mortgages (both commercial and residential) and banking. Our aim is to ensure that we protect our members' savings by having sufficient capital to weather an economic downturn.

We are proud to be the first financial services organisation in Europe to be given approval to use these models in 2007.

Having these systems allows us to control our balance sheet more efficiently but perhaps more importantly, we can price more competitively and increase the range of customers we offer mortgages to by adjusting our price to match more exactly the 'risk profile' of the borrower.

Investment advice

Our 47 independent financial advisers are all highly qualified professionals. They use product and investment research and analysis from leading city-based independent research companies. They are kept up-to-date with the latest regulations and legislation through regular training.

Mortgage advice

The Society also has 87 CeMap qualified mortgage advisors. Training takes place in-house and encourages our mortgage advisors to learn about the whole house buying process, not just mortgages.

Retailing and marketing

Findings from the GFK Financial Research Survey in July revealed that compared to the rest of the market, N&P customers were more likely to feel they received better customer service compared to other financial institutions they deal with. This message, combined with over 300 'best buy' mentions in national newspapers in 2006, formed the basis for a major branch campaign in the run-up to Christmas.

2006 saw the closure of two N&P branches, in Peterborough and Northampton, brought on by the decline of the local retail environment. We also relocated and redesigned two other branches, in Lincoln and Wymondham. In February, N&P's Lincoln branch relocated from the city centre to the Carlton Centre - a brand new shopping area in the north east of the city. In June, our Wymondham branch relocated literally over the road to give disabled customers better access to the branch and give all customers more private interview space. Both moves gave us the opportunity

Norwich and Peterborough commended highly in the 'Large Business' category of the prestigious National Energy Efficiency Awards

to implement the new retail design that was piloted in our Chapelfield branch last year. We held members' meetings in Lincoln and Wymondham to canvas feedback on the changes, which proved overwhelmingly positive.

Awards



- Overseas Lender of the Year (Financial Advisor)
- Best Commercial Mortgage Provider (Business Moneyfacts)
- Business Lender of the Year (Credit Today)

COMMUNITY AND GOOD GOVERNANCE

Member engagement

As a mutual building society, we listen very carefully to the views and opinions of our members. This includes holding members' meetings, which we will continue to hold regularly in 2007, and through independent research. Our monthly customer satisfaction survey showed that we averaged 70% 'very satisfied' customers in 2006.

In July, the FSA published its latest update report on the progress firms are making with "Treating Customers Fairly" (TCF). In line with the FSA guidelines, we have a TCF policy and project plan in place. TCF has always been an integral part of our business culture - incorporated into product development and sales processes, staff induction training and career progression.

To help us strike a balance in setting policies, our Customer Service Review Committee continues to review individual complaints, our TCF processes and critical areas of customer service. Two members of the Committee stepped down in January 2007 and so the Society has been actively recruiting two new members from the Society's broad membership.

Community sponsorships and donations

N&P continues to support local requests for support through its branch network. In 2006 we gave £149,000 to local charities and other worthy causes. This included support for environmental causes, such as the Schools' Energy Club in West Norfolk (to which we have donated £15,000), and those working with the more vulnerable members of our communities.

The environment

In December, N&P was commended highly in the 'Large Business' category of the prestigious National Energy Efficiency Awards. Competing against national and international companies, N&P proved it punches well above its weight in terms of the environmental measures it has put in place over the last eight years. The Society will continue with its environmental focus in 2007, working with the Carbon Neutral Company to reduce and offset its emissions, initially over the next three years, and became "Carbon Neutral" on 1 January 2007.

Board rotation

2006 saw the retirement of Executive Directors Martyn Willgress and Ray Roberts and the appointment of David Jervis (Business Services Director), Jeff Pritchard (Risk & Compliance Director) and Richard Wells (Finance Director). Gordon Horsfield joined the Board as a

Non-executive Director and was appointed Chairman of the Audit Committee. Zara Hammond and Geoff Loades will be retiring as Non-executive Directors at the 2007 AGM, which will be held in Peterborough in April. We would like to thank Zara and Geoff for their contributions to the Society's success over the past 6 years and wish them well for the future.

Martyn Willgress joined the Norwich Building Society in 1976 and Ray Roberts joined the Peterborough Building Society in 1983. They therefore had a combined service of 53 years. We would like to thank Martyn and Ray for their considerable input to the Society's growth and success in this period.

OUTLOOK FOR 2007

Our strategy of "organic" diversification will continue in 2007 to focus on the independent revenue streams provided by our Financial Advice Service, banking and general insurance products. We recently launched our own personal loan service and have introduced a fourth interest rate tier to our Gold Current Account. Our business services portfolio will also be developed in 2007 and we expect to see continued growth of mortgage business, particularly through the intermediary sector, aided by our new capital models. However, should opportunities arise that might grow the Society "inorganically", then we would also pursue these if they were in the interests of our members.



Keith Bedell-Pearce
Chairman



Matthew Bullock
Chief Executive

Annual Report of the Directors

The Directors have pleasure in presenting the Annual Report and Accounts of Norwich and Peterborough Building Society and its subsidiary undertakings ("the Group") for the year ended 31 December 2006.

Business objectives and review

The aim of the Society is to be the best independent regional building society in the UK. In pursuing this objective we seek to generate a business environment within which our staff can maximise opportunities and provide a caring and efficient service to our customers. We will continue to offer a broad range of high quality products whilst maintaining a strong financial position.

We aim to ensure that our activities reflect clearly those qualities that our members find distinctive; offering modern and progressive products and services, simplifying complex products and processes and making them easy to understand and access, attention to the personal touch, and being open in our dealings with members, who are both customers and joint owners of the business.

The Group's business activities and future plans are reviewed on pages 4 to 9 by the Chairman and the Chief Executive.

Key performance indicators

The Group utilises a number of key performance indicators (KPIs) to measure current results against a number of corporate objectives. Some of the important ones are shown below, split between financial and other operating indicators.

Financial KPIs

Solvency Ratio

Purpose: the solvency ratio is a measure of the capital strength of the Group and its measurement is a requirement of the Interim Prudential Sourcebook (IPSB) for Building Societies issued by the Financial Services Authority (FSA). All financial institutions must maintain a solvency ratio in excess of 8% or a higher figure as denoted by a threshold ratio given by the FSA, together with an internal minimum in excess of this threshold ratio.

Definition and calculation: the solvency ratio is calculated by dividing the total capital resources of the Group by the sum of the risk weighted assets and off balance sheet items, expressed as a percentage. Risk weightings for individual asset types are defined within the IPSB.

Source of data: annual accounts combined with the risk weights from the IPSB.

Target: minimum of 11.0% at the year-end

Quantified data: 11.3% at the end of 2006; 2005 12.1%.

In 2007, the solvency ratio will be replaced by Individual Capital Guidance (ICG) as the main capital requirement as a result of implementing the Capital Requirements Directive, or Basel II.

Return on Capital

Purpose: The Group aims to maintain sufficient capital resources to allow it to make advances and provide other financial services. In order to maintain this capital, and the solvency ratio defined above, the Society needs to generate and retain profits that will add to general reserves, the main source of capital.

Definition and calculation: Return on capital measures the profit before tax as a percentage of the total reserves at the beginning of the year. It is recognised that a number of definitions of return on capital exist but this one reflects the return on members' funds.

Source of data: directly from the Annual Accounts.

Target: minimum of 8% for the year

Quantified data: 11.7% for 2006; 2005 9.8%.

Net Costs to Assets Ratio

Purpose: The Group is keen to ensure cost control is managed on an active basis. To allow for the additional activities undertaken by Norwich and Peterborough compared with other building societies, the net cost ratio takes account of non-interest income generated as well as costs incurred.

Definition and calculation: The net cost to asset ratio is defined as total costs less non-interest income, expressed as a percentage of mean total assets.

Source of data: directly from the Annual Accounts.

Target: 2006 target was 0.74%

Quantified data: 0.71% for 2006; 2005 0.77%.

Other Operational KPIs

Customer growth

Purpose: an increase in the number of customers using our mortgages, savings and banking products is important to ensure the Group continues to grow.

Definition: customer growth is defined as the change in the year of total customers having one or more of a mortgage, savings, or banking product.

Source of data: internal Group data.

Target: annual growth rate of 2.5%

Quantified data: 2.7% growth in 2006; 2.8% in 2005

Energy usage

Purpose: The Group aims to minimise the environmental impact of its business. Specific targets are set for energy usage across the business.

Definition and calculation: Annual targets in place for gas and electricity usage for Head Office and the Branch Network.

Source of data: actual energy usage.

Target: no increase in gas and electricity usage across the year for like-for-like activities.

Quantified data: Head Office gas usage 2% above target; electricity 7% below target.

Employee morale

Purpose: The Group needs to ensure it retains its best employees and generate a good level of morale in order to better service its customers.

Definition and calculation: Employee satisfaction index measured as a percentage, with 100% being high and 0% being low.

Source of underlying data: Annual employee surveys are undertaken across the Group, with all employees having the opportunity of taking part.

Target: Maintain the morale index above 65% and seek to have a majority of employees take part.

Quantified data: Employee satisfaction rating of 76% achieved in 2006, following 70% in 2005. Response rate of 69% achieved in 2006.

Results for the year

Total assets

The Group's total assets at the end of 2006 were £3.67 billion, an increase of 7.8% from the £3.40 billion in 2005.

Profits, reserves and capital

Group profit on ordinary activities before corporation tax was £20.2m (2005: £16.0m). Post tax profit was £14.1m (2005: £11.0m). Reserves at 31 December 2006 increased to £187.1m (2005: £173.1m).

The ratios of gross and free capital at 31 December 2006 as a percentage of total share and deposit liabilities were 6.33% (2005: 6.73%) and 5.79% (2005: 6.08%) respectively.

Loans and advances to customers

Mortgage lending for 2006 to 9,664 borrowers totalled £809m (2005: £677m). Redemptions totalled £458m (2005: £381m).

The provision for losses on all loans and advances to customers at 31 December 2006 was £4.8m (2005: £3.4m) which represented only 0.17% (2005: 0.13%) of such loans and advances.

At 31 December 2006, 11 mortgages (2005: 17), including those in possession, were in arrears with repayments due to the Group for twelve months or more. The total mortgage debt outstanding on these loans was £0.6m (2005: £0.7m) including arrears of £0.1m (2005: £0.1m).

Funding

Share balances increased by £276m during the year to £2,364m (2005: £2,088m). Deposit and other borrowings decreased by £13m to £1,068m (2005: £1,081m).

Liquid assets

Liquid assets in the form of authorised investments and cash were £762m at 31 December 2006 (2005: £710m), representing 20.8% of total assets.

Fixed assets

Details of changes in tangible fixed assets during the year are shown in Note 13 to the Accounts. Except for investment properties, which are stated at open market value, freehold and long leasehold properties are included at cost less accumulated depreciation. In the opinion of the Directors there was no significant difference between market and book values of these properties at 31 December 2006.

Directors

The names and details of the Directors of the Society are shown in the Annual Business Statement on pages 43 to 45.

In accordance with the Society's Rules, Bernie Foster, Alex Tweedie, Gordon Horsfield, David Jervis, Jeffrey Pritchard and Richard Wells will retire at the Annual General Meeting and offer themselves for re-election.

Zara Hammond and Geoff Loades are retiring from the Board after the Annual General Meeting on 16 April 2007 and having served two terms of three years under our corporate governance rules will not seek re-election. The Directors wish to thank Zara and Geoff for their contribution to the Society's success over the past 6 years.

None of the Directors has a beneficial interest in shares in, or debentures of, any connected undertaking of the Society.

Suppliers' Payment Policy

The Society's policy concerning the payment of its trade creditors for the following financial year is as follows:

The Society will discharge the supplier's invoice for the complete provision of goods and services (unless there is an express agreement in place for staged payments) within the agreed payment terms.

For all trade creditors, it is the Society's policy to:

- agree the terms of payment at the start of trading with each supplier;
- ensure that suppliers are aware of the terms of payment; and pay in accordance with contractual and other legal obligations.

The creditor days at 31 December 2006 were 29 days.

Charitable donations

During the year the Group gave £149,000 in cash and kind to charitable and community organisations, of which £25,000 was donated to registered charities. No contributions were made for political purposes.

Financial risk management objectives and policies

Overview

Norwich and Peterborough Group looks to manage all the risks that arise from its operations. The main risks within the business are credit risk, market risk, liquidity risk and operational risk. There is a formal structure for the management of these risks within the Group. The Risk Committee operates as a sub-committee of the Board in setting detailed policy for the management of risk. Operational responsibility for asset and liability management (covering market risk and liquidity risk) is in turn delegated to the Management Assets and Liabilities Committee ('ALCO') and responsibility for credit and operational risk to the Management Risk Committee. These management committees recommend limits which are consistent with the Group's appetite for risk, and then monitor and report on compliance with those limits and generally provide an oversight function in respect of risk management. Primary business responsibility for these risks is vested in the Group's business units and treasury operations.

The Group is primarily a producer and retailer of financial products, mainly in the form of mortgages and savings. These products give rise to a financial asset or liability and are termed financial instruments. As well as mortgages and savings, the Group also uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding and to manage the interest rate risks arising from its operations.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

These derivatives are only used by the Group in accordance with the Building Societies Act 1986 to limit the extent to which the Group will be affected by changes in interest rates or other factors specified in the legislation. The Group does not use derivatives for trading activity or for speculative purposes.

Credit risk

Credit risk refers to the potential risk that arises from customers or counterparties failing to meet their obligations as they fall due. Credit risk arises primarily from loans and other credit based products (for example current account overdraft facilities) available to our retail customers, loans to our commercial lending customers and from the liquid assets held by the Treasury department. The Board Risk Committee is responsible for approving the Group's lending policy and monitoring the exposures in accordance with this policy, including exposures to individual counterparties, regional exposures for residential lending, and sector concentration for

commercial lending. The Risk Committee is also responsible for approving limits on treasury counterparties, country exposures, and types of financial instrument.

Market risk

Market risk is the risk that the value of, or income or costs arising from, the Group's assets and liabilities varies as a result of changes in interest rates or exchange rates. This incorporates a range of risks but the principal element for Norwich and Peterborough is interest rate risk.

Interest rate risk arises from the imperfect matching of different interest rate features, repricing dates and maturities of mortgages, savings, and wholesale products. The Group manages this exposure on a continuing basis, within limits set by the Board Risk Committee, using a combination of on and off-balance sheet instruments.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. Liquidity risk is the risk that the Group is not able to meet these obligations. The management of this objective is achieved through maintaining a prudent level of liquid assets, through wholesale funding and through control of the growth of the business.

Operational risk

Operational risk is the risk of a loss arising from failed or inadequate internal processes or systems, human error or other external factors. This risk is managed by individual business areas which have responsibility for putting in place appropriate controls for their business. Regular reporting of risks then takes place at Management and Board Risk Committees and through reports to the Audit Committee.

Staff

Policies for human resources are reviewed regularly to ensure that the Group attracts and retains high calibre staff at all levels. Training and staff development remain priorities to maintain the effective and efficient delivery of the Group's products and services. Our commitment to the contribution made by our staff to business objectives is demonstrated by the 'Investor in People' accreditation achieved by the Society.

It is Group policy to give all applications for employment from disabled people full consideration in relation to the vacancy concerned and to their particular aptitude and abilities. Furthermore, in the event of existing staff members becoming disabled, every effort is made to retain them in suitable work if they are unable to continue in their present

role. All staff, including those with disabilities, are provided with equal access to training, career development and consideration for promotion.

Information on matters of interest to staff is provided through regular team briefings and the issue of circulars, In-Spire (the in-house newsletter) and presentations to help ensure that staff are made aware of the Group's objectives, performance and any other matters of concern to them as employees and that their views are taken into account where appropriate. The Society formally engages in employee consultations with an established Joint Consultative Committee through which members of staff may make their views known on matters affecting their interests.

Health and Safety

The Directors have overall responsibility for ensuring all reasonable precautions are taken to provide and maintain working conditions and practices that comply with statutory health and safety requirements and codes of practice, as they relate to the activities of the Norwich and Peterborough Group.

The Group considers safety and security as an integral part of the business and has a good health and safety culture. It uses various risk control processes to ensure this is maintained, including:

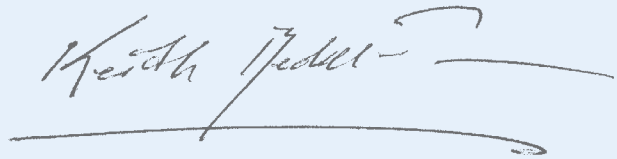
- regular monitoring of health and safety policy, practices

and performance including a ranking system of results of health and safety audits;

- the provision of information, instruction and training;
- Group wide standards and processes for health and safety activities;
- regular meetings of the Health and Safety Committee;
- regular discussions on health and safety matters are held by the Joint Consultative Committee that consists of management and staff appointed after an election;
- a periodic review by an external health and safety consultancy.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the Society will be proposed at the Annual General Meeting.



Keith Bedell-Pearce
Chairman
21 February 2007

Corporate Governance Statement

The Board confirms that the Society complied with all aspects of the Code of Governance contained in Chapter 3 of the Interim Prudential Sourcebook "Boards and Management" issued by the Financial Services Authority. A brief report on governance is set out below.

Committees of the Board

Audit Committee

Composition The Audit Committee comprises three Non-executive Directors:
Gordon Horsfield (Chairman)
Geoff Loades
Alex Tweedie

Main Functions The Audit Committee supervises the Society's internal audit programme and oversees compliance with the established systems of control, taking account of the relevant internal and external audit recommendations.

The Committee liaises with the Society's external auditors concerning the nature and scope of their work and reviews any changes in accounting policy and practice.

Frequency of meetings The Committee meets on a quarterly basis with an additional meeting to deal with the Report and Accounts. Once a year the Audit Committee holds a joint meeting with the Board Risk Committee.

Nominations Committee

Composition The Nominations Committee comprises four Non-executive Directors and the Chief Executive:
Keith Bedell-Pearce (Chairman)
Bernie Foster
Zara Hammond
Alex Tweedie
Matthew Bullock

Main Functions The Committee is responsible for identifying and nominating for approval of the Board, candidates to fill Board vacancies as and when they arise.

Frequency of meetings The Committee meets at least once a year, but more often when required.

Remuneration Committee

Composition The Remuneration Committee comprises three Non-executive Directors:
Bernie Foster (Chairman)
Keith Bedell-Pearce
Zara Hammond

Main Functions The Remuneration Committee agrees the terms and conditions of employment of the Society's Executive Directors and Senior Management.

Frequency of meetings The Committee normally meets twice a year, with special meetings when needed.

Corporate Governance Statement (continued)

Risk Committee

Composition The Risk Committee comprises three Non-executive Directors and five Executive Directors:

Alan Brown (Chairman)

Keith Bedell-Pearce

Alex Tweedie

Matthew Bullock

Mike Hounsell

David Jervis

Jeffrey Pritchard

Richard Wells

Main Functions The Risk Committee approves the methods for managing and reporting of credit, market and operational risks. This includes recommending risk limits to the Board and monitoring risk exposures. The Committee also recommends changes to the Treasury and Balance Sheet Management policy to the Board as well as approving specific counterparty limits.

Frequency of meetings The Committee meets at least six times a year.

Board and Committee Meetings

During 2006 the Society's Board of Directors held eight formal Board Meetings and two strategy planning meetings. One Non-executive Director was unable to attend the July Board and October planning meetings and another was unable to attend the November Board Meeting. One Executive Director was unable to attend the September Board Meeting. Otherwise all meetings were fully attended.

Each of the Board Committees undertakes an annual assessment of its performance and these are presented to the Board. The Chairman carries out an evaluation of individual Directors' performance and an evaluation of the performance of the Board as a whole. Directors also undertake an evaluation of the Chairman's performance.

Non-executive Directors regularly meet without the presence of Executive Directors and once a year meet the External Auditor without Executive Directors being present.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the respective responsibilities of Directors and auditors set out on page 17, is made by the Directors to explain their responsibilities in relation to the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 ('the Act') to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of affairs of the Society and of the Group as at the end of the financial year, of the income and expenditure of the Society and the income and expenditure and cash flows of the Group for the financial year.

The Directors consider that, in preparing the accounts on pages 18 to 41 the Society has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all UK accounting standards which they consider to be applicable have been followed.

In addition to the Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and the Group.

The Directors are responsible for ensuring that the Society and its subsidiary undertakings:

- keep appropriate accounting records in accordance with the Building Societies Act 1986, and
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason the accounts continue to be prepared on the going concern basis.



Alex Tweedie

Senior Independent Director



Keith Bedell-Pearce

Chairman

21 February 2007

Annual Report of the Remuneration Committee

Role

The Remuneration Committee is responsible for determining, pursuant to a policy framework on executive remuneration agreed by the Board, the pay, benefits, and conditions of employment of the Society's Executive Directors and Senior Management.

Composition

The Committee comprises three Non-executive Directors as set out on page 13 under 'Committees of the Board'. Meetings of the Committee are also attended by Matthew Bullock (Chief Executive) and, as necessary, by Pat Turner (General Manager, Human Resources). The Chief Executive does not attend when his own remuneration is discussed.

Frequency of Meetings

The Committee normally meets twice a year, with special meetings when needed.

Policy on Directors' Remuneration

The remuneration policy complied with the principles of the Code of Governance contained in the Interim Prudential Sourcebook for building societies. The remuneration of Executive Directors is determined by the Society's Remuneration Committee. Non-executive Directors receive only their fees.

The policy is based on the principles that pay arrangements should support the Group in the achievement of business objectives by attracting and retaining the right calibre of staff, motivating individuals towards improved performance, recognising and rewarding individual performance, and ensuring pay systems are clear, simple and fair.

Executive Directors' remuneration comprise a number of elements: basic pay, annual and medium term incentive schemes, contribution to pension schemes, and other benefits. The basic pay is set by reference to information supplied by an independent external organisation (Watson Wyatt LLP). The annual bonus comprises a team bonus related to cost management, income generation and mortgage growth, and a personal bonus assessed on a balanced scorecard covering financial, customer, process and staff management targets. The medium-term incentive targets relate to customer satisfaction, growth in customer numbers and growth in customer product holdings.

Current Application of Policy

The remuneration arrangements for Executive Directors and Senior Managers, which were in force during the period covered by the Annual Accounts and for the following and subsequent financial years, are as follows:

- Remuneration is assessed by reference to jobs carrying similar responsibilities in comparable organisations.

The main comparator group consists of financial organisations with a similar level of complexity and diversity to the Group, both mutual organisations and public limited companies. The Committee reviewed the information supplied by an independent external organisation (Watson Wyatt LLP) and was satisfied with the approach and the data. Similar reviews are carried out annually. The Committee also reserves the right to seek its own independent advice if necessary.

- Performance-related reward is in three parts. These are basic salary; an annual bonus scheme to reward success at the end of the financial year; and a medium-term incentive scheme by which reward for business success will be paid over a rolling three-year period. Payments made as a result of the annual bonus scheme and the medium-term incentive scheme are not pensionable.
- Basic salaries are reviewed annually by reference to jobs of a similar size, prevalent market conditions, and individual performance in the role. All Executive Directors and Senior Managers have job descriptions prepared in a standard format that are used to determine a suitable market comparator.
- The annual bonus is based on achievement against a team performance measure (cost management, income generation, and mortgage growth) and against a measure of personal performance. The team performance measure is designed to pay out 6% of basic salary if the Group's performance matches the budgeted targets but the actual payment is variable within a range depending on results, with a maximum of 10% and a threshold of performance below which no payment is made. A further payment of up to 20% is based on personal performance, making a total maximum payment of 30%. Performance levels are determined by quarterly appraisals against a series of objectives on a personal balanced scorecard reflecting financial, customer, process and staff management targets. The Chief Executive is appraised by the Chairman and the other Executive Directors are appraised by the Chief Executive.
- The purpose of the medium-term incentive plan is to reward success in achieving Group performance targets over a longer time scale. The plan is designed to pay a 5% bonus deferred for three years initially dependant on achieving the personal performance target of the annual bonus above. The bonus is then incremented, based on three further performance measures to give a total bonus after the three year period in the region of 7% for successful achievement rising to payments of around 12% for exceptional achievement. The three performance measures being used for the current and following financial year relate to customer satisfaction, growth in customer

Annual Report of the Remuneration Committee (continued)

numbers and growth in customer product holdings. This is to reflect the Group's overall strategic goals of having a growing, satisfied, and loyal customer base. A further bonus of 2.5% is payable if the Group meets certain cost management targets. No increments in the payment arises from the three identified areas if performance falls below levels previously achieved. The three target performance levels, on which the 2007 bonuses will be set by the Committee, are based on the Group's forecasts for 2007.

- At the end of 2006, four Executive Directors were members of the Norwich and Peterborough defined benefits pension scheme, details of which are set out in the Notes to the Accounts. One Executive Director is not a member of the pension scheme and the Group instead pays an equivalent contribution into a personal money purchase scheme. The Group also made a contribution to one of the Executive Directors to the extent that a part of the Executive's pension, prior to Pension Simplification (see next paragraph), could not be provided by approved pension arrangements due to Inland Revenue restrictions.
- The Committee had previously reviewed the implications of the new Pension Simplification regime that came into force on 6 April 2006, after taking advice and guidance from a specialist pensions adviser (SBJ Benefit Consultants Ltd). The new regime alongside an approved set of transitional arrangements provides scope for some additional flexibility or protection of existing benefits, for Executive Directors, depending upon personal circumstances. The Committee has agreed to support additional flexibility or protection of existing benefits, within the scope of the new regime and the transitional arrangements in a manner that is cost-neutral to the Society.

- Executive Directors may receive other taxable benefits including car (or an alternative cash allowance) and fuel allowances and healthcare provision.

Executive Directors' Contractual Terms

The standard terms for new appointments at Executive Director level, including internal promotions, will be terminable by the individual on six months' notice and by the Society on a notice period of 12 months. All Executive Directors in post at the end of 2006 have contracts on this basis. Any termination payment will not exceed 12 months' salary

Non-executive Directors

The Executive Directors, in conjunction with the General Manager (Human Resources), consider the level of fees for Non-executive Directors, using benchmarks of fees from a comparator group comprising other building societies. The Board determines fees on advice from this panel.

There are no bonus schemes for the Chairman or other Non-executive Directors. Non-executive Directors do not qualify for pension entitlement.

Emoluments

Details of the emoluments of individual Executive and Non-executive Directors is given within Note 5 to the Accounts on page 25.



Bernie Foster
Chairman of the Remuneration Committee
21 February 2007

Independent Auditors' Report to the Members of Norwich and Peterborough Building Society

We have audited the Annual Accounts on pages 18 to 41 which comprise the Group and Society income and expenditure accounts, the Group and Society balance sheets, the consolidated cash flow statement, the Group and Society statement of total recognised gains and losses, statement of accounting policies and the related notes. These Annual Accounts have been prepared under accounting policies set out therein. We have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for the preparation of the Annual Report including the Annual Accounts, the Annual Business Statement and the Directors' Report in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Annual Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for, and only for, the Society's members as a body in accordance with section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Annual Accounts give a true and fair view and whether the Annual Accounts have been properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. We also report to you our opinion as to whether certain information included within the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts, and whether the Annual Business Statement and the Directors' Report have been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the Annual Accounts are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Annual Accounts. The other information comprises only the Business Highlights, Corporate Governance Statement and Annual Report of the Remuneration Committee. We consider the implications for our report if we become aware of any

apparent misstatements or material inconsistencies with the Annual Accounts, the Annual Business Statement or the Directors' Report. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 Annual Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Annual Accounts.

Opinion

In our opinion:-

- a) the Annual Accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs at 31 December 2006 and of the Group's and the Society's income and expenditure and the Group's cash flows for the year then ended;
- b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- c) the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- d) the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
21 February 2007

Income and Expenditure Account for the year ended 31 December 2006

	Note	Group		Society	
		2006 £m	2005 £m	2006 £m	2005 £m
Interest receivable and similar income	1	184.5	174.0	184.4	173.8
Interest payable and similar charges	2	136.6	130.5	136.9	130.8
Net interest receivable		47.9	43.5	47.5	43.0
Income from shares in subsidiary undertakings		-	-	0.5	3.2
Income from other investments		-	1.2	-	-
Pension finance income	26	0.8	0.7	0.8	0.7
Fees and commissions receivable		30.5	26.0	22.1	19.2
Fees and commissions payable		(4.3)	(2.8)	(3.7)	(3.1)
Other operating income		0.8	0.7	0.5	0.2
Total income		75.7	69.3	67.7	63.2
Administrative expenses	3	49.9	47.8	44.2	43.3
Depreciation and amortisation	12/13	3.3	3.8	1.6	1.6
Operating profit before provisions		22.5	17.7	21.9	18.3
Provisions	6	2.3	1.7	2.3	1.7
Operating profit on ordinary activities before tax		20.2	16.0	19.6	16.6
Tax on profit on ordinary activities	7	6.1	5.0	5.9	4.3
Profit for the financial year	23	14.1	11.0	13.7	12.3

Profit for the financial year arises from continuing operations.

As a result of the realisation of revaluation gains on investment properties, there is a difference of £nil (2005: £1.1m) between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

The accounting policies and notes on pages 21 to 41 form part of these Accounts.

Statement of Total Recognised Gains and Losses for the year ended 31 December 2006

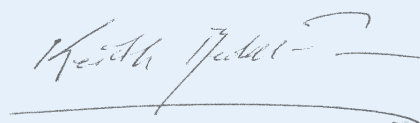
	Note	Group		Society	
		2006 £m	2005 £m	2006 £m	2005 £m
Profit for the financial year		14.1	11.0	13.7	12.3
Actuarial loss recognised in pension scheme	26	(0.1)	(2.7)	(0.1)	(2.7)
Deferred taxation relating to pension scheme	26	-	0.8	-	0.8
Tax on realised property revaluation gains of previous years		-	(0.1)	-	-
Total recognised gains and losses in the year		14.0	9.0	13.6	10.4

Balance Sheet
as at 31 December 2006

	Note	Group		Society	
		2006 £m	2005 £m	2006 £m	2005 £m
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		5.4	7.1	5.4	7.1
Loans and advances to credit institutions	8	94.7	93.2	92.9	91.5
Debt securities	9	661.9	610.2	661.9	610.2
		762.0	710.5	760.2	708.8
Loans and advances to customers					
Loans fully secured on residential property	10	2,567.7	2,383.0	2,559.3	2,372.0
Other loans	10	290.7	262.3	290.7	262.3
		2,858.4	2,645.3	2,850.0	2,634.3
Investments	11	-	-	17.0	33.2
Intangible fixed assets	12	0.8	0.9	-	-
Tangible fixed assets	13	20.3	21.5	19.6	16.6
Other assets		4.6	6.2	1.1	1.0
Prepayments and accrued income	14	23.4	18.1	23.3	17.6
Total Assets		3,669.5	3,402.5	3,671.2	3,411.5
Liabilities					
Shares	15	2,364.3	2,088.1	2,364.3	2,088.1
Amounts owed to credit institutions	16	86.2	136.3	86.2	136.3
Amounts owed to other customers	17	799.9	687.0	807.6	695.5
Debt securities in issue	18	181.8	257.6	181.8	257.6
Other liabilities	19	8.5	9.1	7.8	6.1
Accruals and deferred income	20	7.8	7.0	6.8	14.4
Provisions for liabilities	21	1.9	2.2	1.9	2.2
Pension liability	26	2.0	2.1	2.0	2.1
Subordinated liabilities	22	30.0	40.0	30.0	40.0
		3,482.4	3,229.4	3,488.4	3,242.3
General reserve	23	187.1	173.1	182.8	169.2
Total Liabilities		3,669.5	3,402.5	3,671.2	3,411.5

The accounting policies and notes on pages 21 to 41 form part of these Accounts.

Approved by the Board of Directors on 21 February 2007.



Keith Bedell-Pearce
Chairman



Matthew Bullock
Director and Chief Executive



Richard Wells
Finance Director

Consolidated Cash Flow Statement for the year ended 31 December 2006

	2006 £m	2005 £m	
Net cash inflow/(outflow) from operating activities	71.7	(25.0)	
Returns on investments and servicing of finance			
Interest paid on subordinated liabilities	(2.8)	(2.6)	
Taxation	(4.4)	(4.0)	
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(2.2)	(1.8)	
Disposal of tangible fixed assets	0.6	2.2	
Purchase of debt securities	(1,628.9)	(1,162.3)	
Sale and redemption of debt securities	1,577.7	1,184.2	
	(52.8)	22.3	
Acquisitions and disposals			
Businesses acquired	(0.2)	-	
Financing			
(Repayment)/issue of subordinated liabilities	(10.0)	10.0	
Increase in cash	1.5	0.7	
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit on ordinary activities before tax	20.2	16.0	
(Increase)/decrease in prepayments and accrued income	(5.7)	1.0	
Increase in accruals and deferred income	5.6	3.4	
Provisions	2.3	1.7	
Amounts written off provisions, net of recoveries	(1.4)	(1.1)	
Release of deferred higher advance fees	(0.5)	(0.8)	
Depreciation and amortisation	3.3	3.8	
Interest on subordinated liabilities	2.8	2.8	
Pension contributions in excess of charge	(0.3)	(2.6)	
Profit on sale of tangible fixed assets	(0.2)	(0.3)	
Increase in provisions for liabilities	0.3	0.1	
Net cash inflow from trading activities	26.4	24.0	
Increase in loans and advances to customers	(214.0)	(176.1)	
Increase in shares	273.5	47.8	
Increase in amounts owed to credit institutions and other customers	60.1	8.0	
(Decrease)/increase in debt securities in issue	(75.3)	72.4	
Decrease/(increase) in loans and advances to credit institutions	1.7	(1.2)	
Decrease/(increase) in other assets	1.6	(0.8)	
(Decrease)/increase in other liabilities	(2.3)	0.9	
Net cash inflow/(outflow) from operating activities	71.7	(25.0)	
Analysis of the balances of cash and cash equivalents shown in the balance sheet			
	2005 £m	Flows £m	2006 £m
Cash in hand and balances with the Bank of England	7.1	(1.7)	5.4
Loans and advances to credit institutions – repayable on demand	44.8	3.2	48.0
	51.9	1.5	53.4

In addition, the Group is required to maintain a cash ratio deposit with the Bank of England which at 31 December 2006 amounted to £3.4m (2005: £3.1m).

Statement of Accounting Policies

Accounting convention

The Accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties.

Basis of preparation and consolidation

The Accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 ("the Regulations"), applicable accounting standards of the Accounting Standards Board, pronouncements of the Urgent Issues Task Force and Statements of Recommended Accounting Practice issued by the British Bankers Association.

Group Accounts are a consolidation of the Accounts of the Society and all its subsidiary undertakings made up to 31 December in each year. The Society Accounts show investments in subsidiary undertakings at cost less provisions for permanent diminution in value.

Segmental reporting

A segmental analysis is not disclosed as the Group's business is predominantly UK based and within one business sector, being retail financial services.

Interest receivable and payable

Interest is recognised in the income and expenditure account on an accruals basis with the exception of accounts where interest has been suspended in accordance with the provisioning policy for bad and doubtful debts as set out below.

Mortgage incentives

The cost of mortgage cashbacks, discounts and other incentives are written off against interest receivable and other income, as appropriate, in the year incurred.

Fees and commissions receivable or payable

Fees and commissions are recognised on an accruals basis in the period during which they are earned or incurred.

These include banking fees, general insurance commissions and financial advice commissions. The value of commissions receivable is reduced, where appropriate, by a provision for the clawback of commission on policies cancelled following the balance sheet date.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term in arriving at the operating profit.

Provisions for bad and doubtful debts

Provisions for losses are based upon a year-end appraisal of loans, advances and other assets. Specific provisions are made in respect of properties in possession and in respect of mortgage accounts one month or more in arrears at that date and against other assets where book value exceeds the estimated realisable value. The provision on each account represents the amount required to reduce the outstanding balance of the asset to its expected realisable value, by using an industry recognised house price index, and adjusting for costs of realisation, other recoveries and the probability of possession.

General provisions are made where it is considered that there is impairment in the value of assets at the year-end that is not already covered by specific provisions.

The amount shown in the income and expenditure account represents the actual losses incurred and the net change in provisions. Interest that is considered to be irrecoverable on advances secured on repossessed properties is excluded from income from the date of repossession.

Goodwill

Goodwill arises on the acquisition of subsidiary undertakings, businesses and in relation to premia on the acquisition of other assets and represents the excess of cost over fair value of net tangible assets acquired. Goodwill arising on each acquisition is capitalised within intangible fixed assets and amortised by the straight-line method over its estimated useful economic life, which is currently 5 years. Where the terms of contracts allow for variation in the amount paid for a business, this will result in a change to the amount of goodwill. Where, in the opinion of the Directors, there is no expected future value of goodwill acquired, it is written off immediately. Following a disposal or impairment review, where any goodwill was previously written off directly to reserves, an equal amount is transferred from reserves to the income and expenditure account.

Taxation

Corporation tax is charged at the current rate, based on results for the year, as adjusted for tax purposes. Deferred tax is provided at anticipated tax rates, on a non-discounted basis, using the full provision method, on all timing differences that have not reversed by the balance sheet date. Deferred tax assets are recognised only to the extent that there is expected to be sufficient taxable profits available against which they can be offset in the future.

Statement of Accounting Policies (continued)

Pension costs

The Group provides both a defined benefit and a defined contribution scheme on behalf of its employees. The defined benefit scheme is funded by contributions partly from the Group at rates assessed by an independent actuary and partly from the employees. These contributions are invested separately from the Group's assets. The scheme assets are measured at market value at each balance sheet date and the liabilities are measured using the attained age method, discounted using a corporate bond rate. The resulting scheme surplus or deficit is immediately recognised on the balance sheet, net of deferred tax. The income and expenditure account includes a charge in respect of the cost of accruing benefits for active employees and the expected return on the scheme assets is included within pension finance income net of the charge in respect of unwinding of the discount applied for scheme liabilities. Actuarial gains and losses arising from changes in actuarial assumptions are recognised directly in the statement of recognised gains and losses. For the defined contribution scheme, contributions are charged to the income and expenditure account as they become payable, in accordance with the rules of the scheme.

Hedging contracts and financial instruments

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies.

All interest and market price related contracts and instruments that are designated as hedges are valued on an equivalent basis to the underlying asset, liability, or position. Cash flows arising in relation to such instruments are accounted for on an accruals basis. Any interest accrued on hedges are included within prepayments and accrued income or accruals and deferred income. Any profit or loss arising on the close out of a derivative is credited or charged to the income and expenditure account immediately if the underlying exposure is derecognised.

Financial fixed assets

Securities held as financial fixed assets are shown at cost adjusted to exclude accrued interest at the date of purchase less any diminution for impairment. Where the adjusted purchase price differs from par value, the premium or discount is amortised on a straight-line basis over the period to maturity.

Investment properties

Investment properties, which comprise properties held for rental, are stated at their valuation for existing use. Valuations are performed each year by qualified surveyors employed within the Group and a full valuation by an external valuer is carried out every 5 years. The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where the deficit is deemed permanent when it is taken to the income and expenditure account. No provision is made for depreciation of investment properties. This departure from the requirements of the Regulations, which require all properties to be depreciated, is in the opinion of the Directors, necessary for the financial statements to show a true and fair view in accordance with applicable accounting standards. The depreciation charge is only one of the factors reflected in the annual valuation and therefore the effect of the departure cannot be readily quantified.

Tangible fixed assets and depreciation

The cost of additions and alterations to office premises and additions to plant, machinery, equipment, fixtures, fittings and vehicles is capitalised.

Freehold and long leasehold land is included at cost and land is not depreciated. The carrying values of freehold and long leasehold buildings are reviewed annually for impairment. Any impairment is dealt with in the income and expenditure account.

Depreciation, where applicable, is provided by the straight line method against cost to write down the assets to their residual values over their estimated useful lives as follows:

- Freehold and long leasehold premises - 50 years
- Short leasehold premises - period of lease
- Computer equipment - 3 to 5 years
- Office equipment, fixtures and fittings - 8 years
- Motor vehicles - 5 years

Notes to the Accounts for the year ended 31 December 2006

1 Interest receivable and similar income	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
On loans fully secured on residential property	135.5	125.9	134.9	125.1
On other loans				
To subsidiary undertakings	-	-	0.5	0.6
Other	17.6	16.4	17.6	16.4
On debt securities				
Interest and other income	27.8	28.9	27.8	28.9
On other liquid assets				
Interest and other income	4.8	3.7	4.8	3.7
Net expense on financial instruments	(1.2)	(0.9)	(1.2)	(0.9)
	184.5	174.0	184.4	173.8
Interest receivable on loans fully secured on residential property is after charging mortgage cashbacks of:	0.6	1.0	0.6	1.0

Interest receivable on 'other loans' includes Group and Society £0.1m (2005: £0.1m) in respect of loans advanced prior to 1 September 1998 to corporate bodies, such as Housing Associations, which are fully secured on residential property. The classification adopted for such amounts is consistent with the balance sheet classification of the related loan in accordance with the Building Societies Act 1997 (see Note 10).

Interest receivable on debt securities includes Group and Society £11.2m (2005: £11.0m) in respect of fixed income securities.

Interest which is considered irrecoverable, where the property has been taken into possession, is suspended and deducted from the appropriate assets in the balance sheet. Movements in the suspended interest accounts were £nil (2005: £nil).

2 Interest payable and similar charges	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
On shares held by individuals	89.0	84.3	89.0	84.3
On deposits and other borrowings				
Subordinated liabilities	2.8	2.8	2.8	2.8
Other	46.4	44.7	46.7	45.0
Net income on financial instruments	(1.6)	(1.3)	(1.6)	(1.3)
	136.6	130.5	136.9	130.8

Notes to the Accounts
for the year ended 31 December 2006 (continued)

3 Administrative expenses	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Staff costs				
Wages and salaries	24.0	23.4	20.0	19.7
Social security costs	2.2	2.1	1.8	1.7
Pension scheme costs (Note 26)				
Defined benefit scheme	2.3	1.9	2.2	1.8
Defined contribution scheme	0.5	0.4	0.4	0.3
Operating lease charges				
Land and buildings	2.0	1.7	1.8	1.6
Other	0.8	0.7	0.7	0.6
Other expenses	18.1	17.6	17.3	17.6
	49.9	47.8	44.2	43.3

During the year the Group obtained the following services from the Group's auditor at costs as detailed below:	£000	£000	£000	£000
Fees payable to the Society auditor for the audit of the Society and consolidated accounts	169	160	169	160
Fees payable to the Society's auditor for other services:				
The audit of the Society's subsidiaries pursuant to legislation	47	46	-	-
Other services pursuant to legislation	11	2	-	-
Services relating to taxation	19	17	11	16
All other services	12	10	7	7
	258	235	187	183

4 Employees	Group and Society		Group and Society	
	2006 Full Time	2006 Part Time	2005 Full Time	2005 Part Time
The average number of persons employed during the year (including Executive Directors):				
Principal Office	350	79	347	85
Branch Offices	305	126	306	129
Subsidiaries	107	37	90	48
	762	242	743	262

5 Directors' emoluments	Group and Society	
	2006 £000	2005 £000
Total for services as directors	238	244
Total for services as executives	1,182	1,173
	1,420	1,417

Notes to the Accounts
for the year ended 31 December 2006 (continued)

5 Directors' emoluments (continued)

Non-executive Directors	2006 Fees* £000	2005 Fees* £000
Keith Bedell-Pearce	56	55
Alan Brown	30	28
Bernie Foster	28	29
Michael Fowle (to 24.4.06)	10	30
Zara Hammond	30	29
Gordon Horsfield (from 22.3.06)	24	-
Sir Christopher Howes (to 25.4.05)	-	10
Geoff Loades	30	27
Ian Peacock (to 25.4.05)	-	11
Alex Tweedie	30	25
	238	244

* Fees include Directors' travelling expenses.

Executive Directors

	Fees/ Salary £000	Annual Bonus £000	Medium- Term Bonus £000	Benefits £000	Sub-total £000	Increase in accrued pension £000	Pension scheme contrib- utions £000	Total £000
2006								
Matthew Bullock	283	71	36	14	404	-	49	453
Mike Hounsell	186	47	24	12	269	3	4	276
David Jervis (from 1.8.06)	57	12	6	-	75	1	-	76
Jeff Pritchard (from 5.10.06)	33	8	3	-	44	1	-	45
Ray Roberts (to 4.10.06)	122	23	5	8	158	7	-	165
Richard Wells (from 5.10.06)	31	7	3	1	42	1	-	43
Martyn Willgress (to 31.7.06) *	108	-	6	4	118	6	-	124
	820	168	83	39	1,110	19	53	1,182
2005								
Matthew Bullock	283	65	33	7	388	-	47	435
Mike Hounsell	180	44	22	12	258	2	14	274
Ray Roberts	157	30	18	9	214	6	-	220
Martyn Willgress	172	40	19	6	237	7	-	244
	792	179	92	34	1,097	15	61	1,173

* In addition, payments were made and benefits provided to Martyn Willgress of £360,540 in respect of the period of contractual notice and severance. Normal pension contributions were made in respect of these amounts. These costs were accrued in the 2005 Accounts.

Executive Directors' salaries are before salary sacrifice arrangements relating to pension scheme contributions.

The following information shows the value of Directors' pension benefits where the Director is in the Society's defined benefit pension scheme. The change in accrued pension represents the change in the annual pension to which each Director is entitled as a result of changes in pensionable earnings and pensionable service during the year. Figures quoted above represent the increase relating to the period since appointment as a Director during the year. The transfer value equivalents represent the capital value of the changes in Directors' accrued pension entitlements for the year. These transfer value amounts constitute the notional liability of the Society through a tax approved pension plan and do not represent amounts payable or due to the Directors. Directors' contributions are inclusive of salary sacrifice contributions.

Notes to the Accounts
for the year ended 31 December 2006 (continued)

5 Directors' emoluments (continued)

	Accrued pension entitlement at 31.12.06 £000	Accrued pension entitlement at 31.12.05 £000	Increase in accrued pension entitlement £000	Transfer value of accrued benefits at 31.12.06 £000	Transfer value of accrued benefits at 31.12.05 £000	Directors' contributions 2006 £000	Change in transfer value less Directors' contributions £000
Executive Directors							
Mike Hounsell	9	6	3	115	81	11	23
David Jervis	31	28	3	381	363	7	11
Jeffrey Pritchard	12	10	2	156	136	8	12
Ray Roberts	101	94	7	2,165	2,116	3	46
Richard Wells	15	12	3	188	164	7	17
Martyn Willgress	91	85	6	1,618	1,560	5	53

Other details of the pension arrangements of the Executive Directors are noted in the Annual Report of the Remuneration Committee on pages 15 and 16.

6 Provisions

	Loans fully secured on residential property £m	Other loans fully secured on land £m	Other loans £m	Other assets £m	Customer claims £m	Total £m
Group and Society						
At 1 January 2006						
General provision	1.2	0.5	0.2	-	1.8	3.7
Specific provision	0.8	-	0.7	0.2	-	1.7
	2.0	0.5	0.9	0.2	1.8	5.4
Amounts written off						
General provision	-	-	-	-	(0.5)	(0.5)
Specific provision	0.1	-	(0.9)	(0.1)	-	(0.9)
	0.1	-	(0.9)	(0.1)	(0.5)	(1.4)
Income and expenditure account						
General provision	0.3	0.3	-	-	0.1	0.7
Specific provision	0.6	-	1.1	-	-	1.7
Recoveries	(0.1)	-	-	-	-	(0.1)
	0.8	0.3	1.1	-	0.1	2.3
At 31 December 2006						
General provision	1.5	0.8	0.2	-	1.4	3.9
Specific provision	1.4	-	0.9	0.1	-	2.4
	2.9	0.8	1.1	0.1	1.4	6.3

The general provisions made at the year-end represent the Directors' assessment of the potential losses which, although not yet specifically identified as relating to payment arrears, are known from experience to exist in the Group's loan portfolio. The provisions are calculated using the methodology set out in the Statement of Accounting Policies on page 21.

These provisions have been deducted from the appropriate asset values shown in the balance sheet with the exception of customer claims which are shown within provisions for liabilities (Note 21).

Notes to the Accounts
for the year ended 31 December 2006 (continued)

7 Tax on profit on ordinary activities

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
(a) Analysis of charge in period				
The taxation charge for the year comprises:				
United Kingdom corporation tax for the year at				
30% on profit on ordinary activities	6.2	4.5	5.9	3.8
Payment from subsidiary undertaking in respect of capital loss surrendered	-	-	-	(0.1)
Total current tax	6.2	4.5	5.9	3.7
Deferred taxation				
Pension contributions allowable for current tax	0.6	0.8	0.6	0.8
Other timing differences	(0.7)	(0.3)	(0.6)	(0.2)
Total deferred taxation (Note 14)	(0.1)	0.5	-	0.6
Tax on profit on ordinary activities	6.1	5.0	5.9	4.3

(b) Factors affecting current tax charge for period

Profit on ordinary activities before tax	20.2	16.0	19.6	16.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	6.1	4.8	5.9	5.0
Effects of:				
Pension contributions allowable for current tax	(0.6)	(0.8)	(0.6)	(0.8)
Other timing differences	0.5	0.3	0.5	0.2
Other items not deductible for tax purposes	0.2	0.2	0.3	0.3
Dividends from subsidiary companies	-	-	(0.2)	(1.0)
Current tax charge for period	6.2	4.5	5.9	3.7

8 Loans and advances to credit institutions

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Loans and advances to credit institutions have remaining maturities as follows:				
Accrued interest	0.3	0.3	0.3	0.3
Repayable on demand	48.0	44.8	46.2	43.1
In not more than three months	43.0	45.0	43.0	45.0
In more than five years	3.4	3.1	3.4	3.1
	94.7	93.2	92.9	91.5

Notes to the Accounts
for the year ended 31 December 2006 (continued)

9 Debt securities

	Group and Society	
	2006	2005
	£m	£m
Debt securities, which are all unlisted and issued by borrowers other than public bodies, have remaining maturities as follows:		
Accrued interest	4.9	4.4
In not more than one year	358.8	264.5
In more than one year	298.2	341.3
	661.9	610.2

Included in debt securities are £0.5m (2005: £0.7m) of unamortised premiums.

The Directors of the Society consider that the debt securities are intended for use on a continuing basis in the Society's activities. These debt securities have therefore been classified as financial fixed assets rather than current assets.

Movements during the year of debt securities held as financial fixed assets are analysed as follows:

	Group and Society	
	2006	2005
	£m	£m
Cost and net book value		
At 1 January	605.8	627.7
Additions	1,628.9	1,162.3
Redemptions and disposals	(1,577.7)	(1,184.2)
	657.0	605.8
Accrued interest	4.9	4.4
At 31 December	661.9	610.2

The market value of debt securities (excluding accrued interest) is £657.3m (2005: £606.5m).

10 Loans and advances to customers

	Group		Society	
	2006	2005	2006	2005
	£m	£m	£m	£m
Loans fully secured on residential property	2,567.7	2,383.0	2,559.3	2,372.0
Other loans:				
Loans fully secured on land	280.9	255.4	280.9	255.4
Other loans	9.8	6.9	9.8	6.9
	2,858.4	2,645.3	2,850.0	2,634.3

Other loans fully secured on land include Group and Society £2.0m (2005: £2.1m) of loans which are fully secured on residential property and which were made to corporate bodies, such as Housing Associations, prior to 1 September 1998, the date the Society adopted the powers of the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after 1 September 1998, which are included in 'loans fully secured on residential property' but is necessary to comply with the requirements of the Building Societies Act 1997.

Notes to the Accounts
for the year ended 31 December 2006 (continued)

10 Loans and advances to customers (continued)

Maturity analysis

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:				
Repayable on demand	10.8	7.8	10.8	7.8
In not more than three months	20.7	20.0	20.6	19.8
In more than three months but not more than one year	65.3	61.2	64.9	60.6
In more than one year but not more than five years	366.5	349.7	364.1	347.3
In more than five years	2,401.2	2,211.8	2,395.7	2,204.0
Provisions for bad and doubtful debts	(4.8)	(3.4)	(4.8)	(3.4)
Deferred higher advance fees	(1.3)	(1.8)	(1.3)	(1.8)
	2,858.4	2,645.3	2,850.0	2,634.3

This analysis assumes that each mortgage account will continue under its current terms and, in particular, that it will not be redeemed before the contractual maturity date (except the mortgage balances on properties in possession which have been allocated equally over the first twelve months). However, the Society's mortgage conditions give the Society the right to demand repayment of the mortgage debt in full after three months' written notice to the borrower; when the borrower is in default repayment is due immediately.

The actual experience of repayments may differ from the above since many loans and advances are repaid early.

11 Investments

Subsidiary undertakings

Investments in subsidiary undertakings are financial fixed assets.

Movements during the year are analysed as follows:

	Shares	Loans	Society
	£m	£m	Total £m
Cost and net book value			
At 1 January 2006	8.5	24.7	33.2
Additions	-	6.2	6.2
Repayments received	-	(22.4)	(22.4)
At 31 December 2006	8.5	8.5	17.0

The Society holds directly the following interests in principal subsidiary undertakings:

Subsidiary undertaking	Principal activity
Hockleys Professional Limited	Property services
Norwich and Peterborough (LBS) Limited	Mortgage finance
Lynchwood Services Limited	Computer services
Norwich and Peterborough Insurance Brokers Limited	Insurance broking
Flexible Choice Limited	Property management

All the subsidiary undertakings are limited by shares, registered in England and operate in the UK.

Hockleys Professional Limited also operates in Gibraltar.

The Society holds 100% of the issued share capital of all its subsidiary undertakings.

Equity shares

During 2005 the Group sold its remaining holding of ordinary shares in the London Stock Exchange.

Notes to the Accounts
for the year ended 31 December 2006 (continued)

12 Intangible fixed assets	Group £m	Society £m
Cost		
At 1 January 2006	1.4	-
Acquired during the year	0.2	-
At 31 December 2006	1.6	-
Amortisation		
At 1 January 2006	0.5	-
Charge for the year	0.3	-
At 31 December 2006	0.8	-
Net book value at 31 December 2006	0.8	-
Net book value at 31 December 2005	0.9	-

The amounts disclosed above relate to the acquisition by one of the Society's subsidiary undertakings of books of business trading in insurance broking.

13 Tangible fixed assets	Land and Buildings		Equipment, Fixtures, Fittings and Vehicles		Total	
	Group £m	Society £m	Group £m	Society £m	Group £m	Society £m
Cost or valuation						
At 1 January 2006	17.1	16.8	17.7	8.5	34.8	25.3
Additions	0.7	0.7	1.5	1.1	2.2	1.8
Transfer from subsidiary undertaking	-	-	-	8.0	-	8.0
Disposals	(0.5)	(0.4)	(0.1)	-	(0.6)	(0.4)
At 31 December 2006	17.3	17.1	19.1	17.6	36.4	34.7
Depreciation						
At 1 January 2006	3.7	3.5	9.6	5.2	13.3	8.7
Transfer from subsidiary undertaking	-	-	-	4.8	-	4.8
Charge for the year	0.4	0.4	2.6	1.2	3.0	1.6
Disposals	(0.2)	-	-	-	(0.2)	-
At 31 December 2006	3.9	3.9	12.2	11.2	16.1	15.1
Net book value at 31 December 2006	13.4	13.2	6.9	6.4	20.3	19.6
Net book value at 31 December 2005	13.4	13.3	8.1	3.3	21.5	16.6

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
The net book value of land and buildings comprises:				
Freehold property	12.1	11.7	12.0	11.7
Long leasehold property	0.1	0.3	0.1	0.3
Short leasehold property	1.2	1.4	1.1	1.3
	13.4	13.4	13.2	13.3

The net book value of land and buildings based on historic cost comprises:				
Cost	17.3	17.0	17.1	16.8
Aggregate depreciation	3.9	3.6	3.9	3.5
Net book value	13.4	13.4	13.2	13.3

Land and buildings occupied by the Group/Society for its own activities:				
At 31 December	12.7	12.7	12.7	12.6

Notes to the Accounts for the year ended 31 December 2006 (continued)

13 Tangible fixed assets (continued)

Included within land and buildings is Group £4.2m (2005: £4.1m) and Society £4.1m (2005: £4.0m) in respect of freehold and long leasehold land and investment properties which are not depreciated.

The Group has substantially disposed of all its investment properties. As at 31 December 2006, the valuation of the one remaining investment property in the Group was reviewed in conjunction with a report produced by Hockleys Professional Ltd, a subsidiary employing RICS qualified valuers. The property has a carrying value of £0.1m (2005: £0.1m) with an original cost of £0.1m (2005: £0.1m). As a result of the valuation exercise, a total of £nil (2005: £nil) has been transferred to the revaluation reserve.

14 Prepayments and accrued income

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Off balance sheet instruments	18.9	13.5	18.9	13.5
Deferred tax asset	2.1	2.0	2.1	2.0
Other	2.4	2.6	2.3	2.1
	23.4	18.1	23.3	17.6

The movement in the deferred tax asset is as follows:

	Group £m	Society £m
Deferred tax at 31 December 2005	2.0	2.0
Balance acquired from subsidiary undertaking	-	0.1
Amount credited to income and expenditure account (Note 7)	0.1	-
Deferred tax included in prepayments and accrued income	2.1	2.1

Deferred tax comprises:

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Short term timing differences	2.4	2.3	2.4	2.3
Capital allowances	(0.3)	(0.3)	(0.3)	(0.3)
	2.1	2.0	2.1	2.0

These provisions represent the full potential liabilities.

If the Group were to dispose of all of its freehold and long leasehold properties at the amounts included in the balance sheet, after taking account of previously rolled over gains and indexation allowances, no unprovided liability to tax would arise.

15 Shares

	Group and Society	
	2006 £m	2005 £m
Held by individuals	2,364.0	2,087.7
Other shares	0.3	0.4
	2,364.3	2,088.1

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	61.3	58.6
Repayable on demand	1,713.5	1,585.6
In not more than three months	263.8	228.6
In more than three months but not more than one year	146.8	137.5
In more than one year but not more than five years	178.9	77.8
	2,364.3	2,088.1

Notes to the Accounts
for the year ended 31 December 2006 (continued)

16 Amounts owed to credit institutions

Group and Society
2006 2005
£m £m

Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	0.4	1.3
In not more than three months	27.8	55.0
In more than three months but not more than one year	58.0	30.0
In more than one year but not more than five years	-	50.0
	86.2	136.3

17 Amounts owed to other customers

Group Society
2006 2005 **2006** 2005
£m £m **£m** £m

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	17.0	13.4	16.9	13.4
Repayable on demand	178.2	182.0	180.7	184.8
In not more than three months	255.8	220.3	261.1	226.0
In more than three months but not more than one year	301.3	254.5	301.3	254.5
In more than one year but not more than five years	47.6	16.8	47.6	16.8
	799.9	687.0	807.6	695.5

18 Debt securities in issue

Group and Society
2006 2005
£m £m

Certificates of deposit	181.8	257.6
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Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	2.8	3.3
In not more than one year	178.0	254.3
In more than one year	1.0	-
	181.8	257.6

Notes to the Accounts
for the year ended 31 December 2006 (continued)

19 Other liabilities	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Corporation tax	4.1	2.4	3.9	2.1
Income tax	0.5	0.4	0.5	0.4
Other taxation and social security	0.7	0.6	0.7	0.6
Amounts due to subsidiary undertakings	-	-	0.6	0.3
Other creditors	3.2	5.7	2.1	2.7
	8.5	9.1	7.8	6.1

20 Accruals and deferred income	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Interest accrued on subordinated liabilities	0.9	0.9	0.9	0.9
Off balance sheet instruments	-	0.3	-	0.3
Amounts due to subsidiary undertakings	-	-	-	8.7
Other accruals and deferred income	6.9	5.8	5.9	4.5
	7.8	7.0	6.8	14.4

21 Provisions for liabilities	Group and Society		
	Customer claims £m	Other £m	Total £m
At 31 December 2005	1.8	0.4	2.2
Income and expenditure account	0.1	0.5	0.6
Utilised in the year	(0.5)	(0.4)	(0.9)
At 31 December 2006	1.4	0.5	1.9

Provisions have been made in respect of various customer claims, including potential claims on endowment policies sold.

22 Subordinated liabilities	Group and Society	
	2006 £m	2005 £m
Subordinated loan maturing 2011 – 9.02% fixed rate	-	10.0
Subordinated loan maturing 2012 – variable rate *	5.0	5.0
Subordinated loan maturing 2015 – variable rate *	-	5.0
Subordinated loan maturing 2015 – 6.13% fixed rate	10.0	10.0
Subordinated loan maturing 2016 – variable rate *	5.0	-
Subordinated loan maturing 2021 – 7.51% fixed rate	10.0	10.0
	30.0	40.0

* Interest payments are made on these loans at rates agreed with reference to LIBOR (London InterBank Offered Rate).

The Society issued the loans, which are all denominated in Sterling, in order to meet anticipated capital requirements.

The Society may, with the prior consent of the Financial Services Authority, repay all or some of the 2015 fixed rate loan on or after 25 February 2010 by giving 30 days' notice and the 2012, 2016 and 2021 loans by giving 6 months' notice of the intention to repay except for the 2021 loan where 30 days' notice is required.

The rights of repayment of the holders of subordinated loans are subordinated to the claims of depositors, all creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

Notes to the Accounts for the year ended 31 December 2006 (continued)

23 General reserve	Group £m	Society £m
Balance at 1 January 2006	173.1	169.2
Profit for the year	14.1	13.7
Actuarial loss in pension scheme net of deferred tax	(0.1)	(0.1)
Balance at 31 December 2006	187.1	182.8

The accounting standard on goodwill (FRS 10 - Goodwill and Intangible Assets, introduced in 1998) requires any purchased goodwill to be amortised over its useful economic life. The Society had previously written off goodwill directly to reserves. The cumulative amount of goodwill remaining written off to reserves in the Group is £1.4m (2005: £1.4m) and Society £nil (2005: £nil).

24 Guarantees, other financial commitments and contingent liabilities

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Capital commitments				
Capital expenditure contracted for but not provided for in the accounts	-	0.3	-	0.3

Annual commitments under non-cancellable operating leases are as follows:

Land and buildings

Date of lease termination:				
Within one year	0.2	0.2	0.2	0.2
More than one year but within five years	0.3	0.3	0.3	0.2
After five years	1.3	1.3	1.1	1.2
	1.8	1.8	1.6	1.6

Other operating leases

Date of lease termination:				
Within one year	-	-	-	-
More than one year but within five years	0.8	0.7	0.7	0.6
	0.8	0.7	0.7	0.6

In common with other financial institutions, the Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme. The Society has not been notified of any claims against the scheme. Where necessary, provisions are made against other customer claims. These are included within Note 21, Provisions for liabilities.

25 Directors' loans and related party transactions

At 31 December 2006 there were five mortgage loans outstanding to one Director and two connected parties (2005 restated: four mortgage loans to one Director and two connected parties) amounting to £0.9m (2005 restated: £0.3m) all of which were granted in the normal terms of the ordinary course of business and in accordance with the Society's governance procedures. A register is maintained at the Society's Principal Office which shows details of all loans, transactions and arrangements with Directors and connected parties. A statement, for the current financial year, of the appropriate details contained in the register will be available for inspection during the period of 15 days prior to and at the Annual General Meeting. No other transactions have been entered into with any Director during the year that require disclosure under FRS 8 "Related Party Disclosures".

There are no other related party transactions which require disclosure under FRS 8.

Notes to the Accounts for the year ended 31 December 2006 (continued)

26 Pension schemes

Defined benefit scheme

The Society operates a Pension Scheme for employees based on final pensionable salary. This scheme was closed to new employees joining on or after 30 June 2001, although management reserve the right to permit entry into the scheme where this facilitates recruitment or retention of key staff. Consequently, the current service cost will increase as the members of the scheme approach retirement. The assets of the scheme are administered by a Trustee Company and are held separately from the Society. The contributions to the scheme are determined by a qualified independent actuary, on the basis of valuations using the attained age method.

A full actuarial valuation of the scheme was carried out as at 1 September 2005. The most significant actuarial assumption was that the future investment return would exceed the rate of salary increases by 3%. At that date, the market value of assets was £49.3m, which represented 94% of the value of the benefits accrued to members in respect of service to that date, with pensionable salaries of current active members projected to retirement. This equated to an actuarial deficit of £3.2m. After taking into account a cash injection of £2.2m by the Society in December 2005 the actuarial deficit stood at £1.0m. The level of contributions into the scheme agreed by the actuary are as follows: individual contributions of between 8.5% and 11.9% for the coming year (2006: 7% - 10.9%); contributions by the Society to the scheme, excluding death in service premiums, of 21.5% for the coming year (2006: 16.7% - 21.5%).

The asset valuation has been updated to 31 December 2006 by a qualified independent actuary. The major assumptions used by the actuary in the updated calculations were:

	At 31.12.2006	At 31.12.2005	At 31.12.2004
Rate of increase in salaries	4.1%	3.8%	4.2%
Rate of increase in pensions in payment	3.0%	2.7%	2.6%
Discount rate	5.2%	4.9%	5.4%
Price inflation assumption	3.1%	2.8%	2.7%

The long term rates of return expected on investments in the scheme were:	At 31.12.2006	At 31.12.2005	At 31.12.2004
Equities	7.7%	7.4%	7.9%
Bonds	5.2%	4.9%	5.4%
Property	7.7%	7.4%	7.9%
Other	5.2%	4.9%	5.4%

The assets and liabilities in the scheme were:	As at 31 December		
	2006	2005	2004
	Fair value	Fair value	Fair value
	£m	£m	£m
Equities	37.2	33.4	25.9
Property	6.6	5.6	4.4
Bonds	18.1	16.8	13.0
Other	2.0	1.7	1.3
Total market value of assets	63.9	57.5	44.6
Present value of scheme liabilities	(66.7)	(60.5)	(47.5)
Deficit in scheme	(2.8)	(3.0)	(2.9)
Related deferred tax asset	0.8	0.9	0.9
Net pension liability	(2.0)	(2.1)	(2.0)

Analysis of the amount charged to operating profit	2006	2005
	£m	£m
Current service cost (excluding employee contributions)	1.9	1.9
Past service cost	0.4	-
Total charged to operating profit	2.3	1.9

Notes to the Accounts
for the year ended 31 December 2006 (continued)

26 Pension schemes (continued)

Analysis of the amount credited to other finance income	2006	2005
	£m	£m
Expected return on scheme assets	3.8	3.3
Interest cost on scheme liabilities	(3.0)	(2.6)
Net finance return	0.8	0.7

Analysis of the amount recognised within the statement of total recognised gains and losses ('STRGL')

	2006	2005
	£m	£m
Actual return less expected return on scheme assets	1.7	5.9
Experience losses arising on liabilities	(0.8)	(0.3)
Loss due to changes in assumptions underlying the present value of scheme liabilities	(1.0)	(8.3)
Actuarial loss recognised in the STRGL	(0.1)	(2.7)
Related deferred tax	-	0.8
Net actuarial loss recognised in the STRGL	(0.1)	(1.9)

History of experience gains and losses	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:					
amount (£m)	1.7	5.9	0.9	3.1	(7.4)
percentage of scheme assets	3%	10%	2%	8%	(27%)
Experience gains and losses on scheme liabilities:					
amount (£m)	(0.8)	(0.3)	0.0	(2.2)	0.2
percentage of the present value of the scheme liabilities	(1%)	(1%)	0%	(5%)	1%
Total amount recognised in statement of recognised gains and losses:					
amount (£m)	(0.1)	(2.7)	0.9	(2.9)	(7.8)
percentage of the present value of the scheme liabilities	(0%)	(5%)	2%	(7%)	(23%)

Analysis of the movement in the scheme deficit during the year	2006	2005
	£m	£m
Opening deficit in the scheme	(3.0)	(2.9)
Current service cost (including employee contributions)	(2.3)	(2.4)
Contributions	2.2	4.3
Past service cost	(0.4)	-
Finance income	0.8	0.7
Actuarial loss	(0.1)	(2.7)
Closing deficit in the scheme	(2.8)	(3.0)

Defined contribution scheme

The Society operates a defined contribution scheme for employees. The total cost to the Group of this scheme in 2006 was £0.5m (2005: £0.4m). There were no outstanding contributions at the balance sheet date.

Notes to the Accounts for the year ended 31 December 2006 (continued)

27 Financial instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. Norwich and Peterborough Group is a retailer of financial instruments, mainly in the form of mortgages, savings and insurance products. The Group also uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding and to manage the risks arising from its operations. All transactions in derivatives are undertaken to manage the risks arising from underlying business activities. No transactions of a speculative nature are undertaken.

The responsibility for the management of these risks is vested in the Group's Management Assets and Liabilities Committee ("ALCO") and in the Management Risk Committee from the control perspective, and the Group's business units and Treasury from the business perspective. The Board's Risk Committee operates as a sub-committee of the Board and sets policy for the management of risk. Operational responsibility for asset and liability management is in turn delegated to the Management ALCO and responsibility for credit risk to the Management Risk Committee.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

These derivatives are only used by the Group in accordance with the Building Societies Act 1986, to limit the extent to which the Group will be affected by changes in interest rates or other factors specified in the legislation. The Group does not use derivatives for trading activity or use them for speculative purposes.

The following table describes the significant activities undertaken by the Group, the related risks associated with them and the types of derivative which are typically used in managing such risks. These risks may alternatively be managed by using on balance sheet instruments as part of the Group's integrated approach to risk management.

Activity	Risk	Type of hedge
Management of the investment of reserves and other net non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and fixed rate funding	Sensitivity to changes in interest rates	Interest rate swaps
Fixed and capped rate mortgage lending and fixed rate investments	Sensitivity to changes in interest rates	Interest rate swaps and caps
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Foreign exchange contracts

Notes to the Accounts for the year ended 31 December 2006 (continued)

27 Financial instruments (continued)

The table below analyses the derivatives by type of contract and maturity and shows the nominal principal amounts, credit risk weighted amounts, and replacement costs of contracts. Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date reflecting the Group's exposure should the counterparties default. The total fair value of interest rate contracts with a negative replacement cost is £1.7m, as quoted on page 41. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty. All derivative contracts are with banks and other financial institutions.

Group and Society	Nominal principal amount	Credit risk weighted amount	Replace-ment cost	Nominal principal amount	Credit risk weighted amount	Replace-ment cost
	2006 £m	2006 £m	2006 £m	2005 £m	2005 £m	2005 £m
Interest rate contracts						
Interest rate swaps	2,085.9	9.2	32.7	1,825.5	7.4	19.5
Caps	4.0	-	-	4.0	-	-
	2,089.9	9.2	32.7	1,829.5	7.4	19.5
Maturing in:						
Under one year	872.9	-	14.3	840.9	-	11.1
Between one and five years	902.9	4.5	12.8	746.6	3.8	6.7
Over five years	314.1	4.7	5.6	242.0	3.6	1.7
	2,089.9	9.2	32.7	1,829.5	7.4	19.5

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding and through management control of the growth of the business.

Credit risk

Credit risk refers to the potential risk that arises from counterparties or customers failing to meet their obligations as they fall due. The Board's Risk Committee is responsible for approving the Group's lending policy and monitoring the Group's exposures according to this policy, including exposures to individual counterparties, regional exposures for residential lending, and sector concentration for commercial lending. The Risk Committee is also responsible for approving limits on Treasury counterparties, country exposures, and type of financial instrument.

Notes to the Accounts
for the year ended 31 December 2006 (continued)

27 Financial instruments (continued)

Interest rate risk

The Group is exposed to movements in interest rates and manages this exposure on a continuing basis, within limits set by the Board Risk Committee, using a combination of on and off-balance sheet instruments. After taking into account the various derivatives entered into by the Group, the interest rate sensitivity exposure of the Group based on reset dates was:

At 31 December 2006	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non- interest bearing £m	Total £m
Assets:							
Liquid assets	716.6	25.0	15.0	-	-	5.4	762.0
Loans and advances to customers	1,722.1	44.5	75.8	720.9	301.2	(6.1)	2,858.4
Tangible and intangible fixed assets	-	-	-	-	-	21.1	21.1
Other assets	-	-	-	-	-	28.0	28.0
Total assets	2,438.7	69.5	90.8	720.9	301.2	48.4	3,669.5
Liabilities:							
Shares	1,824.0	125.9	161.7	252.7	-	-	2,364.3
Amounts owed to credit institutions, other customers and debt securities in issue	589.9	116.0	216.3	145.7	-	-	1,067.9
Other liabilities	-	-	-	-	-	20.2	20.2
Subordinated liabilities	10.0	-	-	10.0	10.0	-	30.0
Reserves	-	-	-	-	-	187.1	187.1
Total liabilities	2,423.9	241.9	378.0	408.4	10.0	207.3	3,669.5
Off balance sheet items	212.5	123.3	269.4	(311.0)	(294.2)	-	-
Interest rate sensitivity gap	227.3	(49.1)	(17.8)	1.5	(3.0)	(158.9)	-
Cumulative interest rate sensitivity gap	227.3	178.2	160.4	161.9	158.9	-	-

As this analysis is based on interest rate reset dates, it differs from the maturity analysis of assets and liabilities given in Notes 8 to 10 and 15 to 18.

Notes to the Accounts
for the year ended 31 December 2006 (continued)

27 Financial instruments (continued)

At 31 December 2005

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non- interest bearing £m	Total £m
Assets:							
Liquid assets	656.9	16.5	30.0	-	-	7.1	710.5
Loans and advances to customers	1,669.5	37.0	84.8	630.9	228.3	(5.2)	2,645.3
Tangible and intangible fixed assets	-	-	-	-	-	22.4	22.4
Other assets	-	-	-	-	-	24.3	24.3
Total assets	2,326.4	53.5	114.8	630.9	228.3	48.6	3,402.5
Liabilities:							
Shares	1,623.0	134.1	157.8	173.2	-	-	2,088.1
Amounts owed to credit institutions, other customers and debt securities in issue	738.2	119.0	223.7	-	-	-	1,080.9
Other liabilities	-	-	-	-	-	20.4	20.4
Subordinated liabilities	10.0	-	-	20.0	10.0	-	40.0
Reserves	-	-	-	-	-	173.1	173.1
Total liabilities	2,371.2	253.1	381.5	193.2	10.0	193.5	3,402.5
Off balance sheet items	89.0	164.5	257.2	(288.6)	(222.1)	-	-
Interest rate sensitivity gap	44.2	(35.1)	(9.5)	149.1	(3.8)	(144.9)	-
Cumulative interest rate sensitivity gap	44.2	9.1	(0.4)	148.7	144.9	-	-

Liquid assets comprise cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Other assets comprise other assets and prepayments and accrued income.

Other liabilities comprise other liabilities, accruals and deferred income, provisions for liabilities and pension liability.

Notes to the Accounts for the year ended 31 December 2006 (continued)

27 Financial instruments (continued)

Fair values of financial instruments

The table below shows a comparison of book and fair values of some of the Group's financial instruments (including accrued interest for assets and liabilities) by category at 31 December 2006. Where available, market rates have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing market rates.

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages, retail savings accounts and other balance sheet items whose book and fair values differ at 31 December 2006.

	2006		2005	
	Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
On balance sheet instruments				
Liquid assets	762.0	762.3	710.5	711.2
Wholesale liabilities	(857.7)	(859.1)	(911.3)	(910.4)
Off balance sheet instruments	-	31.0	-	4.2

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Wholesale liabilities comprise certain financial liabilities reported within the amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Hedges

Hedges which comprise the off balance sheet instruments referred to above are used to reduce the risk of loss arising from changes in interest rates.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains/ (losses) £m
Unrecognised gains and losses on hedges at 31 December 2005	19.5	15.3	4.2
Gains and losses arising in previous years that were recognised in 2006	12.6	2.9	9.7
Gains and losses arising before 2006 that were not recognised in 2006	6.9	12.4	(5.5)
Gains and losses arising in 2006 that were not recognised in 2006	25.8	(10.7)	36.5
Unrecognised gains and losses on hedges at 31 December 2006	32.7	1.7	31.0
Of which:			
Gains and losses expected to be recognised in 2007	14.2	0.2	14.0
Gains and losses expected to be recognised in 2008 or later	18.5	1.5	17.0

Annual Business Statement for the year ended 31 December 2006

1 Statutory ratios and percentages

	Percentage at 31.12.2006 %	Statutory Limit %
Lending Limit	11.05	25
Funding Limit	31.12	50

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are the total assets of the Group as shown in the balance sheet plus provisions for bad and doubtful debts less liquid assets and fixed assets.

Loans fully secured on residential property are the amount of principal and interest accrued owing by borrowers. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts and irrecoverable interest.

The Funding Limit measures the proportion of shares and borrowings (including accrued interest) not in the form of shares held by individuals.

The statutory limits are laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2 Other percentages

	Ratio at 31.12.2006 %	Ratio at 31.12.2005 %
As a percentage of shares and borrowings:		
Gross capital	6.33	6.73
Free capital	5.79	6.08
Liquid assets	22.20	22.42

	Ratio for 2006 %	Ratio for 2005 %
As a percentage of mean total assets:		
Profit for the financial year	0.40	0.33
Management expenses	1.51	1.55

The above percentages have been calculated from the consolidated accounts.

Gross capital represents the aggregate of total reserves and subordinated liabilities.

Free capital represents gross capital and general loss provisions less fixed assets.

Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Mean total assets are the average of the 2006 and 2005 total assets.

Liquid assets represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Management expenses represent the aggregate of administrative expenses, depreciation and amortisation.

Annual Business Statement
for the year ended 31 December 2006 (continued)

3 Information relating to Directors and other Officers

Details of Directors serving at 31 December 2006.

Name Date of Birth	Business Occupation	Other Directorships	Date of Appointment
Keith Bedell-Pearce (Solicitor) 11.3.46	Company Director	Benbow House Residents Ltd F&C Asset Management plc Martin Pearce Recruitment Ltd Ridge Asset Managers LLP Student Loans Company Ltd 4D Internet Ltd	February 2001
Alan Brown ACIB 8.1.46	Company Director	Member of Banking Code Standards Board Review Panel Banquo Credit Management LLP Banquo Credit Management (2) Ltd Lodge Drive Management Company Ltd	October 2004
Matthew Bullock FCIB 9.9.49	Chief Executive - NPBS	The Automation Partnership Group plc Centre for Business Research, University of Cambridge Hockleys Professional Ltd International House Trust Norwich and Peterborough Insurance Brokers Ltd Norwich and Peterborough (LBS) Ltd Opportunity Peterborough	April 1999
Bernie Foster 6.9.57	Company Director	Central Coffee Ltd Richard House (Childrens' Hospice) Trading Board	December 2003
Zara Hammond 5.7.45	Building Society Director	Norfolk Family Mediation Service	December 2000
Gordon Horsfield FCA 27.8.46	Company Director	Chairman Drax Group plc Chair of Council of the University of York Governor at Ampleforth College	March 2006
Mike Hounsell 19.3.63	Marketing and Sales Director - NPBS	East Anglia Children's Hospices Norwich and Peterborough Insurance Brokers Ltd Norwich and Peterborough Sharedealing Services Ltd Waters Lunniss Nominees Ltd	August 2002
David Jervis ACIB 19.5.64	Business Services Director - NPBS	Lynchwood Services Ltd Norwich and Peterborough (LBS) Ltd	August 2006
Geoff Loades CBE, FCCA 3.9.42	Building Society Director		December 2000

Annual Business Statement
for the year ended 31 December 2006 (continued)

3 Information relating to Directors and other Officers (continued)

Name Date of Birth	Business Occupation	Other Directorships	Date of Appointment
Jeffrey Pritchard 25.4.63	Risk and Compliance Director - NPBS	Norwich and Peterborough (LBS) Ltd	October 2006
Alex Tweedie FCA 13.5.42	Company Director	Anglia Ruskin University CEFAS King Street Housing Society	December 2001
Richard Wells FCA 19.7.63	Finance Director - NPBS	Flexible Choice Ltd Hockleys Professional Ltd Norwich and Peterborough (LBS) Ltd Norwich and Peterborough Sharedealing Services Ltd Renewables East Waters Lunniss Nominees Ltd	October 2006

Documents may be served on any Director at the address of the Society's Principal Office.

Details of Directors' service contracts and bonus schemes are detailed in the Annual Report of the Remuneration Committee on pages 15 and 16.

All Non-executive Directors are considered by the Board to be independent.

Other Officers	Business Occupation and Directorships
Debbie Britton	Head of Customer Marketing Norwich and Peterborough Insurance Brokers Ltd
Peter Cook	Head of Business Assurance
Shaun Cubitt	Secretary
Simon Cunliffe	Treasurer
Judith Dove	Head of Sales: Financial Advice Service
Mark Eaton	Head of Retail Sales Norwich and Peterborough Insurance Brokers Ltd
David Farrington	Head of General Insurance Norwich and Peterborough Insurance Brokers Ltd
Richard Harvey	Head of Finance
Richard Lloyd	Managing Director Hockleys Professional Limited
Stephen Makin	Chief Solicitor
Stephen Mulley	Head of Information Technology
Joyce Rahn	Head of Compliance
Alison Rolls	Head of Communications
Mike Sketch	Head of Retail Operations Norwich and Peterborough Insurance Brokers Ltd
Pat Turner	General Manager, Human Resources
John Willcock	Head of Product Marketing Norwich and Peterborough (LBS) Ltd

The Board of Directors



Keith Bedell-Pearce
Chairman



Alan Brown



Matthew Bullock
Chief Executive



Bernie Foster



Zara Hammond



Gordon Horsfield



Mike Hounsell
Marketing and Sales Director



David Jervis
Business Services Director



Geoff Loades CBE



Jeffrey Pritchard
Risk and Compliance Director



Alex Tweedie
Senior Independent Director



Richard Wells
Finance Director

Branch Directory

Norwich and Peterborough Building Society

Principal Office: Peterborough Business Park, Lynch Wood, Peterborough, PE2 6WZ.

Branches

Bedford	77 High Street, MK40 1NE	01234 340020	Northampton	71B Abington Street, NN1 2BH	01604 603993
Boston	24 Market Place, PE21 6EH	01205 311130	North Walsham	46/47 Market Place, NR28 9BT	01692 500488
Bourne	● 1 North Street, PE10 9AE	01778 422418	Norwich (1)	● 301 Aylsham Road, NR3 2RY	01603 414400
Bungay	9 Market Place, NR35 1AP	01986 893011	Norwich (2)	● 15 Wendene, Bowthorpe Main Centre, NR5 9HA	01603 748007
Bury St Edmunds	1 Abbeygate Street, IP33 1UN	01284 750535	Norwich (3)	● § 6 Castle Mall, NR1 3DD	01603 660081
Cambridge	8 Burleigh Street, CB1 1DG	01223 303133	Norwich (4)	● § 152 St Stephen's Arcade, Chapelfield, NR2 1SB (Advice only)	0845 129 2927
Chelmsford	59 High Street, CM1 1DH	01245 348338	Norwich (5)	● 187 Plumstead Road, NR1 4AB	01603 435881
Clacton	5 Station Road, CO15 1TD	01255 220080	Norwich (6)	● 141 Unthank Road, NR2 2PE	01603 666846
Colchester	20 Culver Street West, CO1 1JU	01206 762024	Oundle	The Old Town Hall, Market Place, PE8 4BQ	01832 273037
Cromer	45 Church Street, NR27 9HH	01263 514115	Peterborough (1)	● § Rightwell East, Bretton Centre, PE3 8DU	01733 260690
Dereham	4 High Street, NR19 1DR	01362 696693	Peterborough (2)	● 5 Cathedral Square, PE1 1XH	01733 313171
Diss	14 Market Place, IP22 4AB	01379 644778	Peterborough (3)	● § Unit 7, Serpentine Green, Hampton, PE7 8BE	01733 319066
Downham Market	7 High Street, PE38 9DA	01366 387327	Peterborough (4)	● 11 Skaters Way, Werrington, PE4 6NB	01733 570067
Fakenham	4 Bridge Street, NR21 9AQ	01328 851511	St Ives	4 Sheep Market, PE27 5AH	01480 461144
Gibraltar	● P O Box 535, 198/200 Main Street	00 350 45050	St Neots	1 High Street, PE19 1BU	01480 212055
Great Yarmouth	● 27 Market Place, NR30 1LY	01493 856577	Scunthorpe	222 Ashby High Street, Ashby, DN16 2SJ	01724 855354
Halesworth	61 Thoroughfare, IP19 8AR	01986 875108	Sheringham	29 High Street, NR26 8DS	01263 824363
Huntingdon	119 High Street, PE29 3LG	01480 457156	Southwold	19 Market Place, IP18 6EA	01502 724432
Immingham	23 Kennedy Way, DN40 2AB	01469 577431	Spalding	● 15 Sheep Market, PE11 1BE	01775 724888
Ipswich	30 Tavern Street, IP1 3AP	01473 213905	Spilsby	26/28 High Street, PE23 5JH	01790 753111
Kettering	7 Gold Street, NN16 8JL	01536 415156	Stamford	49 High Street, PE9 2BD	01780 755659
King's Lynn	8/12 New Conduit Street, PE30 1DL	01553 763388	Swaffham	10 Market Place, PE37 7AB	01760 721276
Leiston	55 High Street, IP16 4EL	01728 831961	Thetford	16 King Street, IP24 2AP	01842 755283
Lincoln	1 Alexander Walk, The Carlton Centre, LN2 4FN	01522 514666	Watton	38 High Street, IP25 6AE	01953 883463
Louth	33 Mercer Row, LN11 9JG	01507 604726	Whittlesey	1 Market Place, PE7 1AB	01733 202001
Lowestoft	52 London Road North, NR32 1EP	01502 508802	Wisbech	● 30/31 Market Place, PE13 1DP	01945 582652
March	41 Broad Street, PE15 8TP	01354 652128	Wroxham	● Station Road, Hoveton, NR12 8UR	01603 783825
Market Deeping	● 37 Market Place, PE6 8EA	01778 344770	Wyndham	10 Market Place, NR18 0AX	01953 605478

§ Extended opening hours - Castle Mall - 6pm Thursday, 4pm Saturday, Chapelfield - 6pm Monday, Tuesday, Wednesday, Friday, 7pm Thursday, 5pm Saturday.

Bretton Centre, Lincoln, Cathedral Square - 3pm Saturday. Hampton - 4pm Saturday.

● LINK cash machine (also available at Peterborough Business Park, Lynch Wood, Peterborough and Orton Centre, Peterborough).

Telephone

Contact Centre 0845 300 2511

Available from 8am to 8pm Monday - Friday and 9am to 5pm Saturday. Calls are recorded.

Website

www.npbs.co.uk

Group Companies

Hockleys Professional, Surveyors and Valuers

Peterborough: 10 The Forum, Minerva Business Park, Lynch Wood PE2 6FT Tel: 01733 405260

With surveyors based in:

Barking	Chelmsford	King's Lynn	Nottingham	Southampton
Basingstoke	Chesterfield	Lancaster	Oxford	Southend
Bedford	Congleton	Leeds	Oxted	Tavistock
Beeston	Croydon	Liverpool	Peterborough	Teesside
Blackburn	Cumbria	Long Eaton	Preston	Wakefield
Brighton	Doncaster	Louth	Putney	West Midlands
Bushey	Gibraltar	Manchester	St Albans	Weston-Super-Mare
Cambridge	Hull	Newark	Scunthorpe	Wigan
Canning Town	Ipswich	Newbury	Shrewsbury	Worcester
Canterbury	Kent	Norwich	Soilhill	York

Norwich and Peterborough Insurance Brokers Limited

Cambridge, 45/53 Mill Road, CB1 2AP, 01223 273100; Felixstowe, 79 High Road West, IP11 9AA, 01394 605100; Cromer, 45 Church Street, NR27 9HH, 01263 514443; Downham Market, 8 Market Place, PE38 9DG, 01366 387222; Woodbridge, 14 Old Barrack Road, IP12 4EX, 01394 385666; Dereham, 4 Market Place, NR19 2AW, 01362 696017; Outwell, Isle Road, PE14 8TD, 01945 772301; Norwich, 6 Castle Mall, NR1 3DD, 01603 624231.

Principal Office: Peterborough Business Park, Lynch Wood, Peterborough PE2 6WZ.
www.npbs.co.uk

Registered No.437B. Established 1860. Incorporated 1896.
Eligible for Investment by Trustees. Member of The Building Societies Association.
Member of The Council of Mortgage Lenders. Member of LINK.
Norwich and Peterborough Building Society is authorised and regulated by
the Financial Services Authority. Registration No.150965.

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INVESTOR IN PEOPLE



**Norwich and
Peterborough**
BUILDING SOCIETY

APPENDIX 2

2007 AUDITED CONSOLIDATED ACCOUNTS OF THE ISSUER

Principal Office: Peterborough Business Park, Lynch Wood, Peterborough PE2 6WZ.
www.npbs.co.uk

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INVESTOR IN PEOPLE





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Business Highlights 2007

The end of 2007 saw the Society in a very healthy position, with strong profits, comfortable liquidity, very low credit losses and ample capital strength.

- Group profit increased by 20% to 24.3m; total income rose by over 10% with cost growth held to less than 5%.
- Group assets grew by 17.4% to £4.3 billion.
- Liquidity balances increased to £1,016m at the end of 2007. These now represent 23.6% of total assets, a very strong position despite the market's recent liquidity difficulties.
- Share balances increased by £459m to £2,823m.
- At the year end, there were 8 properties that had been re-possessed and only 168 mortgage accounts more than three months in arrears, reflecting the Society's careful and targeted lending approach.
- Customer numbers within our region increased by 3.3% to almost 380,000, well above our expectations; overall membership grew by 5.8%.
- Reserves increased by £18.1m to £205.2m (plus 9.7%). At the same time, as a result of our Basel II accreditation, we managed to repay £15m of subordinated liabilities.

UK ECONOMY

For many people, 2007 will be remembered for being a turbulent year in the financial industry. It was, to some extent, a year of two distinct halves, with the first part of the year being a highly competitive marketplace, whilst the second half of the year saw liquidity and credit issues, signifying the long foreseen end of the lending boom.

In earlier annual reports, we have indicated the lending tide would turn and it happened in the summer with the news of the US sub-prime crisis. For UK savers, the subsequent Northern Rock crisis has been turned to some benefit from increased competition for their deposits. However, there are recession fears, and the inflation outlook still feels uncomfortable at the time of writing.

We expect that interest rates will be lowered further by the Bank of England over the course of 2008, and equity and property returns will probably be lower than they have been in recent years. We will also see a reduction in the willingness of consumers to use credit for their spending and a focus on paying off debts as consumer confidence continues to reduce. Beyond this, we expect there will be a major shift towards long term savings.

The Society anticipated that these adjustments would need to take place and is well prepared. We have worked hard to manage borrowers' risks, built up our branch network and introduced our independent Financial Advice Service to ensure that our customers have the support they need to adjust to these uncertain times.

Our services

SAVINGS AND INVESTMENTS

Mutuality influences all our working practices. This includes the type of products and services that we provide. We are owned by our members and focus on ensuring they get exactly what they need and invest in the things that are important to them.

One good example of this is the extremely popular 50 Plus Savings Account that we launched in 2006. Following on from the success of this product, we have recently launched another range of accounts that reflect the needs of our customers - Family Savings accounts.

The number of new savings customers we attracted in 2007 reached over 20,000 - eclipsing last year's performance, which was in itself an exceptional year.

More importantly, total savings balances are now higher than our residential mortgage balances, which means that we do not rely on the money markets to fund our core business. >



MATTHEW BULLOCK, CHIEF EXECUTIVE
KEITH BEVELL-PEARCE, CHAIRMAN



A more personal approach has helped us develop a strong reputation

Innovative mortgage products mean we continue to attract high quality customers



INDEPENDENT FINANCIAL ADVICE

Our independent Financial Advice Service is another success story. Launched just four years ago, we believed that this would be an important service for people to have access to. We are now a significant IFA provider in East Anglia – investing more than £300 million on behalf of our clients.

A more personal approach has helped us develop a strong reputation as our financial planners search the market – and not just our own products – to find investments, protection, pensions or life cover to suit each customer's needs.

BANKING SERVICES FOR CUSTOMERS

The Gold Current Account has also gone from strength to strength since we launched it as a service to our customers.

Regarded as an innovative account when it was first launched, we are continuing to review what we offer with this account and build on its success with plans to introduce a new debit card for basic banking customers during 2008.

There will be significant changes within the banking market as a result of an ongoing court case between seven major financial institutions and The Office of Fair Trading relating to bank charges. This has increased the volume of customer complaints received in the last year. The outcome will bring inevitable changes to the banking industry as a whole that will need to be incorporated within our products and practices.

Our Personal Loan Service is now managed in-house rather than through a third party. We made this change to ensure we offer our members a full range of banking services. This enables us to offer a higher level of service and keep a close eye on lending decisions.

A RECORD YEAR FOR MORTGAGES

2007 was a record year for residential mortgage lending and over £890 million was released.

Our reputation for innovative mortgage products means we are able to attract a continuing stream of high quality customers. Our "Fix and Track" mortgage is a good example of this – enabling customers to fix their payments for a period of time and

then benefit from an attractive tracker rate later on.

Last year we had over "700 Best Buy" mentions in national newspapers – over twice as many as 2006 and a mark of our consistently good value prices. We also picked up a list of awards – underlining the quality of the service and the products that our customers enjoy.

AIMING HIGH WITH ASTRA - AN INNOVATIVE NEW MORTGAGE SERVICE FOR INTERMEDIARIES

In March 2007, we launched a new mortgage service for brokers called Astra. The launch has been a tremendous success and, in a short space of time, Astra has not only established itself as a recognised brand but from March 2008 we are also introducing a full range of residential mortgage products to complement the initial Buy-to-Let offering. Our Commercial business continues to perform well, focused on mortgage lending for established small and medium sized businesses.

MANAGING RISK EFFECTIVELY

The Society continued to be careful and targeted in its lending practices. The introduction of leading edge risk assessment models under our Basel II IRB waiver allows us to assess potential risks with greater confidence than ever before and only to approve loans to those customers who, we believe, can afford their mortgage payments.

As a result, despite the mortgage market turbulence, our arrears position continues to be much better than the UK average. The independent investor rating report by Moody's rates us sound in this area.

We take a similarly robust approach towards fraud and to the security of our members' personal details. When HMRC (Her Majesty's Revenue and Customs) Child Benefit data was lost recently, we reacted quickly to minimise the potential risk to our customers if the data were to get into wrong hands. We continue to monitor customers' accounts > to protect against fraud.





CASTLE MALL, NORWICH

Expertise and quality

INVESTING IN SKILLS DEVELOPMENT AND TRAINING

As our mortgage advice and independent Financial Advice Service grows, so does the need to ensure that our staff continue to receive the best possible training. We constantly invest in their development both internally and externally.

We are currently working with the National Financial Skills Academy in Norwich to develop training programmes that will further enhance our staff's qualifications.

It means our customers receive the expertise they need to make informed financial decisions.

STRENGTHENING OUR NETWORK

Over the years, our business has enjoyed strong, steady growth. Today, we have over 444,000 members - many of whom are actively involved in shaping the future of the Society by giving us regular feedback.

We know that convenience and easy access to branches is important to our members and attracts new customers, too.

With this in mind, last year we began to take a close look at how we could strengthen our presence in the East Anglian region - and also how we could improve our branches through a refurbishment programme.

We have redesigned our Castle Mall branch in Norwich, as well as a number of smaller branches to provide members with a fresh new look, more space and greater privacy - this is particularly important for customers seeking financial advice.

There are plans to implement many of the new design ideas in other branches in the future - including our flagship Cathedral Square branch in Peterborough and at the newly acquired central St Andrew's Street branch in Cambridge.

Community and values

LISTENING TO OUR MEMBERS

The views and opinions of our members are important to us. In 2007, we continued to hold regular members'

meetings. These are valuable opportunities for members to share views and talk directly with Board Directors.

We have focused on customer satisfaction more than ever before by moving to a more detailed measure of satisfaction.

Our monthly customer satisfaction survey demonstrates that our open, accessible approach has won our members' approval, with customers rating our service as being in the top quartile of companies overall. However, there is still room for improvement and we are increasing the amount we spend on research around the areas of handling enquiries, handling complaints and understanding our customers' needs.

If you receive a survey from us asking for your feedback, please take the time to complete the form and return it to us. We do take your comments very seriously.

To help us strike a balance in setting policies, our Customer Service Review Committee continues to review individual complaints and policies to ensure fairness.

SPONSORSHIP AND DONATIONS

Our support for local charities continues throughout our branch network. Our staff use their skills and enthusiasm to raise money for many great local causes - such as East Anglia's Children's Hospices (EACH).

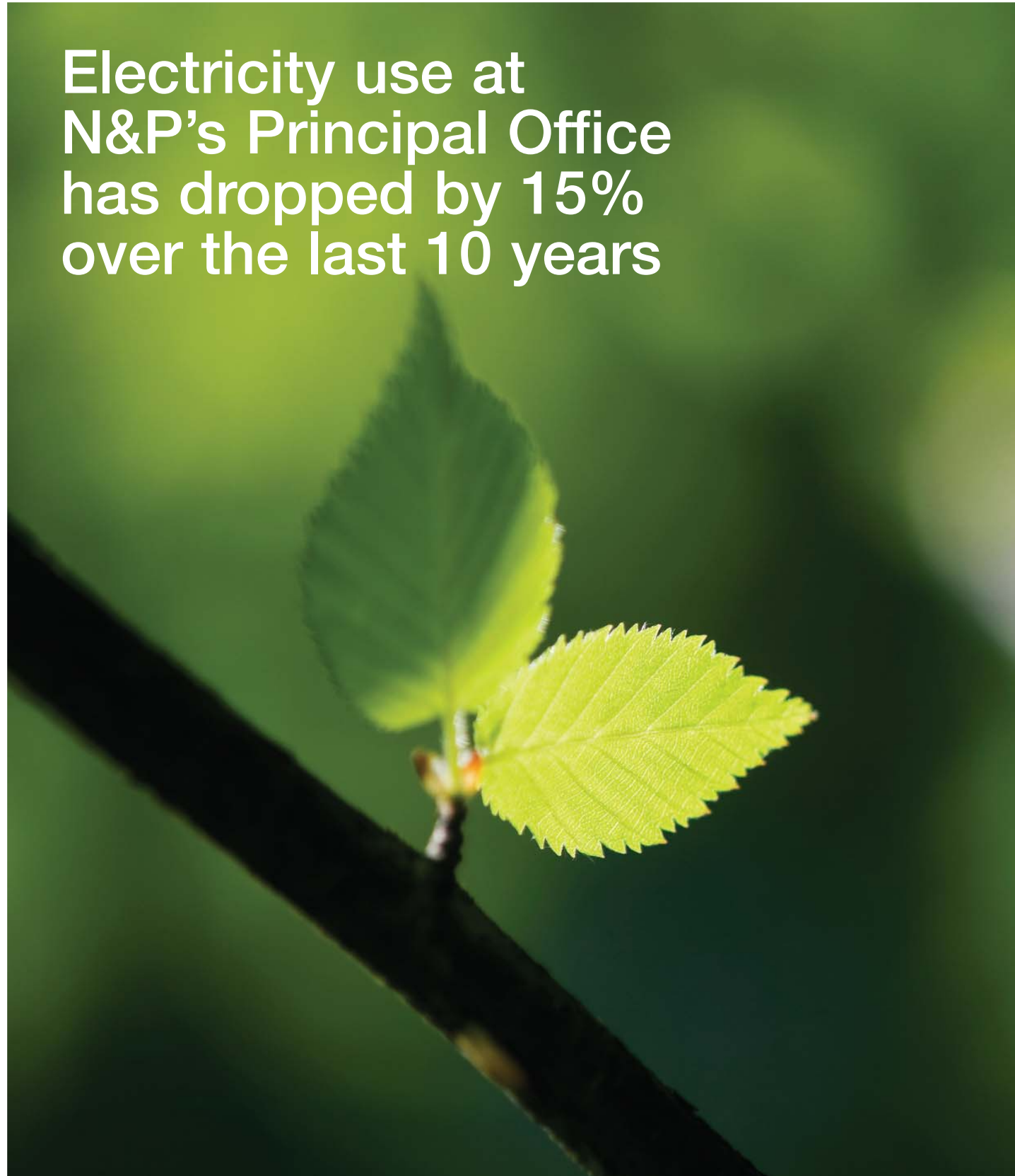
Now adopted as the Society's staff charity, EACH provides practical and emotional support for families caring for children with life-limiting or life-threatening illnesses.

So far, staff have raised over £32,000 through fund-raising events such as sponsored cycle rides, marathons and car boot sales. Graham Butland, Chief Executive of EACH comments *"I'm delighted that Norwich and Peterborough has been able to develop this new association with EACH. They are our largest corporate sponsor and have generated the fastest growth in raising funds."* ➤



We constantly invest in our staff, enhancing their qualifications

Electricity use at N&P's Principal Office has dropped by 15% over the last 10 years



ENVIRONMENTAL RESPONSIBILITIES

For over 15 years, N&P has been supporting environmental issues.

We are continuing to work with the Carbon Neutral Company to offset our carbon emissions, estimated at 2,300 tonnes per annum. Internally, we have progressed a number of initiatives to reduce our emissions. For example, electricity use at N&P's Principal Office has dropped by 15% over the last 10 years against a backdrop of a 40% increase in staff numbers and a 14% increase in occupancy hours.

Governance

BOARD ROTATION

Simon Loftus, Chris Ewbank and Janet Turner stand for election following their appointment to the Board as Non-executive Directors during 2007. Their appointment followed the retirement of Zara Hammond and Geoff Loades. The new Directors applied for their roles following advertisements in East Anglia and Lincolnshire.

Both Chief Executive, Matthew Bullock and Chairman, Keith Bedell-Pearce are due for re-election this year, with Keith agreeing to serve as Chairman for a further 12 months. Alan Brown is also due for re-election. Alex Tweedie will retire at the end of this year's AGM after six years on the Board. We would like to take this opportunity to thank Alex warmly for his work for the Society and record our very best wishes to him for the future.

Outlook for 2008

2008 is likely to be a challenging year with a slowing mortgage and housing market and probably reduced economic growth as well. This all brings the potential for continuing problems in the mortgage market, including a lower level of profitability for most providers, as competition for retail savings deposits continues to intensify.

Our business development strategy over recent years has resulted in a diversification of income streams so that we are not so dependent on the mortgage market. This enables us to take a long term view on the expansion

of the business, focusing on customer requirements and services for their future financial needs. As a result, we expect to be able to continue to expand our network, particularly during 2008, whilst at the same time enhancing our existing branches.

We are also continuing to develop systems for service provision that will deliver greater customer satisfaction and to invest in research to understand our customers' views and needs more.

Quite apart from this business development programme and the increased investment that it will require, the harsher economic environment will affect profitability for 2008. However, we still believe this is an important time to invest so that we safeguard our long term strength and can commit to service for members through what will be uncertain markets throughout 2008 and beyond.

KEITH BEDELL-PEARCE CHAIRMAN

MATTHEW BULLOCK CHIEF EXECUTIVE



KEITH BEDELL-PEARCE, CHAIRMAN



MATTHEW BULLOCK, CHIEF EXECUTIVE

Annual Report of the Directors

The Directors have pleasure in presenting the Annual Report and Accounts of Norwich and Peterborough Building Society and its subsidiary undertakings ("the Group") for the year ended 31 December 2007.

Business objectives and review

The aim of the Society is to be the best independent regional building society in the UK. In pursuing this objective we seek to generate a business environment within which our staff can maximise opportunities and provide a caring and efficient service to our customers. We will continue to offer a broad range of high quality products whilst maintaining a strong financial position.

We aim to ensure that our activities reflect clearly those qualities that our members find distinctive; offering modern and progressive products and services, simplifying complex products and processes and making them easy to understand and access, attention to the personal touch, and being open in our dealings with members, who are both customers and joint owners of the business.

The Group's business activities and future plans are reviewed on pages 4 to 11 by the Chairman and the Chief Executive.

Key performance indicators

The Group utilises a number of key performance indicators (KPIs) to measure current results against a number of corporate objectives. Some of the important ones are shown below, split between financial and other operating indicators.

Financial KPIs

Return on Capital

Purpose The Group aims to maintain sufficient capital resources to allow it to make advances and provide other financial services. In order to maintain this capital the Society needs to generate and retain profits that will add to general reserves, the main source of capital.

Definition and calculation Return on capital measures the profit before tax as a percentage of the total reserves at the beginning of the year. It is recognised that a number of definitions of return on capital exist but this one reflects the return on members' funds.

Source of data directly from the Annual Accounts.

Quantified data 13.0% for 2007; 2006 11.7%.

Minimum Capital Requirement

Purpose Under the Capital Requirements Directive, which is implemented in the UK by rules and guidance set out by the Financial Services Authority (FSA), financial institutions are required to maintain a minimum level of capital, at least as high as the Individual Capital Guidance (ICG) set by the FSA. This ICG replaces the solvency ratio threshold which all firms had to maintain in previous years and is a measure of the capital strength of the Group.

Definition and calculation The minimum capital requirement is calculated by summing the various individual capital totals for credit, operational, and market risk. The individual figures for credit and operational risk are split between Pillar 1, which uses specified formulae to calculate capital by product line under the internal ratings based approach; and Pillar 2, which adjusts the calculation to add capital for risks identified but not included in Pillar 1. Pillar 3 disclosures are available on the Society's website www.npbs.co.uk

Source of data capital resources directly from the Annual Accounts.

Quantified data total capital resources £220.2m at the end of 2007; 2006 £217.1m.

Net Costs to Assets Ratio

Purpose The Group is keen to ensure cost control is managed on an active basis. To ensure the ratio is comparable with other building societies, the net cost asset ratio is used to take account of non-interest income generated as well as costs incurred.

Definition and calculation The net cost to asset ratio is defined as total costs less non-interest income, expressed as a percentage of mean total assets.

Source of data directly from the Annual Accounts.

Quantified data 0.74% for 2007; 2006 0.71%.

Other Operational KPIs

Customer growth

Purpose An increase in the number of customers using our mortgages, savings and banking products is important to ensure the Group continues to grow.

Definition Customer growth is defined as the change in the year of total customers in our core operating area having one or more of a mortgage, savings, or banking product.

Source of data internal Group data.

Quantified data 3.3% growth in 2007; 2.7% in 2006

Energy usage

Purpose The Group aims to minimise the environmental impact of its business. Specific targets are set for energy usage across the business.

Definition and calculation Annual targets in place for gas and electricity usage for Principal Office and the Branch Network.

Source of data actual energy usage.

Quantified data Principal Office and Branch Network gas usage 18% below 2006; electricity 2% below 2006.

Annual Report of the Directors (continued)

Employee morale

Purpose The Group needs to ensure it retains its best employees and generates a good level of morale in order to better service its customers.

Definition and calculation Employee satisfaction index measured as a percentage, with 100% being high and 0% being low.

Source of underlying data Annual employee surveys are undertaken across the Group, with all employees having the opportunity of taking part.

Quantified data Employee satisfaction rating of 76% achieved in 2007 (2006: 76%) with a response rate of 86% (2006:69%).

Results for the year

Total assets

The Group's total assets at the end of 2007 were £4,308 million, an increase of 17.4% from the £3,670 million in 2006.

Profits, reserves and capital

Group profit on ordinary activities before corporation tax was £24.3m (2006: £20.2m). Post tax profit was £16.5m (2006: £14.1m). Reserves at 31 December 2007 increased to £205.2m (2006: £187.1m).

The ratios of gross and free capital at 31 December 2007 as a percentage of total share and deposit liabilities were 5.41% (2006: 6.33%) and 5.03% (2006: 5.79%) respectively.

Loans and advances to customers

Mortgage lending for 2007 to 10,117 borrowers totalled £974m (2006: £809m). Redemptions totalled £463m (2006: £458m).

The provision for losses on all loans and advances to customers at 31 December 2007 was £7.8m (2006: £4.8m) which represented only 0.24% (2006: 0.17%) of such loans and advances.

At 31 December 2007, 15 mortgages (2006: 11), including those in possession, were in arrears with repayments due to the Group for twelve months or more. The total mortgage debt outstanding on these loans was £1.5m (2006: £0.6m) including arrears of £0.2m (2006: £0.1m).

Funding

Share balances increased by £459m during the year to £2,823m (2006: £2,364m). Deposit and other borrowings increased by £177m to £1,245m (2006: £1,068m).

Liquid assets

Liquid assets in the form of authorised investments and cash were £1,016m at 31 December 2007 (2006: £762m), representing 23.6% (2006: 20.8%) of total assets.

Fixed assets

Details of changes in tangible fixed assets during the year are shown in Note 13 to the Accounts. Freehold and long leasehold properties are included at cost less accumulated

depreciation. In the opinion of the Directors there was no significant difference between market and book values of these properties at 31 December 2007.

Directors

The names and details of the Directors of the Society are shown in the Annual Business Statement on pages 51 and 52.

In accordance with the Society's Rules, Keith Bedell-Pearce, Alan Brown, Matthew Bullock, Christopher Ewbank, Simon Loftus and Janet Turner will retire at the Annual General Meeting and offer themselves for re-election.

Alex Tweedie is retiring from the Board after the Annual General Meeting on 28 April 2008 and having served two terms of three years under our corporate governance rules will not seek re-election. The Directors wish to thank Alex for his contribution to the Society's success over the past 6 years.

None of the Directors has a beneficial interest in shares in, or debentures of, any connected undertaking of the Society.

Suppliers' Payment Policy

The Society's policy concerning the payment of its trade creditors for the following financial year is as follows:

The Society will discharge the supplier's invoice for the complete provision of goods and services (unless there is an express agreement in place for staged payments) within the agreed payment terms.

For all trade creditors, it is the Society's policy to:

- agree the terms of payment at the start of trading with each supplier;
- ensure that suppliers are aware of the terms of payment; and pay in accordance with contractual and other legal obligations.

The creditor days at 31 December 2007 were 27 days (2006: 29 days).

Charitable donations

During the year the Group gave £292,000 (2006: £149,000) in cash and kind to charitable and community organisations, of which £87,000 (2006: £25,000) was donated to registered charities. No contributions were made for political purposes.

Financial risk management objectives and policies

Overview

The Norwich and Peterborough Group looks to manage all the risks that arise from its operations. The main risks within the business are credit risk, market risk, liquidity risk and operational risk. There is a formal structure for the management of these risks within the Group. The Board sets the Group's risk appetites in the annual capital assessment process. The Board Risk Committee operates as a sub-committee of the Board in setting detailed policy for the management of risk. Operational responsibility for asset and liability management (covering market risk and liquidity risk) is in turn delegated to the Management Assets and Liabilities

Annual Report of the Directors (continued)

Committee and responsibility for credit and operational risk to the Management Risk Committee. These management committees recommend limits to the Board Risk Committee, which are consistent with the Group's appetite for risk and then monitor and report on compliance with those limits and generally provide an oversight function in respect of risk management. Primary business responsibility for these risks is vested in the Group's business units and treasury operations.

The Group is primarily a producer and retailer of financial products, mainly in the form of mortgages and savings. These products give rise to a financial asset or liability and are termed financial instruments. As well as mortgages and savings, the Group also uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding and to manage the interest rate risks arising from its operations.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement.

These derivatives are only used by the Group in accordance with the Building Societies Act 1986 to limit the extent to which the Group will be affected by changes in interest rates or other factors specified in the legislation. The Group does not use derivatives for trading activity or for speculative purposes.

Credit risk

Credit risk refers to the potential risk that arises from customers or counterparties failing to meet their obligations as they fall due. Credit risk arises primarily from loans and other credit based products (for example current account overdraft facilities) available to our retail customers, loans to our commercial lending customers and from the liquid assets held by the Treasury department. The Board Risk Committee is responsible for approving the Group's lending policy and monitoring the exposures in accordance with this policy, including exposures to individual counterparties, regional exposures for residential lending, and sector concentration for commercial lending. The Board Risk Committee is also responsible for approving limits on treasury counterparties, country exposures, and types of financial instrument.

Market risk

Market risk is the risk that the value of, or income or costs arising from, the Group's assets and liabilities varies as a result of changes in interest rates or exchange rates. This incorporates a range of risks but the principal element for Norwich and Peterborough is interest rate risk.

Interest rate risk arises from the imperfect matching of different interest rate features, repricing dates and maturities of mortgages, savings, and wholesale products. The Group manages this exposure on a continuing basis, within limits set by the Board Risk Committee, using a combination of on and off-balance sheet instruments.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. Liquidity risk is the risk that the Group is not able to meet these obligations. The management of this objective is achieved through maintaining a prudent level of liquid assets, through wholesale funding and through control of the growth of the business.

Operational risk

Operational risk is the risk of a loss arising from failed or inadequate internal processes or systems, human error or other external factors. This risk is managed by individual business areas which have responsibility for putting in place appropriate controls for their business. Regular reporting of risks then takes place at Management and Board Risk Committees and through reports to the Audit Committee.

Health and Safety

The Directors have overall responsibility for ensuring all reasonable precautions are taken to provide and maintain working conditions and practices that comply with statutory health and safety requirements and codes of practice, as they relate to the activities of the Norwich and Peterborough Group.

The Group considers safety and security as an integral part of the business and has a good health and safety culture. It uses various risk control processes to ensure this is maintained, including:

- regular monitoring of health and safety policy, practices and performance including a ranking system of results of health and safety audits;
- the provision of information, instruction and training;
- Group wide standards and processes for health and safety activities;
- regular meetings of the Health and Safety Committee;
- regular discussions on health and safety matters are held by the Joint Consultative Committee that consists of management and staff appointed after an election;
- a periodic review by an external health and safety consultancy.

Staff

Policies for human resources are reviewed regularly to ensure that the Group attracts and retains high calibre staff at all levels. Training and staff development remain priorities to maintain the effective and efficient delivery of the Group's products and services. Our commitment to the contribution made by our staff to business objectives is demonstrated by the 'Investor in People' accreditation achieved by the Society.

It is Group policy to give all applications for employment from disabled people full consideration in relation to the vacancy concerned and to their particular aptitude and abilities. Furthermore, in the event of existing staff members becoming disabled, every effort is made to retain them in

Annual Report of the Directors (continued)

suitable work if they are unable to continue in their present role. All staff, including those with disabilities, are provided with equal access to training, career development and consideration for promotion.

Information on matters of interest to staff is provided through regular team briefings and the issue of circulars, In-Spire (the in-house newsletter) and presentations to help ensure that staff are made aware of the Group's objectives, performance and any other matters of concern to them as employees and that their views are taken into account where appropriate. The Society formally engages in employee consultations with an established Joint Consultative Committee through which members of staff may make their views known on matters affecting their interests.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the Society will be proposed at the Annual General Meeting.



KEITH BEDELL-PEARCE CHAIRMAN
20 FEBRUARY 2008

Report on Corporate Governance

Norwich and Peterborough Building Society is committed to good corporate governance. This Report explains how the Society applies the principles contained in the 2006 Combined Code on Corporate Governance as well as meeting guidance for building societies issued by the Building Societies Association. The Society considers that it complies with all the Code provisions.

Directors

The Board

Code Principle *Every company should be headed by an effective Board, which is collectively responsible for the success of the company.*

The Board of Norwich and Peterborough Building Society is committed to sound corporate governance. The Board meets regularly to review operational performance and strategy. The Board has a general duty to ensure that the Group operates within its constitution and relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited. The Board takes decisions on specific matters such as major investment and capital expenditure, annual budgets and corporate objectives. There is a Board approved document that sets out the delegation of authority by the Board to Executive management. These delegated authorities are reviewed on an annual basis.

The Board has four main Committees. These are the Audit Committee, the Risk Committee, the Remuneration Committee and the Nominations Committee. The Audit Committee and Remuneration Committee comprise solely Non-executive Directors. Each of the Committees is discussed in more detail below.

The Board meets as often as necessary for the proper conduct of business. There are usually eight formal Board meetings each year together with two strategy 'away days' where the Board provides further input on a more limited strategic range of topics. In addition, the Chairman holds two formal sessions each year with the Non-executives, without the Executives present, plus a series of one-to-one meetings. At the meeting in which the Chairman's performance is considered, the Chairman is not present, with the Senior Independent Director taking the chair. The attendance record during the year of members at formal meetings of the Board and the Board Committees is shown overleaf. All Board members have the benefit of appropriate liability insurance and access to independent legal and professional advice, if required, at the Society's expense.

Report on Corporate Governance (continued)

The attendance of Directors at the scheduled Board and Board Committee meetings is set out below. Against each Director's name is shown the number of meetings at which the Director was present as a member and in brackets the number of such meetings that the Director was eligible to attend during the year.

	Board	Audit Committee	Risk Committee	Remuneration Committee
Keith Bedell-Pearce	8(8)		6(7)	3(3)
Alan Brown	7(8)		6(7)	
Matthew Bullock	8(8)		6(7)	
Chris Ewbank (from 17.4.07)	5(5)			
Bernie Foster	8(8)			3(3)
Zara Hammond (to 16.4.07)	3(3)			1(1)
Gordon Horsfield	7(8)	5(5)		
Mike Hounsell	7(8)		6(7)	
David Jervis	8(8)		6(7)	
Geoff Loades (to 16.4.07)	3(3)	2(2)		
Simon Loftus (from 17.4.07)	5(5)			1(2)
Jeffrey Pritchard	8(8)		7(7)	
Janet Turner (from 17.4.07)	4(5)	2(3)		
Alex Tweedie	8(8)	5(5)	7(7)	
Richard Wells	8(8)		7(7)	

Board Committees

Audit Committee

The Committee considers all audit matters relating to the Group, the system of internal control, financial reporting, and other regulatory and prudential matters as necessary. The external auditors are present at all meetings of the Committee. The Society's Internal Audit function also reports through the Committee; the Head of Business Assurance meets with the Committee without Executive Directors being present at least once each year. Over the year, Internal Audit has operated a risk-based approach to its audit work which has consisted of identifying and assessing new and existing risks and recommending procedural changes when necessary to improve control.

The Committee meets on a quarterly basis with an additional meeting to deal with the Report and Accounts. Once a year the Audit Committee holds a joint meeting with the Board Risk Committee.

The Audit Committee comprises three Non-executive Directors: Gordon Horsfield (Chairman)
Janet Turner
Alex Tweedie

Risk Committee

The Risk Committee approves the methods for managing and reporting of credit, market and operational risks. This includes recommending risk limits to the Board and monitoring risk exposures. The Committee also recommends changes to the Treasury and Balance Sheet Management policy to the Board as well as approving specific counterparty limits.

In connection with the revised capital regime from 1 January 2007 ('Basel II'), the Committee also considers the economic scenario models used in the calculations of credit risk capital. The Committee also receives reports from the independent internal validation team for the Group's capital models.

The Committee meets at least six times a year. Once a year the Risk Committee holds a joint meeting with the Audit Committee.

The Risk Committee comprises three Non-executive Directors and five Executive Directors:
Alan Brown (Chairman)
Keith Bedell-Pearce
Alex Tweedie
Matthew Bullock
Mike Hounsell
David Jervis
Jeffrey Pritchard
Richard Wells

Report on Corporate Governance (continued)

Nominations Committee

The Committee considers the structure, size and composition required of the Board and makes recommendations to the Board with regard to any changes. In addition, the Committee is responsible for reviewing succession planning for members of the Board and other senior executives and identifying and nominating candidates to fill Board vacancies.

The Committee normally meets once a year, but more often when required.

The Committee comprises three Non-executive Directors and the Chief Executive:

Keith Bedell-Pearce (Chairman)
Bernie Foster
Alex Tweedie
Matthew Bullock

Remuneration Committee

For the membership and responsibilities of this Committee, see the Report of the Remuneration Committee on pages 21 and 22.

Chairman and Chief Executive

Code Principle *There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for running of the company's business. No one individual should have unfettered powers of decision.*

The offices of Chairman and Chief Executive are distinct and held by different people. The role of each is set out in their terms of appointment or contract respectively and a job description. The Chairman is responsible for leading the Board and communicating with the Society's members on behalf of the Board. The Chief Executive is responsible for managing the Society's business within the parameters set out by the Board.

Board Balance and Independence

Code Principle *The Board should include a balance of Executive and Non-executive Directors (and in particular independent Non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking.*

The Board currently comprises five Executive and eight Non-executive Directors. Apart from the Chairman, for whom the test of independence is considered inappropriate (except on appointment), all Non-executive Directors are considered by the Board to be independent in character and judgement and free of any relationship or circumstances which are likely to affect, or could appear to affect, the directors' judgement. The executive members of the Board are satisfied that the sound judgement and challenging approach of its highly experienced, independent Non-executive Directors make a significant contribution to the Society. Alex Tweedie is the Senior Independent Director.

Appointment to the Board

Code Principle *There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.*

The Nominations Committee reviews the balance of skills and experience on the Board and the requirements of the business on an annual basis. This is undertaken in conjunction with the succession plan and includes a list of objective criteria for new appointments.

Candidates for Non-executive Directorship are considered in a variety of ways, including the use of external search consultants by the Board and public advertisement, in support of a particular skill set requirement. In addition, members of the Society have the right under the Society's rules to nominate candidates for election to the Board. All Directors must meet the tests of fitness and propriety laid down by the Financial Services Authority (FSA) and all Directors are required to be registered with the FSA as an approved person in order to fulfil their controlled function as a Director.

Information and Professional Development

Code Principle *The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All Directors should receive induction on joining the Board and should update their skills and knowledge.*

The Board considers the quality and quantity of information provided on an ongoing basis in order that the Directors can satisfy themselves regarding the fulfilment of their duties. Directors have access to a monthly performance pack of information supplied to Executive Management. All new Directors undergo a formal induction process and any training needs are identified on a continuing basis. Non-executive Directors also make regular visits to business areas to ensure their knowledge of operations remains current.

Performance Evaluation

Code Principle *The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.*

The Board has an established formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its principal Committees and individual Directors. Questionnaires are drawn up by the Chairman and the Secretary and these questionnaires provide the framework for the evaluation process. Each member of the Board submits to the Chairman replies to the questionnaires and the Chairman collates the responses into a report for the Board. In addition, the Chairman conducts the annual performance evaluation of each of the other Directors, taking into account the information and comments derived from the completed questionnaires. The Senior Independent Director conducts the annual performance evaluation of the Chairman on a similar basis.

Report on Corporate Governance (continued)

Re-election

Code Principle *All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.*

The Society's Rules require that new Directors submit themselves for election at the Annual General Meeting (AGM) following their appointment to the Board, except where their appointment occurs in the period between the beginning of the Society's financial year and the AGM itself, in which case they must seek election at the AGM in the following year. Directors are required to seek re-election every three years after first being elected. The Board's general policy is that Non-executive Directors will, in the normal course of events, serve two three-year terms.

The Nominations Committee makes recommendations to the Board concerning the re-appointment of any Non-executive Director at the conclusion of their specified term of office, having given due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required. Any term beyond the normal six years will be subject to rigorous review and any term beyond nine years will be approved by the Board only in exceptional circumstances and then only on the basis of annual re-election.

Currently, two Non-executive Directors have served two three-year terms, Keith Bedell-Pearce and Alex Tweedie. At the request of the Board, Keith Bedell-Pearce has agreed to serve as Chairman for a further 12 months and is offering himself for re-election as a Director. It is his present intention to retire from the Board of the Society at the end of the AGM to be held in April 2009. Alex Tweedie is retiring after the Annual General Meeting on 28 April 2008.

Remuneration

Code Principle *Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.*

Code Principle *There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.*

The Report of the Remuneration Committee on pages 21 and 22 explains how the Society applies these Code principles and its compliance with the Code provisions relating to remuneration.

Accountability and Audit

Internal Control

Code Principle *The Board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.*

The Board is responsible for the Group's system of internal control and for reviewing the effectiveness of its operation. Such a system is designed to manage the risks inherent in the Group's business activities. The Directors and senior management are mindful of maintaining a control culture across the business. Employees are aware of this culture by way of published policies and procedures. Key business risks are identified, and these are controlled by means of procedures such as physical controls, and other authorisation limits and segregation of duties.

There are well established budgeting and forecasting procedures in place and reports are presented regularly to the Board detailing the results of each principal business, variances against budget and prior year, and other performance data. Internal controls contain procedures which assist the Board in identifying new and emerging risks. Policies in relation to risk management are considered and approved by the Risk Committee. The Group has a risk management function which is responsible for ensuring that an ongoing process exists for identifying, evaluating and managing the significant risks faced by the Group. The effectiveness of the internal control system is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the internal audit function.

The Audit Committee receives reports from the Society's external auditors (which include details of significant internal control matters that they have identified) and has a discussion with the auditors at least twice a year without executives present, to ensure that there are no unresolved issues of concern.

Audit Committee and Auditors

Code Principle *The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.*

The Board has an Audit Committee comprising three Non-executive Directors, all of whom are independent. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The detailed membership of the Audit Committee is discussed under the section on Board Committees. The role of the Audit Committee includes the review of the integrity of the annual financial statements, the review of the effectiveness of internal controls and the monitoring and review

Report on Corporate Governance (continued)

of the effectiveness of the Internal Audit function, to consider and recommend to the Board (for approval by the members) the appointment or re-appointment of the external auditors and to oversee the relationship with the external auditors, including the development of the policy on the engagement of the external auditors for non-audit services. The Audit Committee will also wherever appropriate confirm that the necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from the Committee's review of the effectiveness of internal controls. The Committee also reviews the Society's procedures for whistleblowing and ensures that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or financial control. Recommendations are made to the Board in respect of particular areas for concern or opportunities for improvement. A strict policy is in place regarding the engagement of the external auditors for non-audit services. Prior agreement should be sought from the Committee before any additional services in excess of £10,000 are provided.

The Audit Committee usually meets five times a year. The Committee meetings are usually segmented so that for part of the meeting they exclude all executives, meet with only the external auditors or meet only with the Head of Business Assurance. By invitation of the Committee, executives and others regularly attending part of its meetings include the Chief Executive, the Finance Director, the Risk and Compliance Director and other members of management. Minutes of the meetings are distributed to all Board members and the Chairman of the Committee reports to the Board at each meeting of the Board following a meeting of the Committee. During the year, the members of the Audit Committee conduct a self-assessment of the Committee performance which is presented to the Board by the Chairman of the Committee. The Audit Committee evaluates the effectiveness of the Audit function every year and on a triennial basis it is reviewed by an external organisation.

Relations with Shareholders

Dialogue with Shareholders

Code Principle *There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.*

As a mutual organisation, the Society has a membership composed almost exclusively of individuals rather than institutions, all of whom are the Society's customers. The Society actively seeks the views of its members in a variety of ways. The Chief Executive and other Board members meet members on a regular basis, we survey members on a monthly basis, providing feedback forms so that we can get input on the service and products being offered by the Society.

We also operate a Board sub-committee comprising four lay members and chaired by a Non-executive Director. This committee considers service policy issues and complaints about service which are referred to it by individual members.

Annual General Meeting ('AGM')

Code Principle *The Board should use the AGM to communicate with investors and to encourage their participation.*

Each year the Society issues details of the AGM and the ballot for the election of the Directors to all members who are eligible to vote. Members are sent voting forms and are encouraged to vote either by post, internet, at a local branch or by person or proxy at the AGM. All postal and proxy votes are counted under independent scrutiny by the appointed Scrutineers. Where a poll is called in relation to a resolution at the AGM all proxy votes cast are included in the published results of voting.

All members of the Board are present at the AGM each year (unless, exceptionally, their absence is unavoidable) and the Chairmen of the Audit, Risk, Nominations and the Remuneration Committees are therefore available to answer questions.

Statement Of Directors' Responsibilities

Directors' responsibilities for preparing the Annual Accounts

The following statement, which should be read in conjunction with the Statement of the Auditors' Responsibilities on page 23, is made by the Directors to explain their responsibilities in relation to the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 ('the Act') to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of affairs of the Society and of the Group as at the end of the financial year, of the income and expenditure of the Society and the Group and cash flows of the Group for the financial year.

In preparing those Accounts, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts; and
- prepare the Accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and the Group.

Directors' responsibilities in respect of Accounting Records and Internal Control

The Directors are responsible for ensuring that the Group:

- Keep appropriate accounting records in accordance with the Building Societies Act 1986, and
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the Society's website. Information published on the website is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. Information in these financial statements is provided under the legislation of the United Kingdom.

Going Concern

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason the Accounts continue to be prepared on the going concern basis.



ALEX TWEEDIE SENIOR INDEPENDENT DIRECTOR



KEITH BEDELL-PEARCE, CHAIRMAN
20 FEBRUARY 2008

Annual Report of the Remuneration Committee

Introduction

N&P aims to be the best independent regional building society in the UK. As a mutual we seek to manage our business and associated activities to benefit all our members.

To help us achieve this aim, which is backed up by high levels of customer satisfaction and competitive products and services, we seek to attract and develop highly skilled staff and managers.

Meeting our customers' expectations means that we offer competitive salary levels and incentive schemes, to attract and retain the staff we need. As well as pay, we positively invest in training and personal development to ensure that our staff have the skills and knowledge that they require to look after current and anticipated future needs of all our members.

The Committee's Role

The Remuneration Committee has responsibility for agreeing the terms and conditions of employment, including pay and benefits, for the Society's Executive Directors and Senior Management team.

The Committee comprises three Non-executive Directors:

Bernie Foster (Chairman)
Keith Bedell-Pearce
Simon Loftus

In addition, Matthew Bullock (Chief Executive) and Pat Turner (General Manager, Human Resources) may also attend as required, although no individual attends when their own pay is discussed.

The Committee normally meets twice a year, with additional meetings arranged when needed

Our Policy

Our pay policies and practices are designed to support the Society's objectives. To be successful, we must attract and retain staff with appropriate skills and knowledge, to motivate and recognise personal performance and ensure that our pay practices are clear and fair.

Our approach to pay, bonuses and other employment benefits reflects the nature of the role undertaken and what other businesses like us typically pay. We aim to attract and motivate managers with the skills we need to deliver attractive products and services to our members.

Executive Directors have a pay package that is made up of a number of components:

- basic pay
- an annual bonus scheme
- a medium-term incentive scheme
- other benefits including pension scheme membership.

Basic pay is reviewed alongside information supplied by independent advisers, Watson Wyatt LLP.

The 2007 annual bonus scheme recognises and rewards both team performance (using cost management, income generation and mortgage growth measures) and personal performance assessed against a balanced scorecard model covering financial, customer, operational efficiency and staff management targets.

The 2007 medium-term incentive tracks customer satisfaction ratings, growth in customer numbers and growth in the average number of products held by our customers.

How we make decisions on pay

The Committee reviews the following areas:

Basic pay levels:

These are assessed against jobs of a similar nature within the financial services sector, alongside the performance of the manager concerned. Pay data is sourced through Watson Wyatt LLP, an independent adviser specialising in market-related pay and benefits. Additional sources of information may also be used where considered appropriate. The Committee also reserves the right to seek additional independent advice if necessary.

Our bonus schemes:

These seek to reward performance in the current year and also over the medium term, as follows:

An **annual team bonus award** linked to the achievement of three areas of business performance. For 2007 the measures were cost management, income generation and mortgage growth. For 2008, the measures will change to reflect the focus we are placing on reaching agreed levels of customer satisfaction, profitability and income objectives.

Annual Report of the Remuneration Committee (continued)

Customer satisfaction levels tells us what our members think about the Society, in comparison to the customers of other financial services providers. We aim to provide levels of customer service that are amongst the best available and this measure helps to keep us focussed on how we are doing.

Profitability tracks our achievement against the agreed target for profit before tax. This helps us to maintain the financial health of the Society and continue to invest in the branches, products and services we provide for our members.

Income targets reflect our success in offering our members a broad range of products and services, and reduces our risk of reliance on a single part of the market.

The annual team bonus award is designed to pay out 6% of basic salary if the Group's performance matches the agreed targets, within a range of 0% rising to a maximum of 10%.

An **annual personal bonus award**, linked to the achievement of personal targets, assessed quarterly through appraisal reviews.

Personal targets and regular performance reviews help us to achieve the best from our managers, focussing on areas that are important to our members and the Society's success.

Performance that meets expectations will achieve an award of 7.5%, rising to a maximum of 20% for levels of exceptional performance. The Chief Executive is appraised by the Chairman and the other Executive Directors are appraised by the Chief Executive.

A **medium-term team incentive** scheme that aims to reward success against N&P Group performance targets over a three year rolling period. Growth in an award, over a three year term, will be linked to two customer-related measures.

Customer satisfaction levels over the longer term which helps us focus on providing products and services that support and build customer loyalty, and

Customer engagement which measures how successful we are in developing broader, long term relationships with our members.

Achieving **agreed profitability** levels ensures that we maintain our financial strength before any award is made.

Subject to achieving the agreed level of profitability, the scheme pays a standard award of 5% which is then deferred, or held on account, for three years. The initial award of 5% can rise to 10% should we achieve agreed levels of additional profitability.

Over the three year period, an original award of 5% is expected to increase to around 7% for achieving an anticipated level of performance, rising to around 12% for exceptional performance.

This scheme also recognises and encourages loyalty alongside retaining individual knowledge and experience. No payments are made should an individual resign their employment with N&P.

Other benefits

At the end of 2007, four Executive Directors were members of the Norwich and Peterborough defined benefits pension scheme, details of which are set out in the Notes to the Accounts.

One Executive Director is not a member of the pension scheme and the Group instead pays an equivalent contribution into a personal pension plan.

In addition, Executive Directors receive other taxable benefits including a car (or an alternative cash allowance) and healthcare provision.

Executive Directors' Contractual Terms

All Executive Directors may terminate their employment by providing six months' notice. The Society is contractually required to provide 12 months' notice of termination.

Non-executive Directors

The Executive Directors, in conjunction with the General Manager (Human Resources), consider the level of fees for Non-executive Directors.

This panel reviews information supplied by PricewaterhouseCoopers LLP on Non-executive Director fees alongside a comparator group comprising other building societies. The Board determines fees on advice from this panel.

There are no bonus schemes for the Chairman or other Non-executive Directors. Non-executive Directors do not qualify for pension entitlement.

Emoluments

Details of the emoluments of individual Executive and Non-executive Directors is given within Note 5 to the Accounts on page 31.



BERNIE FOSTER, CHAIRMAN OF THE REMUNERATION COMMITTEE
20 FEBRUARY 2008

Independent Auditors' Report to the Members of Norwich and Peterborough Building Society

We have audited the Group and Society Annual Accounts of Norwich and Peterborough Building Society for the year ended 31 December 2007 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Balance Sheets, the Group Cash Flow Statement, the Group and Society Statements of Total Recognised Gains and Losses and the related notes. These Annual Accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for the preparation of the Annual Report, including the Annual Accounts, the Annual Business Statement and the Directors' Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Annual Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for, and only for, the Society's members as a body in accordance with section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Annual Accounts give a true and fair view and whether the Annual Accounts have been properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. We also report to you our opinion as to whether certain information included within the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts, and whether the Annual Business Statement and the Directors' Report have been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the Annual Accounts are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Annual Accounts. The other information comprises only the Business Highlights, Report on Corporate Governance and Annual Report of the Remuneration Committee. We consider the implications for our report if we become aware of any apparent

misstatements or material inconsistencies with the Annual Accounts, the Annual Business Statement or the Directors' Report. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 Annual Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Annual Accounts.

Opinion

In our opinion:-

- the Annual Accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs at 31 December 2007 and of the Group's and the Society's income and expenditure and the Group's cash flows for the year then ended;
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.



PRICEWATERHOUSECOOPERS LLP,
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
LONDON
20 FEBRUARY 2008

Income and Expenditure Account for the year ended 31 December 2007

	Note	Group		Society	
		2007 £m	2006 £m	2007 £m	2006 £m
Interest receivable and similar income	1	239.8	184.5	239.8	184.4
Interest payable and similar charges	2	(182.5)	(136.6)	(182.9)	(136.9)
Net interest receivable		57.3	47.9	56.9	47.5
Income from shares in subsidiary undertakings		-	-	0.6	0.5
Pension finance income	26	0.9	0.8	0.9	0.8
Fees and commissions receivable		29.5	30.5	21.6	22.1
Fees and commissions payable		(4.5)	(4.3)	(3.9)	(3.7)
Other operating income		0.3	0.8	0.2	0.5
Total income		83.5	75.7	76.3	67.7
Administrative expenses	3	(52.0)	(49.9)	(45.4)	(44.2)
Depreciation and amortisation	12/13	(3.7)	(3.3)	(3.2)	(1.6)
Operating profit before provisions		27.8	22.5	27.7	21.9
Provisions	6	(3.6)	(2.3)	(3.6)	(2.3)
Profit on disposal of subsidiary undertaking		0.1	-	0.3	-
Profit on ordinary activities before tax		24.3	20.2	24.4	19.6
Tax on profit on ordinary activities	7	(7.8)	(6.1)	(7.6)	(5.9)
Profit for the financial year	23	16.5	14.1	16.8	13.7

Profit for the financial year arises from continuing operations.

There is no difference between the operating profit on ordinary activities before tax and the profit for the financial year stated above and their historical cost equivalents.

The accounting policies and notes on pages 27 to 49 form part of these Accounts.

Statement of Total Recognised Gains and Losses for the year ended 31 December 2007

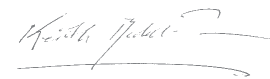
	Note	Group		Society	
		2007 £m	2006 £m	2007 £m	2006 £m
Profit for the financial year		16.5	14.1	16.8	13.7
Actuarial gain/(loss) recognised in pension scheme	26	2.3	(0.1)	2.3	(0.1)
Movement in deferred taxation relating to pension scheme	26	(0.7)	-	(0.7)	-
Total recognised gains and losses in the year		18.1	14.0	18.4	13.6

Balance Sheet as at 31 December 2007

	Note	Group		Society	
		2007 £m	2006 £m	2007 £m	2006 £m
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		8.1	5.4	8.1	5.4
Loans and advances to credit institutions	8	125.9	94.7	122.6	92.9
Debt securities	9	881.6	661.9	881.6	661.9
		1,015.6	762.0	1,012.3	760.2
Loans and advances to customers					
Loans fully secured on residential property	10	2,906.9	2,567.7	2,840.2	2,559.3
Other loans	10	337.0	290.7	337.0	290.7
		3,243.9	2,858.4	3,177.2	2,850.0
Investments	11	-	-	74.8	17.0
Intangible fixed assets	12	0.6	0.8	-	-
Tangible fixed assets	13	18.4	20.3	18.2	19.6
Other assets		3.4	4.6	0.9	1.1
Prepayments and accrued income	14	25.8	23.4	25.8	23.3
Pension asset	26	0.3	-	0.3	-
Total Assets		4,308.0	3,669.5	4,309.5	3,671.2
Liabilities					
Shares	15	2,822.8	2,364.3	2,822.8	2,364.3
Amounts owed to credit institutions	16	128.9	86.2	128.9	86.2
Amounts owed to other customers	17	943.1	799.9	949.9	807.6
Debt securities in issue	18	173.4	181.8	173.4	181.8
Other liabilities	19	9.0	8.5	8.2	7.8
Accruals and deferred income	20	7.3	7.6	6.8	6.6
Provisions for liabilities	21	3.3	2.1	3.3	2.1
Pension liability	26	-	2.0	-	2.0
Subordinated liabilities	22	15.0	30.0	15.0	30.0
		4,102.8	3,482.4	4,108.3	3,488.4
General reserve	23	205.2	187.1	201.2	182.8
Total Liabilities		4,308.0	3,669.5	4,309.5	3,671.2

The accounting policies and notes on pages 27 to 49 form part of these Accounts.

Approved by the Board of Directors on 20 February 2008.



KEITH BEVELL-PEARCE CHAIRMAN



MATTHEW BULLOCK DIRECTOR AND CHIEF EXECUTIVE



RICHARD WELLS FINANCE DIRECTOR

Consolidated Cash Flow Statement for the year ended 31 December 2007

	2007 £m	2006 £m
Net cash inflow from operating activities	242.1	71.7
Returns on investments and servicing of finance		
Interest paid on subordinated liabilities	(2.2)	(2.8)
Taxation	(7.6)	(4.4)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1.8)	(2.2)
Disposal of tangible fixed assets	0.1	0.6
Purchase of debt securities	(2,406.1)	(1,628.9)
Sale and redemption of debt securities	2,188.5	1,577.7
	(219.3)	(52.8)
Acquisitions and disposals		
Businesses acquired	(0.1)	(0.2)
Disposal of subsidiary undertaking	2.2	-
Disposal expenses	(0.3)	-
Cash included in disposal of subsidiary undertaking	(0.6)	-
Financing		
Repayment of subordinated liabilities	(15.0)	(10.0)
(Decrease)/increase in cash	(0.8)	1.5

Reconciliation of profit to net cash flow from operating activities

	2007	2006
Profit on ordinary activities before tax	24.3	20.2
Increase in prepayments and accrued income	(5.5)	(5.7)
Increase in accruals and deferred income	32.2	5.6
Provisions (see note 6)	3.6	2.3
Amounts written off provisions, net of recoveries	(1.5)	(1.4)
Release of deferred higher advance fees	(0.4)	(0.5)
Depreciation and amortisation	3.7	3.3
Interest on subordinated liabilities	1.5	2.8
Pension contributions in excess of charge	(0.9)	(0.3)
Profit on sale of tangible fixed assets	-	(0.2)
Profit on disposal of subsidiary undertaking	(0.1)	-
Increase in provisions for liabilities	2.8	0.3

	2007	2006
Net cash inflow from trading activities	59.7	26.4
Increase in loans and advances to customers	(388.1)	(214.0)
Increase in shares	432.4	273.5
Increase in amounts owed to credit institutions and other customers	179.7	60.1
Decrease in debt securities in issue	(7.5)	(75.3)
(Increase)/decrease in loans and advances to credit institutions	(34.6)	1.7
Decrease in other assets	0.1	1.6
Increase/(decrease) in other liabilities	0.4	(2.3)
Net cash inflow from operating activities	242.1	71.7

Analysis of the balances of net cash shown in the balance sheet

	2006 £m	Flows £m	2007 £m
Cash in hand and balances with the Bank of England	5.4	2.7	8.1
Loans and advances to credit institutions – repayable on demand	48.0	(3.5)	44.5
	53.4	(0.8)	52.6

In addition, the Group is required to maintain a cash ratio deposit with the Bank of England which at 31 December 2007 amounted to £4.0m (2006: £3.4m).

Statement of Accounting Policies

Accounting convention

The Accounts have been prepared under the historical cost convention.

Basis of preparation and consolidation

The Accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 ("the Regulations"), applicable accounting standards of the Accounting Standards Board, pronouncements of the Urgent Issues Task Force, UK Generally Accepted Accounting Principles ("UK GAAP") and Statements of Recommended Accounting Practice issued by the British Bankers Association.

Group Accounts are a consolidation of the Accounts of the Society and all its subsidiary undertakings made up to 31 December in each year. The Society Accounts show investments in subsidiary undertakings at cost less provisions for permanent diminution in value.

Segmental reporting

A segmental analysis is not disclosed as the Group's business is predominantly UK based and within one business sector, being retail financial services.

Interest receivable and payable

Interest is recognised in the income and expenditure account on an accruals basis with the exception of accounts where interest has been suspended in accordance with the provisioning policy for bad and doubtful debts as set out below.

Mortgage incentives

The cost of mortgage cashbacks, discounts and other incentives are written off against interest receivable and other income, as appropriate, in the year incurred.

Fees and commissions receivable or payable

Fees and commissions are recognised on an accruals basis in the period during which they are earned or incurred. These include banking fees, general insurance commissions and financial advice commissions. The value of commissions receivable is reduced, where appropriate, by a provision for the clawback of commission on policies cancelled following the balance sheet date.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term in arriving at the operating profit.

Provisions for bad and doubtful debts

Provisions for losses are based upon a year-end appraisal of loans, advances and other assets. Specific provisions are made in respect of properties in possession and in respect of mortgage accounts one month or more in arrears at that date and against other assets where book value exceeds the estimated realisable value. The provision on each account represents the amount required to reduce the outstanding

balance of the asset to its expected realisable value after adjusting for costs of realisation and any recoveries anticipated. For mortgage loans, we additionally take account of latest economic indicators, industry recognised property price indices and the probability of possession.

General provisions are made where it is considered that there is impairment in the value of assets at the year-end that is not already covered by specific provisions.

The amount shown in the income and expenditure account represents the actual losses incurred and the net change in provisions. Interest that is considered to be irrecoverable on advances secured on repossessed properties is excluded from income from the date of repossession.

Goodwill

Goodwill arises on the acquisition of subsidiary undertakings, businesses and in relation to premia on the acquisition of other assets and represents the excess of cost over fair value of net tangible assets acquired. Goodwill arising on each acquisition is capitalised within intangible fixed assets and amortised by the straight-line method over its estimated useful economic life, which is currently 5 years. Where the terms of contracts allow for variation in the amount paid for a business, this will result in a change to the amount of goodwill. Where, in the opinion of the Directors, there is no expected future value of goodwill acquired, it is written off immediately. Following a disposal or impairment review, where any goodwill was previously written off directly to reserves, an equal amount is transferred from reserves to the income and expenditure account.

Taxation

Corporation tax is charged at the current rate, based on results for the year, as adjusted for tax purposes. Deferred tax is provided at anticipated tax rates, on a non-discounted basis, using the full provision method, on all timing differences that have not reversed by the balance sheet date. Deferred tax assets are recognised only to the extent that there is expected to be sufficient taxable profits available against which they can be offset in the future.

Statement of Accounting Policies (continued)

Pension costs

The Group provides both a defined benefit and a defined contribution scheme on behalf of its employees. The defined benefit scheme is funded by contributions partly from the Group at rates assessed by an independent actuary and partly from the employees. These contributions are invested separately from the Group's assets. The scheme assets are measured at market value at each balance sheet date and the liabilities are measured using the projected unit method, discounted using a corporate bond rate. The resulting scheme surplus or deficit is immediately recognised on the balance sheet, net of deferred tax. The income and expenditure account includes a charge in respect of the cost of accruing benefits for active employees and the expected return on the scheme assets is included within pension finance income net of the charge in respect of unwinding of the discount applied for scheme liabilities. Actuarial gains and losses arising from changes in actuarial assumptions are recognised directly in the statement of recognised gains and losses. For the defined contribution scheme, contributions are charged to the income and expenditure account as they become payable, in accordance with the rules of the Scheme.

Hedging contracts and financial instruments

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies.

All interest and market price related contracts and instruments that are designated as hedges are valued on an equivalent basis to the underlying asset, liability, or position. Cash flows arising in relation to such instruments are accounted for on an accruals basis. Any interest accrued on hedges is included within prepayments and accrued income or accruals and deferred income. Any profit or loss arising on the close out of a derivative is credited or charged to the income and expenditure account immediately if the underlying exposure is derecognised.

Financial fixed assets

Securities held as financial fixed assets are shown at cost adjusted to exclude accrued interest at the date of purchase less any diminution for impairment. Where the adjusted purchase price differs from par value, the premium or discount is amortised on a straight line basis over the period to maturity.

Tangible fixed assets and depreciation

The cost of additions and alterations to office premises and additions to plant, machinery, equipment, fixtures, fittings and vehicles is capitalised.

Freehold and long leasehold land is included at cost and land is not depreciated. The carrying values of freehold and long leasehold buildings are reviewed annually for impairment. Any impairment is dealt with in the income and expenditure account.

Depreciation, where applicable, is provided by the straight line method against cost to write down the assets to their residual values over their estimated useful lives as follows:

- Freehold and long leasehold premises – 50 years
- Short leasehold premises – period of lease
- Computer equipment – 3 to 5 years
- Office equipment, fixtures and fittings – 8 years
- Motor vehicles – 5 years

Notes to the Accounts

1 Interest receivable and similar income

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
On loans fully secured on residential property	160.6	135.5	159.4	134.9
On other loans				
To subsidiary undertakings	-	-	1.2	0.5
Other	22.0	17.6	22.0	17.6
On debt securities				
Interest and other income	41.3	27.8	41.3	27.8
On other liquid assets				
Interest and other income	5.8	4.8	5.8	4.8
Net income/(expense) on financial instruments	10.1	(1.2)	10.1	(1.2)
	239.8	184.5	239.8	184.4
Interest receivable on loans fully secured on residential property is after charging mortgage cashbacks of:	0.6	0.6	0.6	0.6

Interest receivable on debt securities includes Group and Society £18.2m (2006: £11.2m) in respect of fixed income securities.

Interest which is considered irrecoverable, where the property has been taken into possession, is suspended and deducted from the appropriate assets in the balance sheet. Movements in the suspended interest accounts were £nil (2006: £nil).

2 Interest payable and similar charges

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
On shares held by individuals	122.7	89.0	122.7	89.0
On deposits and other borrowings				
Subordinated liabilities	1.5	2.8	1.5	2.8
Other	54.5	46.4	54.9	46.7
Net expense/(income) on financial instruments	3.8	(1.6)	3.8	(1.6)
	182.5	136.6	182.9	136.9

Notes to the Accounts (continued)

3 Administrative expenses

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Staff costs				
Wages and salaries	25.3	24.0	21.8	20.0
Social security costs	2.3	2.2	1.9	1.8
Pension scheme costs (Note 26)				
Defined benefit scheme	2.2	2.3	2.2	2.2
Defined contribution scheme	0.6	0.5	0.5	0.4
Operating lease charges				
Land and buildings	1.8	2.0	1.6	1.8
Other	0.7	0.8	0.6	0.7
Other expenses	19.1	18.1	16.8	17.3
	52.0	49.9	45.4	44.2

	2007 £000	2006 £000	2007 £000	2006 £000
During the year the Group obtained the following services from the Group's auditor at costs as detailed below:				
Fees payable to the Society auditor for the audit of the Society and consolidated accounts	179	169	179	169
Fees payable to the Society's auditor for other services:				
The audit of the Society's subsidiaries pursuant to legislation	39	47	-	-
Other services pursuant to legislation	4	11	-	-
Services relating to taxation	28	19	21	11
All other services	73	12	67	7
	323	258	267	187

4 Employees

	Group and Society		Group and Society	
	2007 Full Time	2007 Part Time	2006 Full Time	2006 Part Time
The monthly average number of persons employed during the year (including Executive Directors):				
Principal Office	379	81	350	79
Branch Offices	332	117	305	126
Subsidiaries	93	33	107	37
	804	231	762	242

5 Directors' emoluments

	Group and Society	
	2007 £000	2006 £000
Total for services as directors	260	238
Total for services as executives	1,338	1,182
	1,598	1,420

Notes to the Accounts (continued)

5 Directors' emoluments (continued)

	2007 Fees* £000	2006 Fees* £000
Non-executive Directors		
Keith Bedell-Pearce	59	56
Alan Brown	31	30
Chris Ewbank (from 17.4.07)	22	-
Bernie Foster	29	28
Michael Fowle (to 24.4.06)	-	10
Zara Hammond (to 16.4.07)	9	30
Gordon Horsfield (from 22.3.06)	31	24
Geoff Loades (to 16.4.07)	9	30
Simon Loftus (from 17.4.07)	20	-
Janet Turner (from 17.4.07)	19	-
Alex Tweedie	31	30
	260	238

* Fees include Directors' travelling expenses.

Executive Directors

	Fees/ Salary £000	Annual Bonus £000	Medium- Term Bonus £000	Benefits £000	Sub-total £000	Increase in accrued pension £000	Pension scheme contri- butions £000	Total £000
2007								
Matthew Bullock	292	63	32	15	402	-	50	452
Mike Hounsell	192	49	21	12	274	3	-	277
David Jervis	145	29	14	-	188	15	-	203
Jeffrey Pritchard	152	39	14	-	205	6	-	211
Richard Wells	137	29	14	7	187	8	-	195
	918	209	95	34	1,256	32	50	1,338

2006

Matthew Bullock	283	71	36	14	404	-	49	453
Mike Hounsell	186	47	24	12	269	3	4	276
David Jervis (from 1.8.06)	57	12	6	-	75	1	-	76
Jeffrey Pritchard (from 5.10.06)	33	8	3	-	44	1	-	45
Ray Roberts (to 4.10.06)	122	23	5	8	158	7	-	165
Richard Wells (from 5.10.06)	31	7	3	1	42	1	-	43
Martyn Willgress (to 31.7.06) *	108	-	6	4	118	6	-	124
	820	168	83	39	1,110	19	53	1,182

* In addition, in 2006, payments were made and benefits provided to Martyn Willgress of £360,540 in respect of the period of contractual notice and severance. Normal pension contributions were made in respect of these amounts. These costs were accrued in the 2005 Accounts.

Executive Directors' salaries are stated before salary sacrifice arrangements relating to pension scheme contributions. The following information shows the value of Directors' pension benefits where the Director is in the Society's defined benefit pension scheme. The change in accrued pension represents the change in the annual pension to which each Director is entitled as a result of changes in pensionable earnings and pensionable service during the year. The transfer value equivalents represent the capital value of the changes in Directors' accrued pension entitlements for the year. These transfer value amounts constitute the notional liability of the Society through a tax approved pension plan and do not represent amounts payable or due to the Directors. Directors' contributions are inclusive of salary sacrifice contributions.

Notes to the Accounts (continued)

5 Directors' emoluments (continued)

	Accrued pension entitlement at 31.12.07 £000	Accrued pension entitlement at 31.12.06 £000	Increase in accrued pension entitlement £000	Transfer value of accrued benefits at 31.12.07 £000	Transfer value of accrued benefits at 31.12.06 £000	Directors' contributions 2007 £000	Change in transfer value less Directors' contributions £000
Executive Directors							
Mike Hounsell	12	9	3	143	115	16	12
David Jervis	46	31	15	513	381	12	120
Jeffrey Pritchard	18	12	6	211	156	11	44
Richard Wells	23	15	8	266	188	11	67

Other details of the pension arrangements of the Executive Directors are noted in the Annual Report of the Remuneration Committee on pages 21 and 22.

6 Provisions

	Loans fully secured on residential property £m	Other loans fully secured on land £m	Other loans £m	Other assets £m	Customer claims £m	Total £m
Group and Society						
At 1 January 2007						
General provision	1.5	0.8	0.2	-	1.4	3.9
Specific provision	1.4	-	0.9	0.1	-	2.4
	2.9	0.8	1.1	0.1	1.4	6.3
Amounts written off						
General provision	-	-	-	-	(0.3)	(0.3)
Specific provision	0.1	-	(1.3)	-	-	(1.2)
	0.1	-	(1.3)	-	(0.3)	(1.5)
Income and expenditure account						
General provision	0.1	-	0.7	-	(0.6)	0.2
Specific provision	1.3	0.4	1.8	-	-	3.5
Recoveries	(0.1)	-	-	-	-	(0.1)
	1.3	0.4	2.5	-	(0.6)	3.6
At 31 December 2007						
General provision	1.6	0.8	0.9	-	0.5	3.8
Specific provision	2.7	0.4	1.4	0.1	-	4.6
	4.3	1.2	2.3	0.1	0.5	8.4

The general provisions made at the year-end represent the Directors' assessment of the potential losses which, although not yet specifically identified as relating to payment arrears, are known from experience to exist in the Group's loan portfolio. The provisions are calculated using the methodology set out in the Statement of Accounting Policies on page 27.

These provisions have been deducted from the appropriate asset values shown in the balance sheet with the exception of customer claims which are shown within provisions for liabilities (Note 21).

Notes to the Accounts (continued)

7 Tax on profit on ordinary activities

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
(a) Analysis of charge in year				
Current Tax				
United Kingdom corporation tax on profits of the year	7.7	6.2	7.6	5.9
Adjustments in respect of prior years	0.4	-	0.3	-
Total current tax	8.1	6.2	7.9	5.9
Deferred taxation				
Pension contributions allowable for current tax	0.2	0.6	0.2	0.6
Adjustment in respect of prior years	(0.1)	-	(0.1)	-
Other timing differences	(0.4)	(0.7)	(0.4)	(0.6)
Total deferred taxation (Note 14)	(0.3)	(0.1)	(0.3)	-
Tax on profit on ordinary activities	7.8	6.1	7.6	5.9

(b) Factors affecting tax charge for year

Profit on ordinary activities before tax	24.3	20.2	24.4	19.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	7.3	6.1	7.3	5.9
Effects of:				
Pension contributions allowable for current tax	(0.2)	(0.6)	(0.2)	(0.6)
Timing differences	0.5	0.5	0.6	0.5
Items not deductible for tax purposes	0.1	0.2	0.1	0.3
Dividends from subsidiary companies	-	-	(0.2)	(0.2)
Adjustments in respect of prior years	0.4	-	0.3	-
Current tax charge for year	8.1	6.2	7.9	5.9

8 Loans and advances to credit institutions

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Loans and advances to credit institutions have remaining maturities as follows:				
Accrued interest	0.4	0.3	0.4	0.3
Repayable on demand	44.5	48.0	41.2	46.2
Other loans and advances by residual maturity repayable				
In not more than three months	77.0	43.0	77.0	43.0
In more than five years	4.0	3.4	4.0	3.4
	125.9	94.7	122.6	92.9

Notes to the Accounts (continued)

9 Debt securities

	Group and Society	
	2007 £m	2006 £m
Debt securities, which are all unlisted and issued by borrowers other than public bodies, have remaining maturities as follows:		
Accrued interest	7.0	4.9
In not more than one year	578.0	358.8
In more than one year	296.6	298.2
	881.6	661.9

Included in debt securities are £0.9m (2006: £0.5m) of unamortised premiums.

The Directors of the Society consider that the debt securities are intended for use on a continuing basis in the Society's activities. These debt securities have therefore been classified as financial fixed assets rather than current assets.

Movements during the year of debt securities held as financial fixed assets are analysed as follows:

	Group and Society	
	2007 £m	2006 £m
Cost and net book value		
At 1 January	657.0	605.8
Additions	2,406.1	1,628.9
Redemptions and disposals	(2,188.5)	(1,577.7)
	874.6	657.0
Accrued interest	7.0	4.9
At 31 December	881.6	661.9

The market value of debt securities (excluding accrued interest) is £869.3m (2006: £657.3m).

10 Loans and advances to customers

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Loans fully secured on residential property	2,906.9	2,567.7	2,840.2	2,559.3
Other loans:				
Other loans	26.9	9.8	26.9	9.8
Loans fully secured on land	310.1	280.9	310.1	280.9
	3,243.9	2,858.4	3,177.2	2,850.0

Notes to the Accounts (continued)

10 Loans and advances to customers (continued)

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Maturity analysis				
The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:				
Repayable on demand	16.8	10.8	16.8	10.8
Other loans and advances by residual maturity repayable:				
In not more than three months	23.9	20.7	23.7	20.6
In more than three months but not more than one year	72.7	65.3	72.2	64.9
In more than one year but not more than five years	409.4	366.5	406.0	364.1
In more than five years	2,729.8	2,401.2	2,667.2	2,395.7
Provisions for bad and doubtful debts	(7.8)	(4.8)	(7.8)	(4.8)
Deferred higher advance fees	(0.9)	(1.3)	(0.9)	(1.3)
	3,243.9	2,858.4	3,177.2	2,850.0

This analysis assumes that each mortgage account will continue under its current terms and, in particular, that it will not be redeemed before the contractual maturity date (except the mortgage balances on properties in possession which have been allocated equally over the first twelve months). However, the Society's mortgage conditions give the Society the right to demand repayment of the mortgage debt in full after three months' written notice to the borrower; when the borrower is in default repayment is due immediately.

The actual experience of repayments may differ from the above since many loans and advances are repaid early.

11 Investments

Subsidiary undertakings	Society		
	Shares £m	Loans £m	Total £m
Investments in subsidiary undertakings are financial fixed assets. Movements during the year are analysed as follows:			
Cost and net book value			
At 1 January 2007	8.5	8.5	17.0
Additions	-	66.9	66.9
Disposals	(0.9)	-	(0.9)
Repayments received	-	(8.2)	(8.2)
At 31 December 2007	7.6	67.2	74.8

The Society holds directly the following interests in principal subsidiary undertakings:

Subsidiary undertaking	Principal activity
Norwich and Peterborough (LBS) Limited	Mortgage finance
Lynchwood Services Limited	Computer services
Norwich and Peterborough Insurance Brokers Limited	Insurance broking
Norwich and Peterborough Estate Agents Limited	Estate agents and property management
Flexible Choice Limited	Property management

All the subsidiary undertakings are limited by shares and are registered in England. All the subsidiaries operate in the UK except for Norwich and Peterborough Estate Agents Limited which operates in Gibraltar.

The Society holds 100% of the issued share capital of all of its subsidiary undertakings.

On 26 October 2007 the Society sold its investment in Hockleys Professional Limited for a consideration of £2.2m in cash.

Notes to the Accounts (continued)

12 Intangible fixed assets	Group £m	Society £m
Cost		
At 1 January 2007	1.6	-
Acquired during the year	0.1	-
At 31 December 2007	1.7	-
Amortisation		
At 1 January 2007	0.8	-
Charge for the year	0.3	-
At 31 December 2007	1.1	-
Net book value at 31 December 2007	0.6	-
Net book value at 31 December 2006	0.8	-

The amounts disclosed above relate to the acquisition by one of the Society's subsidiary undertakings of books of business trading in insurance broking.

13 Tangible fixed assets	Land and buildings		Equipment, fixtures, fittings and vehicles		Total	
	Group £m	Society £m	Group £m	Society £m	Group £m	Society £m
Cost or valuation						
At 1 January 2007	17.3	17.1	19.1	17.6	36.4	34.7
Additions	0.5	0.5	1.3	1.3	1.8	1.8
Disposals	(0.3)	(0.1)	(1.3)	(0.7)	(1.6)	(0.8)
At 31 December 2007	17.5	17.5	19.1	18.2	36.6	35.7
Depreciation						
At 1 January 2007	3.9	3.9	12.2	11.2	16.1	15.1
Charge for the year	0.4	0.4	3.0	2.8	3.4	3.2
Disposals	(0.2)	(0.1)	(1.1)	(0.7)	(1.3)	(0.8)
At 31 December 2007	4.1	4.2	14.1	13.3	18.2	17.5
Net book value at 31 December 2007	13.4	13.3	5.0	4.9	18.4	18.2
Net book value at 31 December 2006	13.4	13.2	6.9	6.4	20.3	19.6

Notes to the Accounts (continued)

13 Tangible fixed assets (continued)	Group		Society	
The net book value of land and buildings comprises:	2007 £m	2006 £m	2007 £m	2006 £m
Freehold property	12.0	12.1	12.0	12.0
Long leasehold property	0.1	0.1	0.1	0.1
Short leasehold property	1.3	1.2	1.2	1.1
	13.4	13.4	13.3	13.2

The net book value of land and buildings occupied by the Group/Society for its own activities:

At 31 December	12.8	12.7	12.8	12.7
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Included within land and buildings is Group £4.1m (2006: £4.2m) and Society £4.1m (2006: £4.1m) in respect of freehold and long leasehold land which are not depreciated.

During the year the Group disposed of its one remaining investment property. As at 31 December 2006, this property had a carrying value of £0.1m with an original cost of £0.1m.

14 Prepayments and accrued income	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Off balance sheet instruments	20.6	18.9	20.6	18.9
Deferred tax asset	2.7	2.1	2.7	2.1
Other	2.5	2.4	2.5	2.3
	25.8	23.4	25.8	23.3

Notes to the Accounts (continued)

14 Prepayments and accrued income (continued)

	Group	Society
The movement in the deferred tax asset is as follows:	£m	£m
Deferred tax at 31 December 2006	2.1	2.1
Movement in pension deferred asset	1.0	1.0
Amount charged to statement of total recognised gains and losses	(0.7)	(0.7)
Amount credited to income and expenditure account (note 7)	0.3	0.3
Deferred tax included in prepayments and accrued income	2.7	2.7

Deferred tax comprises:	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Short term timing differences	2.8	2.4	2.8	2.4
Capital allowances	(0.1)	(0.3)	(0.1)	(0.3)
	2.7	2.1	2.7	2.1

These provisions represent the full potential liabilities.

If the Group were to dispose of all of its freehold and long leasehold properties at the amounts included in the balance sheet, after taking account of previously rolled over gains and indexation allowances, no unprovided liability to tax would arise.

The main UK corporation tax rate is changing from 30% to 28% with effect from 1 April 2008. Deferred tax is therefore recognised at 28% as this is the rate which will prevail when the deferred tax asset is anticipated to be recoverable.

15 Shares

	Group and Society	
	2007 £m	2006 £m
Held by individuals	2,822.5	2,364.0
Other shares	0.3	0.3
	2,822.8	2,364.3

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	87.4	61.3
Repayable on demand	2,093.0	1,713.5
Other shares by residual maturity repayable:		
In not more than three months	264.9	263.8
In more than three months but not more than one year	308.7	146.8
In more than one year but not more than five years	68.8	178.9
	2,822.8	2,364.3

Notes to the Accounts (continued)

16 Amounts owed to credit institutions

	Group and Society	
	2007 £m	2006 £m
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	1.1	0.4
Other amounts owed by residual maturity repayable:		
In not more than three months	44.8	27.8
In more than three months but not more than one year	3.0	58.0
In more than one year but not more than five years	80.0	-
	128.9	86.2

17 Amounts owed to other customers

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	22.5	17.0	22.5	16.9
Repayable on demand	159.0	178.2	160.7	180.7
Other amounts owed by residual maturity repayable:				
In not more than three months	321.5	255.8	326.6	261.1
In more than three months but not more than one year	382.8	301.3	382.8	301.3
In more than one year but not more than five years	57.3	47.6	57.3	47.6
	943.1	799.9	949.9	807.6

18 Debt securities in issue

	Group and Society	
	2007 £m	2006 £m
Certificates of deposit	173.4	181.8
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	1.9	2.8
Other debt securities in issue by residual maturity repayable:		
In not more than one year	170.0	178.0
In more than one year	1.5	1.0
	173.4	181.8

Notes to the Accounts (continued)

19 Other liabilities

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Corporation tax	4.6	4.1	4.5	3.9
Income tax	0.6	0.5	0.6	0.5
Other taxation and social security	0.6	0.7	0.6	0.7
Amounts due to subsidiary undertakings	-	-	0.4	0.6
Other creditors	3.2	3.2	2.1	2.1
	9.0	8.5	8.2	7.8

20 Accruals and deferred income

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Interest accrued on subordinated liabilities	0.2	0.9	0.2	0.9
Other accruals and deferred income	7.1	6.7	6.6	5.7
	7.3	7.6	6.8	6.6

21 Provisions for liabilities

	Group and Society		
	Customer claims £m	Other £m	Total £m
At 31 December 2006	1.6	0.5	2.1
Income and expenditure account	1.4	1.1	2.5
Utilised in the year	(1.0)	(0.3)	(1.3)
At 31 December 2007	2.0	1.3	3.3

Provisions have been made in respect of various customer claims, indemnities under the contract for disposal of a subsidiary undertaking and commission clawbacks. Customer claims are classified as provisions (see note 6) or set off against fees and commissions receivable.

22 Subordinated liabilities

	Group and Society	
	2007 £m	2006 £m
Subordinated loan maturing 2012 – variable rate *	-	5.0
Subordinated loan maturing 2015 – 6.13% fixed rate	10.0	10.0
Subordinated loan maturing 2016 – variable rate *	-	5.0
Subordinated loan maturing 2017 – variable rate *	5.0	-
Subordinated loan maturing 2021 – 7.51% fixed rate	-	10.0
	15.0	30.0

* Interest payments are made on these loans at rates agreed with reference to LIBOR (London InterBank Offered Rate).

The Society issued the loans, which are all denominated in Sterling, in order to meet anticipated capital requirements. £15m subordinated loans were repaid during 2007.

Notes to the Accounts (continued)

22 Subordinated liabilities (continued)

The maturity date of the loan maturing in 2017 (2006: 2016) is subject to extension by 12 months each year unless either party gives prior notice to fix the maturity date.

The Society may, with the prior consent of the Financial Services Authority, repay all or some of the 2015 fixed rate loan on or after 25 February 2010 by giving 30 days' notice and the 2017 loan by giving 6 months' notice of the intention to repay.

The rights of repayment of the holders of subordinated loans are subordinated to the claims of depositors, all creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

23 General reserve

	Group	Society
	£m	£m
Balance at 1 January 2007	187.1	182.8
Profit for the year	16.5	16.8
Actuarial gain in pension scheme net of deferred tax	1.6	1.6
Balance at 31 December 2007	205.2	201.2

The accounting standard on goodwill (FRS 10 - Goodwill and Intangible Assets, introduced in 1998) requires any purchased goodwill to be amortised over its useful economic life. The Society had previously written off goodwill directly to reserves. The cumulative amount of goodwill remaining written off to reserves in the Group is £1.4m (2006: £1.4m) and Society £nil (2006: £nil).

24 Guarantees, other financial commitments and contingent liabilities

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Capital commitments				
Capital expenditure contracted for but not provided for in the accounts	0.9	-	0.9	-

Annual commitments under non-cancellable operating leases are as follows:

Land and buildings

Date of lease termination:	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Within one year	0.1	0.2	0.1	0.2
More than one year but within five years	0.4	0.3	0.4	0.3
After five years	1.3	1.3	1.2	1.1
	1.8	1.8	1.7	1.6

Other operating leases

Date of lease termination:	Group	Society
	£m	£m
More than one year but within five years	0.6	0.8
	0.6	0.7

In common with other financial institutions, the Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme. The Society has not been notified of any claims against the scheme. Where necessary, provisions are made against other customer claims. These are included within Note 21, Provisions for liabilities.

Notes to the Accounts (continued)

25 Directors' loans and related party transactions

At 31 December 2007 there were six mortgage loans and two overdrafts outstanding to two Directors and three connected parties (2006: five mortgage loans to one Director and two connected parties) amounting to £1.2m (2006: £0.9m) all of which were granted in the normal terms of the ordinary course of business and in accordance with the Society's governance procedures. A register is maintained at the Society's Principal Office which shows details of all loans, transactions and arrangements with Directors and connected parties. A statement, for the current financial year, of the appropriate details contained in the register will be available for inspection during the period of 15 days prior to and at the Annual General Meeting. No other transactions have been entered into with any Director during the year that require disclosure under FRS 8 "Related Party Disclosures".

There are no other related party transactions which require disclosure under FRS8.

26 Pension schemes**Defined benefit scheme**

The Society operates a Pension Scheme for employees based on final pensionable salary. This scheme was closed to new employees joining on or after 30 June 2001, although management reserve the right to permit entry into the scheme where this facilitates recruitment or retention of key staff. Consequently, the current service cost will increase as the members of the scheme approach retirement. The assets of the scheme are administered by a Trustee Company and are held separately from the Society. The contributions to the scheme are determined by a qualified independent actuary, on the basis of valuations using the attained age method.

A full actuarial valuation of the scheme was carried out as at 1 September 2005. The most significant actuarial assumption was that the future investment return would exceed the rate of salary increases by 3%. At that date, the market value of assets was £49.3m, which represented 94% of the value of the benefits accrued to members in respect of service to that date, with pensionable salaries of current active members projected to retirement. This equated to an actuarial deficit of £3.2m. After taking into account a cash injection of £2.2m by the Society in December 2005 the actuarial deficit stood at £1.0m.

The level of contributions into the scheme agreed by the actuary are as follows: individual contributions of between 9.5% and 11.9% for the coming year (2007: 8.5% - 11.9%); contributions by the Society to the scheme, excluding death in service premiums, of 21.5% for the coming year (2007: 21.5%).

The actuarial valuation has been updated to 31 December 2007 by a qualified independent actuary using the projected unit method.

The major assumptions used by the actuary in the updated calculations were:

	At 31/12/2007	At 31/12/2006	At 31/12/2005
Rate of increase in salaries	4.4%	4.1%	3.8%
Rate of increase in pensions in payment	3.3%	3.0%	2.7%
Discount rate	5.9%	5.2%	4.9%
Price inflation assumption	3.4%	3.1%	2.8%

The long term rates of return expected on investments in the scheme were:

	At 31/12/2007	At 31/12/2006	At 31/12/2005
Equities	8.4%	7.7%	7.4%
Bonds	5.9%	5.2%	4.9%
Property	8.4%	7.7%	7.4%
Other	5.9%	5.2%	4.9%

Where investments are held in bonds and cash, the expected long term rate of return is taken to be the yields prevailing on such assets at the balance sheet date. A higher rate of return is expected on equity and property investments, which are based more on the longer term differential over bond yields. The overall expected rate of return is then the average of these rates taking into account the mix of assets in the pension scheme.

Notes to the Accounts (continued)

26 Pension schemes (continued)**The mortality tables used to determine benefit obligations for pensioners are as follows:**

	At 31/12/2007	At 31/12/2006
Member age 60 (current life expectancy)		
Males	25.5	25.5
Females	28.4	28.4
Member age 40 (life expectancy at age 60)		
Males	27.3	27.3
Females	30.1	30.1

The assumptions on mortality are determined by the actuarial tables known as PMA/PFA92 (C=2010) medium cohort for current pensioners and PMA/PFA92 (C=2030) medium cohort for future pensioners.

The assets and liabilities in the scheme were:

	As at 31st December		
	2007 Fair value £m	2006 Fair value £m	2005 Fair value £m
Equities	38.2	37.2	33.4
Property	5.9	6.6	5.6
Bonds	20.0	18.1	16.8
Other	1.7	2.0	1.7
Total market value of assets	65.8	63.9	57.5
Present value of scheme liabilities	(65.4)	(66.7)	(60.5)
Surplus/(deficit) in scheme	0.4	(2.8)	(3.0)
Related deferred tax (liability)/asset	(0.1)	0.8	0.9
Net pension asset/(liability)	0.3	(2.0)	(2.1)

Analysis of the amount charged to operating profit

	2007 £m	2006 £m
Current service cost (excluding employee contributions)	2.2	1.9
Past service cost	-	0.4
Total charged to operating profit	2.2	2.3

Analysis of the amount credited to other finance income

	2007 £m	2006 £m
Expected return on scheme assets	4.4	3.8
Interest cost on scheme liabilities	(3.5)	(3.0)
Net finance return	0.9	0.8

Notes to the Accounts (continued)

26 Pension schemes (continued)

Analysis of the amount recognised within the statement of total recognised gains and losses ('STRGL')

	2007	2006
	£m	£m
Actual return less expected return on scheme assets	(3.1)	1.7
Experience losses arising on liabilities	(0.6)	(0.8)
Gain/(loss) due to changes in assumptions underlying the present value of scheme liabilities	6.0	(1.0)
Actuarial gain/(loss) recognised in the STRGL	2.3	(0.1)
Related deferred tax	(0.7)	-
Net actuarial gain/(loss) recognised in the STRGL	1.6	(0.1)

Amounts for the current and previous four periods are as follows:

	2007	2006	2005	2004	2003
	£m	£m	£m	£m	£m
Defined benefit obligation	(65.4)	(66.7)	(60.5)	(47.5)	(43.0)
Scheme assets	65.8	63.9	57.5	44.6	39.2
Surplus/(deficit)	0.4	(2.8)	(3.0)	(2.9)	(3.8)
Experience gains/(losses) on scheme liabilities	(0.6)	(0.8)	(0.3)	-	(2.2)
Experience gains/(losses) on scheme assets	(3.1)	1.7	5.9	0.9	3.1
Gain/(loss) from change in assumptions	6.0	(1.0)	(8.3)	-	(3.8)
Total gain/(loss) recognised in STRGL during the year	2.3	(0.1)	(2.7)	0.9	(2.9)
Cumulative actuarial gain/(loss) recognised at end of year	(2.5)	(4.8)	(4.7)	(2.0)	(2.9)

Analysis of the movement in the scheme surplus/deficit during the year

	2007	2006
	£m	£m
Opening deficit in the scheme	(2.8)	(3.0)
Current service cost (including employee contributions)	(2.2)	(2.3)
Contributions	2.2	2.2
Past service cost	-	(0.4)
Finance income	0.9	0.8
Actuarial gain/(loss)	2.3	(0.1)
Closing surplus/(deficit) in the scheme	0.4	(2.8)

Changes in the fair value of scheme assets

	2007	2006
	£m	£m
Fair value of assets at 1 January	63.9	57.5
Contributions (employer and employee)	2.2	2.3
Benefit payments	(1.6)	(1.4)
Expected return on assets	4.4	3.8
Actuarial (loss)/gain	(3.1)	1.7
Fair value of assets at 31 December	65.8	63.9

Notes to the Accounts (continued)

26 Pension schemes (continued)

Changes in the present value of scheme liabilities

	2007	2006
	£m	£m
Scheme liabilities at 1 January	66.7	60.5
Current service cost	2.2	1.9
Employee contributions	-	0.5
Interest cost	3.5	3.0
Past service cost	-	0.4
Benefits paid	(1.6)	(1.4)
Actuarial (gain)/loss	(5.4)	1.8
Scheme liabilities at 31 December	65.4	66.7

Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Decrease by 0.1%	£1.5m increase
Rate of inflation and salary growth	Increase by 0.1%	£1.4m increase
Salary growth	Increase by 0.1%	£0.2m increase
Rate of mortality	Increase by 1 year	£2.0m increase

Defined contribution scheme

The Society operates a defined contribution scheme for employees. The total cost of this scheme in 2007 was Group £0.6m (2006: £0.5m) and Society £0.5m (2006: £0.4m). There were no outstanding contributions at the balance sheet date.

27 Financial instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. Norwich and Peterborough Group is a retailer of financial instruments, mainly in the form of mortgages, savings and insurance products. The Group also uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding and to manage the risks arising from its operations. All transactions in derivatives are undertaken to manage the risks arising from underlying business activities. No transactions of a speculative nature are undertaken.

The responsibility for the management of these risks is vested in the Group's Management Assets and Liabilities Committee ("ALCO") and in the Management Risk Committee from the control perspective, and the Group's business units and Treasury from the business perspective. The Board's Risk Committee operates as a sub-committee of the Board and sets policy for the management of risk. Operational responsibility for asset and liability management is in turn delegated to the Management ALCO and responsibility for credit risk to the Management Risk Committee.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

These derivatives are only used by the Group in accordance with the Building Societies Act 1986, to limit the extent to which the Group will be affected by changes in interest rates or other factors specified in the legislation. The Group does not use derivatives for trading activity or use them for speculative purposes.

Notes to the Accounts (continued)

27 Financial instruments (continued)

The following table describes the significant activities undertaken by the Group, the related risks associated with them and the types of derivative which are typically used in managing such risks. These risks may alternatively be managed by using on balance sheet instruments as part of the Group's integrated approach to risk management.

Activity	Risk	Type of hedge
Management of the investment of reserves and other net non-interest bearing liabilities	Sensitivity to changes in interest rates	Interest rate swaps
Fixed rate savings products and fixed rate funding	Sensitivity to changes in interest rates	Interest rate swaps
Fixed and capped rate mortgage lending and fixed rate investments	Sensitivity to changes in interest rates	Interest rate swaps and caps
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Foreign exchange contracts

The table below analyses the derivatives by type of contract and maturity and shows the nominal principal amounts, credit risk weighted amounts, and replacement costs of contracts. Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date reflecting the Group's exposure should the counterparties default. The total fair value of interest rate contracts with a negative replacement cost is £11.9m (2006: £1.7m), as quoted on page 49. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty. All derivative contracts are with banks and other financial institutions.

Group and Society	Nominal principal amount 2007	Credit risk weighted amount 2007	Replacement cost 2007	Nominal principal amount 2006	Credit risk weighted amount 2006	Replacement cost 2006
	£m	£m	£m	£m	£m	£m
Interest rate contracts						
Interest rate swaps	2,395.8	11.1	28.8	2,085.9	9.2	32.7
Caps	-	-	-	4.0	-	-
	2,395.8	11.1	28.8	2,089.9	9.2	32.7
Maturing in:						
Under one year	933.3	-	15.7	872.9	-	14.3
Between one and five years	1,086.8	5.4	10.3	902.9	4.5	12.8
Over five years	375.7	5.7	2.8	314.1	4.7	5.6
	2,395.8	11.1	28.8	2,089.9	9.2	32.7

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding and through management control of the growth of the business.

Credit risk

Credit risk refers to the potential risk that arises from counterparties or customers failing to meet their obligations as they fall due. The Board's Risk Committee is responsible for approving the Group's lending policy and monitoring the Group's exposures according to this policy, including exposures to individual counterparties, regional exposures for residential lending, and sector concentration for commercial lending. The Risk Committee is also responsible for approving limits on Treasury counterparties, country exposures, and type of financial instrument.

Notes to the Accounts (continued)

27 Financial instruments (continued)

Interest rate risk

The Group is exposed to movements in interest rates and manages this exposure on a continuing basis, within limits set by the Board Risk Committee, using a combination of on and off-balance sheet instruments. After taking into account the various derivatives entered into by the Group, the interest rate sensitivity exposure of the Group based on reset dates was:

At 31 December 2007

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
Assets:							
Liquid assets	952.5	30.0	25.0	-	-	8.1	1,015.6
Loans and advances to customers	1,709.0	47.6	116.9	1,002.3	376.8	(8.7)	3,243.9
Tangible and intangible fixed assets	-	-	-	-	-	19.0	19.0
Other assets	-	-	-	-	-	29.5	29.5
Total assets	2,661.5	77.6	141.9	1,002.3	376.8	47.9	4,308.0
Liabilities:							
Shares	2,296.2	215.8	207.9	102.9	-	-	2,822.8
Amounts owed to credit institutions, other customers and debt securities in issue	786.5	214.5	177.7	66.7	-	-	1,245.4
Other liabilities	-	-	-	-	-	19.6	19.6
Subordinated liabilities	5.0	-	-	10.0	-	-	15.0
Reserves	-	-	-	-	-	205.2	205.2
Total liabilities	3,087.7	430.3	385.6	179.6	-	224.8	4,308.0
Off balance sheet items	786.7	226.3	209.1	(848.4)	(373.7)	-	-
Interest rate sensitivity gap	360.5	(126.4)	(34.6)	(25.7)	3.1	(176.9)	-
Cumulative interest rate sensitivity gap	360.5	234.1	199.5	173.8	176.9	-	-

As this analysis is based on interest rate reset dates, it differs from the maturity analysis of assets and liabilities given in Notes 8 to 10 and 15 to 18.

Notes to the Accounts (continued)

27 Financial instruments (continued)

At 31 December 2006

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
Assets:							
Liquid assets	716.6	25.0	15.0	-	-	5.4	762.0
Loans and advances to customers	1,722.1	44.5	75.8	720.9	301.2	(6.1)	2,858.4
Tangible and intangible fixed assets	-	-	-	-	-	21.1	21.1
Other assets	-	-	-	-	-	28.0	28.0
Total assets	2,438.7	69.5	90.8	720.9	301.2	48.4	3,669.5
Liabilities:							
Shares	1,824.0	125.9	161.7	252.7	-	-	2,364.3
Amounts owed to credit institutions, other customers and debt securities in issue	589.9	116.0	216.3	145.7	-	-	1,067.9
Other liabilities	-	-	-	-	-	20.2	20.2
Subordinated liabilities	10.0	-	-	10.0	10.0	-	30.0
Reserves	-	-	-	-	-	187.1	187.1
Total liabilities	2,423.9	241.9	378.0	408.4	10.0	207.3	3,669.5
Off balance sheet items	212.5	123.3	269.4	(311.0)	(294.2)	-	-
Interest rate sensitivity gap	227.3	(49.1)	(17.8)	1.5	(3.0)	(158.9)	-
Cumulative interest rate sensitivity gap	227.3	178.2	160.4	161.9	158.9	-	-

Liquid assets comprise cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and pension asset.

Other assets comprise other assets, and prepayments and accrued income.

Other liabilities comprise other liabilities, accruals and deferred income, provisions for liabilities and pension liability.

Notes to the Accounts (continued)

27 Financial instruments (continued)

Fair values of financial instruments

The table below shows a comparison of book and fair values of some of the Group's financial instruments (including accrued interest for assets and liabilities) by category at 31 December 2007. Where available, market rates have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing market rates.

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages, retail savings accounts and other balance sheet items whose book and fair values differ at 31 December 2007.

	2007		2006	
	Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
On balance sheet instruments				
Liquid assets	1,015.6	1,010.3	762.0	762.3
Wholesale liabilities	(1,039.1)	(1,035.2)	(857.7)	(859.1)
Off balance sheet instruments	-	16.9	-	31.0

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Wholesale liabilities comprise certain financial liabilities reported within the amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Hedges

Hedges which comprise the off balance sheet instruments referred to above are used to reduce the risk of loss arising from changes in interest rates.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 31 December 2006	32.7	(1.7)	31.0
Gains and losses arising in previous years that were recognised in 2007	15.2	(0.2)	15.0
Gains and losses arising before 2007 that were not recognised in 2007	17.5	(1.5)	16.0
Gains and losses arising in 2007 that were not recognised in 2007	11.3	(10.4)	0.9
Unrecognised gains and losses on hedges at 31 December 2007	28.8	(11.9)	16.9
Of which:			
Gains and losses expected to be recognised in 2008	15.7	(0.1)	15.6
Gains and losses expected to be recognised in 2009 or later	13.1	(11.8)	1.3

Annual Business Statement for the year ended 31 December 2007

1 Statutory ratios and percentages

	Percentage at 31.12.2007 %	Statutory Limit %
Lending Limit	11.25	25
Funding Limit	30.62	50

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are the total assets of the Group as shown in the balance sheet plus provisions for bad and doubtful debts less liquid assets and fixed assets. Loans fully secured on residential property are the amount of principal and interest accrued owing by borrowers. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts and irrecoverable interest.

The Funding Limit measures the proportion of shares and borrowings (including accrued interest) not in the form of shares held by individuals.

The statutory limits are laid down under the Building Societies Act 1986, as amended by the Building Societies Act 1997, and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2 Other percentages

	Ratio at 31.12.2007 %	Ratio at 31.12.2006 %
As a percentage of shares and borrowings:		
Gross capital	5.41	6.33
Free capital	5.03	5.79
Liquid assets	24.96	22.20

	Ratio For 2007 %	Ratio For 2006 %
As a percentage of mean total assets:		
Profit for the financial year	0.41	0.40
Management expenses	1.40	1.51

The above percentages have been calculated from the consolidated accounts.

Gross capital represents the aggregate of total reserves and subordinated liabilities.

Free capital represents gross capital and general loss provisions less fixed assets.

Liquid assets represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Management expenses represent the aggregate of administrative expenses, depreciation and amortisation.

Mean total assets are the average of the 2007 and 2006 total assets.

Annual Business Statement for the year ended 31 December 2007 (continued)

3 Information relating to Directors and other Officers

Details of Directors serving at 31 December 2007.

Name Date of Birth	Business Occupation	Other Directorships	Date of Appointment
Keith Bedell-Pearce (Solicitor) 11.3.46	Company Director	Benbow House Residents Ltd Chadwick Square Management Ltd F&C Asset Management plc Martin Pearce Recruitment Ltd Ridge Asset Managers LLP Student Loans Company Ltd 4D Data Centres Ltd	February 2001
Alan Brown 8.1.46	Company Director	Member of Banking Code Standards Board Review Panel Banquo Credit Management LLP Banquo Credit Management (2) Ltd Lodge Drive Management Company Ltd	October 2004
Matthew Bullock FCIB 9.9.49	Chief Executive – NPBS	The Automation Partnership Group plc Centre for Business Research, University of Cambridge International House Trust Norwich and Peterborough Insurance Brokers Ltd Norwich and Peterborough (LBS) Ltd Opportunity Peterborough	April 1999
Chris Ewbank 18.9.61	University Bursar	Aquila Investments Ltd Aquivar Ltd Eaglet Ltd LM Tenancies 1 Ltd LM Tenancies 2 Ltd LM Tenancies 4 Ltd LM Tenancies 5 Ltd LM Tenancies 7 Ltd LM Tenancies 8 Ltd RLW Estates Ltd Saffron Walden Estates Ltd St John's Enterprises Ltd St John's Park Management Company Ltd	April 2007
Bernie Foster 6.9.57	Company Director	Central Coffee Ltd Richard House (Children's Hospice) Trading Board	December 2003
Gordon Horsfield FCA 27.8.46	Company Director	Ampleforth Abbey Trust Drax Group plc Council of the University of York Partnerships (UK) plc	March 2006
Mike Hounsell 19.3.63	Marketing and Sales Director – NPBS	East Anglia's Children's Hospices Norwich and Peterborough Insurance Brokers Ltd Norwich and Peterborough Sharedealing Services Ltd Waters Lunniss Nominees Ltd	August 2002
David Jervis ACIB 19.5.64	Business Services Director - NPBS	Lynchwood Services Ltd Norwich and Peterborough (LBS) Ltd	August 2006

Annual Business Statement for the year ended 31 December 2007 (continued)

3 Information relating to Directors and other Officers (continued)

Details of Directors serving at 31 December 2007.

Name Date of Birth	Business Occupation	Other Directorships	Date of Appointment
Simon Loftus 5.8.46	Company Director	Adnams plc Aldeburgh Music 1st East	April 2007
Jeffrey Pritchard 25.4.63	Risk and Compliance Director – NPBS	Norwich and Peterborough (LBS) Ltd	October 2006
Janet Turner 16.11.57	Queen's Counsel	Alchemy (1480) Ltd Wothorpe Towers Preservation Trust	April 2007
Alex Tweedie FCA 13.5.42	Company Director	CEFAS King Street Housing Society	December 2001
Richard Wells FCA 19.7.63	Finance Director - NPBS	Flexible Choice Ltd Norwich and Peterborough (LBS) Ltd Norwich and Peterborough Sharedealing Services Ltd Norwich and Peterborough Estate Agents Ltd Renewables East Waters Lunniss Nominees Ltd	October 2006

Documents may be served on any Director at the address of the Society's Principal Office.

Details of Directors' service contracts and bonus schemes are detailed in the Annual Report of the Remuneration Committee on pages 21 and 22.

All Non-executive Directors are considered by the Board to be independent.

Other Officers	Business Occupation	Directorships
Debbie Britton	Head of Customer Marketing	Norwich and Peterborough Insurance Brokers Ltd
Peter Cook	Head of Business Assurance	
Shaun Cubitt	Secretary	Flexible Choice Ltd
Simon Cunliffe	Treasurer	
Judith Dove	Head of Sales: Financial Advice Service	
Mark Eaton	Head of Retail Sales	Norwich and Peterborough Insurance Brokers Ltd
David Farrington	Head of General Insurance	Norwich and Peterborough Insurance Brokers Ltd
Richard Harvey	Head of Finance	Norwich and Peterborough Estate Agents Ltd
Stephen Makin	Head of Legal Services	
Stephen Mulley	Head of Information Technology	Lynchwood Services Ltd
Joyce Rahn	Head of Compliance	
Alison Rolls	Head of Communications	
Mike Sketch	Head of Retail Operations	Norwich and Peterborough Insurance Brokers Ltd Norwich and Peterborough Estate Agents Ltd
Graham Toy	Head of Commercial and Intermediary Lending	Norwich and Peterborough (LBS) Ltd
Pat Turner	General Manager, Human Resources	Norwich and Peterborough Estate Agents Ltd
John Willcock	Head of Product Marketing	Norwich and Peterborough (LBS) Ltd

The Board of Directors



Keith Bedell-Pearce
Chairman



Alan Brown



Matthew Bullock
Chief Executive



Christopher Ewbank



Bernie Foster



Gordon Horsfield



Mike Hounsell
Marketing and Sales Director



David Jervis
Business Services Director



Simon Loftus



Jeffrey Pritchard
Risk and Compliance Director



Janet Turner



Alex Tweedie
Senior Independent Director



Richard Wells
Finance Director

Branch Directory

Norwich and Peterborough Building Society

Principal Office: Peterborough Business Park, Lynch Wood, Peterborough, PE2 6WZ.

Branches

Bedford	77 High Street, MK40 1NE	01234 340020	Market Deeping	● 37 Market Place, PE6 8EA	01778 344770
Boston	24 Market Place, PE21 6EH	01205 311130	North Walsham	● 46/47 Market Place, NR28 9BT	01692 500488
Bourne	● 1 North Street, PE10 9AE	01778 422418	Norwich (1)	● 301 Aylsham Road, NR3 2RY	01603 414400
Bungay	9 Market Place, NR35 1AP	01986 893011	Norwich (2)	● 15 Wendene, Bowthorpe Main Centre, NR5 9HA	01603 748007
Bury St Edmunds	1 Abbeygate Street, IP33 1UN	01284 750535	Norwich (3)	● § 6 Castle Mall, NR1 3DD	01603 660081
Cambridge (1)	● 4 St. Andrews Street, CB2 3AX	01233 305923	Norwich (4)	● § 152 St Stephen's Arcade, Chapelfield, NR2 1SB	0845 129 2927
Cambridge (2)	8 Burleigh Street, CB1 1DG	01223 303133	Norwich (5)	● 187 Plumstead Road, NR1 4AB	01603 435881
Chelmsford	59 High Street, CM1 1DH	01245 348338	Norwich (6)	● 141 Unthank Road, NR2 2PE	01603 666846
Clacton	5 Station Road, CO15 1TD	01255 220080	Oundle	● The Old Town Hall, Market Place, PE8 4BQ	01832 273037
Colchester	20 Culver Street West, CO1 1JU	01206 762024	Peterborough (1)	● § Rightwell East, Bretton Centre, PE3 8DU	01733 260690
Cromer	45 Church Street, NR27 9HH	01263 514115	Peterborough (2)	● § 5 Cathedral Square, PE1 1XH	01733 313171
Dereham	4 High Street, NR19 1DR	01382 696693	Peterborough (3)	● § Unit 7, Serpentine Green, Hampton, PE7 8BE	01733 319066
Diss	14 Market Place, IP22 4AB	01379 644778	Peterborough (4)	● 11 Skaters Way, Werrington, PE4 6NB	01733 570067
Downham Market	7 High Street, PE38 9DA	01366 387327	St Ives	● 4 Sheep Market, PE27 5AH	01480 461144
Fakenham	4 Bridge Street, NR21 9AQ	01328 851511	St Neots	● 1 High Street, PE19 1BU	01480 212055
Gibraltar	● P O Box 535, 198/200 Main Street	00 350 45050	Scunthorpe	● 222 Ashby High Street, Ashby, DN16 2SJ	01724 855354
Great Yarmouth	● 27 Market Place, NR30 1LY	01493 856577	Sheringham	● 29 High Street, NR26 8DS	01263 824363
Halesworth	61 Thoroughfare, IP19 8AR	01986 875108	Southwold	● 19 Market Place, IP18 6EA	01502 724432
Huntingdon	119 High Street, PE29 3LG	01480 457156	Spalding	● 15 Sheep Market, PE11 1BE	01775 724888
Inningham	23 Kennedy Way, DN40 2AB	01469 577431	Spilsby	● 26/28 High Street, PE23 5JH	01790 753111
Ipswich	30 Tavern Street, IP1 3AP	01473 213905	Stamford	● 49 High Street, PE9 2BD	01780 755659
Kettering	7 Gold Street, NN16 8JL	01536 415156	Swaffham	● 10 Market Place, PE37 7AB	01760 721276
King's Lynn	8/12 New Conduit Street, PE30 1DL	01553 763388	Thetford	● 16 King Street, IP24 2AP	01842 755283
Leiston	55 High Street, IP16 4EL	01728 831961	Watton	● 38 High Street, IP25 6AE	01953 883463
Lincoln	1 Alexander Walk, The Carlton Centre, LN2 4FN	01522 514666	Whittlesey	● 1 Market Place, PE7 1AB	01733 202001
Louth	33 Mercer Row, LN11 9JG	01507 604726	Wisbech	● 30/31 Market Place, PE13 1DP	01945 582652
Lowestoft	52 London Road North, NR32 1EP	01502 508802	Wroxham	● Station Road, Hoveton, NR12 8UR	01603 783825
March	41 Broad Street, PE15 8TP	01354 652128	Wymondham	● 10 Market Place, NR18 0AX	01953 605478

§ Extended opening hours - Castle Mall - 6pm Thursday, 4pm Saturday, Chapelfield - 6pm Monday, Tuesday, Wednesday, Friday, 7pm Thursday, 5pm Saturday.

Bretton Centre, Lincoln, Cathedral Square - 3pm Saturday, Hampton - 4pm Saturday.

● LINK cash machine (also available at Peterborough Business Park, Lynch Wood, Peterborough and Orton Centre, Peterborough).

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Contact Centre 0845 300 2511

Available from 8am to 8pm Monday - Friday and 9am to 5pm Saturday. Calls are recorded. Local call charges apply.

Website

www.npbs.co.uk

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Downham Market, 8 Market Place, PE38 9DG, 01366 387222; Woodbridge, 14 Old Barrack Road, IP12 4EX, 01394 385666; Dereham, 4 High Street, NR19 1DR, 01362 696017;

Outwell, Isle Road, PE14 8TD, 01945 772301; Norwich, 6 Castle Mall, NR1 3DD, 01603 624231.



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