

The co-operative bank

THE CO-OPERATIVE BANK PLC

(incorporated with limited liability in England and Wales)

£3 billion

Global Covered Bond Programme

unconditionally and irrevocably guaranteed as to payments of interest and principal by
The Covered Bond LLP

(a limited liability partnership incorporated in England and Wales)

FINANCIAL SERVICES AUTHORITY
UK LISTING AUTHORITY

Document Approval

Date: 5 September 2008

Signed: W. Kowalski

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Under this £3 billion covered bond programme (the "Programme"), The Co-operative Bank plc (the "Issuer") may from time to time issue bonds (the "Covered Bonds") denominated in any currency agreed between the Issuer and the Relevant Dealer(s) (as defined below). 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.

The Covered Bond LLP (the "LLP" or the "Guarantor") has guaranteed payments of interest and principal under the Covered Bonds pursuant to an unconditional and irrevocable guarantee (the "Covered Bond Guarantee") and the payment obligations of the LLP under the Covered Bond Guarantee are secured over the Mortgage Loan Portfolio (as defined below) and its other assets. Recourse against the LLP under its guarantee is limited to the Mortgage Loan Portfolio and such other 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 £3 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under the Programme Overview and any additional Dealer appointed under the Programme from time to time by the Issuer (each, a "Dealer" and together, the "Dealers"), which appointment may be to a specific issue or on an ongoing basis. References in this Base Prospectus to the "Relevant Dealers" shall, in the case of an issue of Covered Bonds being (or intended to be) submitted for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

An investment in Covered Bonds issued under the Programme involves certain risks. Please review and consider the risk factors beginning on page 18 in this Base Prospectus carefully before you purchase any Covered Bonds.

Application will be made to the Financial Services Authority (the "FSA") for the Issuer to be admitted to the register of issuers and for the Programme and for any Covered Bonds issued under the Programme prior to the date of admission to be admitted to the register of regulated covered bonds under the RCB Regulations (Statutory Instrument 2008/246, as amended from time to time (the "RCB Regulations").

This base prospectus (the "Base Prospectus") constitutes a "Base Prospectus" for the purposes of the Prospectus Directive (Directive 2003/71/EC). Application has been made to the Financial Services Authority which is the United Kingdom competent authority under the Financial Services and Markets Act 2000 for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the "UK Listing Authority"), for approval of this Base Prospectus as a Base Prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange (which is a "regulated market" for the purposes of the Markets in Financial Instruments Services Directive 2004/39/EC) (the "Regulated Market of the London Stock Exchange"). Admission to the Official List together with admission to the Regulated Market of the London Stock Exchange constitutes official listing on the London Stock Exchange. References in this Base Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the Regulated Market of the London Stock Exchange 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, 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 exchanges 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. An investment in Covered Bonds issued under the Programme involves certain risks.

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") or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Covered Bonds may include those Covered Bonds that are in bearer form (the "Bearer Covered Bonds") that are subject to U.S. tax law requirements. The Covered Bonds may not be offered or sold, or in the case of Bearer Covered Bonds, delivered within the United States or to or for the account of benefit of U.S. Persons (as defined in Regulation S under the Securities Act ("Regulation S")) or, with respect to the Bearer Covered Bonds, U.S. Person (as defined under the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Internal Revenue Code")), and the regulations promulgated thereunder) 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 the Covered Bonds will be issued. The Covered Bonds and the Covered Bond Guarantee are subject to certain restrictions on transfer, see "Subscription and Sale and Transfer and Selling Restrictions".

IMPORTANT NOTICE

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached base prospectus (including the appendices) (the "**Base Prospectus**") whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the attached Base Prospectus. In reading, accessing or making any other use of the attached Base Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Base Prospectus, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE COVERED BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE CO-OPERATIVE BANK PLC HAS NOT REGISTERED AND DOES NOT INTEND TO REGISTER AS AN INVESTMENT COMPANY UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**") IN RELIANCE ON THE EXCLUSION PROVIDED IN SECTION 3(C)(7) THEREOF. THE COVERED BONDS MAY BE OFFERED AND SOLD: (1) WITHIN THE UNITED STATES IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") ONLY TO PERSONS THAT ARE BOTH: (a) REASONABLY BELIEVED TO BE "**QUALIFIED INSTITUTIONAL BUYERS**" (EACH A "**QIB**") AS DEFINED IN RULE 144A; AND (b) "**QUALIFIED PURCHASERS**" (EACH A "**QP**") AS DEFINED IN SECTION 2(A)(51)(A) OF THE INVESTMENT COMPANY ACT, IN EACH CASE ACTING FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB THAT IS A QP; AND (2) OUTSIDE OF THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") ("**U.S. PERSONS**")) IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S. FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES. SEE "**SUBSCRIPTION AND SALE**" AND "**TRANSFER AND SELLING RESTRICTIONS**" IN THE ATTACHED BASE PROSPECTUS.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY PERSON RESIDENT IN THE UNITED STATES WHO IS NOT BOTH A QIB AND A QP. DISTRIBUTION OR REPRODUCTION OF THIS BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

Confirmation of Your Representation: In order to be eligible to view this Base Prospectus or make an investment decision with respect to the Covered Bonds, (1) prospective investors in respect of the Covered Bonds being offered pursuant to Rule 144A must be both a QIB and a QP, and (2) prospective investors in respect of the Covered Bonds being offered outside of the United States in an offshore transaction pursuant to Regulation S must be a person other than a U.S. person. By accepting the e-mail and accessing this Base Prospectus, you shall be deemed to have represented to The Royal Bank of Scotland plc, ABN AMRO Bank N.V., London Branch and UBS Limited, being the relevant senders of the attached, that (1) if you are purchasing the Covered Bonds being offered pursuant to Rule 144A, you are both a QIB and a QP, and that the electronic mail (or e-mail) address to which, pursuant to your request, the attached Base Prospectus has been delivered by electronic transmission is utilised by a QIB who is also a QP, or (2) if you are purchasing the Covered Bonds being offered outside of the United States in an offshore transaction pursuant to Regulation S, you are a person other than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the attached Base Prospectus has been delivered by electronic transmission is utilised by a person other than a U.S. Person, and (3) you are a person to whom the Base Prospectus may be delivered in accordance with the restrictions set out in the sections of the attached Base Prospectus entitled "*Transfer and Selling Restrictions*" and "*Subscription and Sale*" and (4) you consent to delivery of this Base Prospectus by electronic submission.

You are responsible for protecting against viruses and other destructive items. Your use of this email is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither The Royal Bank of Scotland plc, ABN AMRO Bank N.V., London Branch, UBS Limited nor The Co-operative Bank plc nor any person who controls, nor any director, officer, employee or agent of, The Royal Bank of Scotland plc, ABN AMRO Bank N.V., London Branch, UBS Limited or The Co-operative Bank plc nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from The Royal Bank of Scotland plc, ABN AMRO Bank N.V., London Branch, and UBS Limited.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not nor are you authorised to deliver this Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Base Prospectus who intend to subscribe for or purchase the Covered Bonds are reminded that any subscription or purchase may only be made on the basis of the information contained in the final terms and final base prospectus.

The distribution of this Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by The Co-operative Bank plc, The Royal Bank of Scotland plc, ABN AMRO Bank N.V., London Branch and UBS Limited to inform themselves about, and to observe, any such restrictions.

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Under this £3 billion covered bond programme (the "Programme"), The Co-operative Bank plc (the "Issuer") may from time to time issue bonds (the "Covered Bonds") denominated in any currency agreed between the Issuer and the Relevant Dealer(s) (as defined below). 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.

The Covered Bond LLP (the "LLP" or the "Guarantor") has guaranteed payments of interest and principal under the Covered Bonds pursuant to an unconditional and irrevocable guarantee (the "Covered Bond Guarantee") and the payment obligations of the LLP under the Covered Bond Guarantee are secured over the Mortgage Loan Portfolio (as defined below) and its other assets. Recourse against the LLP under its guarantee is limited to the Mortgage Loan Portfolio and such other 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 £3 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under the Programme Overview and any additional Dealer appointed under the Programme from time to time by the Issuer (each, a "Dealer" and together, the "Dealers"), which appointment may be to a specific issue or on an ongoing basis. References in this Base Prospectus 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.

An investment in Covered Bonds issued under the Programme involves certain risks. Please review and consider the risk factors beginning on page 18 in this Base Prospectus carefully before you purchase any Covered Bonds.

Application will be made to the Financial Services Authority (the "FSA") for the Issuer to be admitted to the register of issuers and for the Programme and for any Covered Bonds issued under the Programme prior to the date of admission to be admitted to the register of regulated covered bonds under the RCB Regulations (Statutory Instrument 2008/346, as amended from time to time (the "RCB Regulations")).

This base prospectus (the "Base Prospectus") constitutes a "Base Prospectus" for the purposes of the Prospectus Directive (Directive 2003/71/EC). Application has been made to the Financial Services Authority which is the United Kingdom competent authority under the Financial Services and Markets Act 2000 for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the "UK Listing Authority"), for approval of this Base Prospectus as a Base Prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange (which is a "regulated market" for the purposes of the Markets in Financial Instruments Services Directive 2004/39/EC) (the "Regulated Market of the London Stock Exchange"). Admission to the Official List together with admission to the Regulated Market of the London Stock Exchange constitutes official listing on the London Stock Exchange. References in this Base Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the Regulated Market of the London Stock Exchange 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, 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. **An investment in Covered Bonds issued under the Programme involves certain risks.**

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") or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Covered Bonds may not include those Covered Bonds that are in bearer form (the "Bearer Covered Bonds") that are subject to U.S. tax law requirements. The Covered Bonds may not be offered or sold, or in the case of Bearer Covered Bonds, delivered within the United States or to or for the account or benefit of U.S. Persons (as defined in Regulation S under the Securities Act ("Regulation S")) or, with respect to the Bearer Covered Bonds, U.S. person is defined under the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Internal Revenue Code"), and the regulations promulgated thereunder) 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 the Covered Bonds will be issued. The Covered Bonds and the Covered Bond Guarantee are subject to certain restrictions on transfer, see "Subscription and Sale and Transfer and Selling Restrictions".

Interests in a Temporary Global Covered Bond (defined herein) will be exchangeable in whole or in part, for interests in a Permanent Global Covered Bond (defined herein) on or after 40 days after the later of the commencement of the offering and the relevant issue date (the "Exchange Date"), upon certification as to non-U.S. beneficial ownership.

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 (the "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 Limited and an "Aaa" rating by Moody's Investors Service Limited. 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.

Arrangers for the Programme

UBS Investment Bank

The Royal Bank of Scotland

ABN AMRO

The date of this Base Prospectus is 5 September 2008

The Issuer and the LLP each accept responsibility for the information contained in this Base 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 Base 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 Base Prospectus has been accurately reproduced (and is clearly sourced where it appears in this 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.

This Base Prospectus is given in compliance with the prospectus rules made by the UK Listing Authority under the Financial Services and Markets Act 2000 ("FSMA") as amended by the Prospectus Regulations 2005 (the "**Prospectus Rules**") and in compliance with the rules relating to the admission to the official list, in accordance with section 73(A)(2) of the FSMA (the "**Listing Rules**") for the purposes of giving information about the Issuer and the Covered Bonds.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Base Prospectus shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Base Prospectus.

The information contained in this Base Prospectus was obtained from the Issuer, the LLP and the Liquidation Member but no assurance can be given by the Arrangers, the Dealers, the Agents, 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 Dealers, the Agents, the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer, the LLP or the Liquidation Member in connection with the Programme. Neither the Arrangers, the Dealers, the Agents nor the Bond Trustee nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer, the LLP or the Liquidation Member in connection with the Programme.

No person is or has been authorised by the Issuer, the LLP, any of the Arrangers, the Dealers, the Bond Trustee or the Security Trustee to give any information or to make any representation not contained in this Base 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 LLP, any of the Dealers, the Bond Trustee or the Security Trustee.

Neither this Base 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 nor other evaluation or (ii) should be considered as a recommendation by the Issuer, the LLP, the Seller, any of the Arrangers, the Dealers, the Bond Trustee or the Security Trustee that any recipient of this Base 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 Base 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, 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 Base 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 Dealers, the Arrangers, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer, the LLP or the Seller during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Covered Bonds.

The Bearer Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. 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.

This Base 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 Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the LLP, the Arrangers, the Dealers, the Bond Trustee and the Security Trustee do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the LLP, the Arrangers, the Dealers, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, Japan, the United Kingdom, and in Relevant Member States of the European Economic Area see "*Subscription and Sale and Transfer and Selling Restrictions*" below.

References in this Base Prospectus to "£", "Sterling" and "Pounds Sterling" are references to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland. References in this Base Prospectus to "€" and "euro" are to the single currency introduced in the Member States of the European Community at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. References in this Base Prospectus to "U.S. Dollars", "dollars", "\$", "Dollars" or "US\$" are references 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 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 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 and the Covered Bond Guarantee 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 passed upon or endorsed the merits of the Programme or the Covered Bond Guarantee or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

None of the Arrangers, the Dealers, the LLP, the Agents, the Security Trustee or the Bond Trustee make any representation to any investor in the Covered Bonds regarding the legality of their involvement 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.

The RCB Regulations

The Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and for the Covered Bonds issued under the Programme prior to the date of admission to be admitted to the register of regulated covered bonds, under the RCB Regulations. As of the date of this Base Prospectus, neither the Issuer nor the Programme will be so registered or regulated and there can be no assurance that the Issuer or the Programme will be so registered or regulated. The timetable for recognition by the FSA is expected to take not more than six months from the date of the application being made or further information being provided at the request of the FSA. Covered Bondholders will promptly be notified by the Issuer upon receipt from the FSA of its final decision on the application. (See "Risk Factors - The RCB Regulations".)

Notice to U.S. Investors

With respect to the issue and sale of the Covered Bonds and the Covered Bond Guarantee in the United States, this Base Prospectus is highly confidential and has been prepared by the Issuer solely for use in connection with the issue of the Covered Bonds. In the United States, this Base Prospectus is personal to each person or entity to whom it has been delivered by the Issuer or a dealer or an affiliate thereof. Distribution in the United States of this Base Prospectus to any person other than such persons or entities and those persons or entities, if any, retained to advise such persons or entities is unauthorised and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited. Each prospective purchaser in the United States, by accepting delivery of this Base Prospectus, agrees to the foregoing and agrees not to reproduce all or any part of this Base Prospectus. This Base Prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision of or rule under the Securities Act.

Additionally, each purchaser of any of the Covered Bonds will be deemed to have made the representations, warranties and acknowledgements that are described in the Applicable Final Terms. The Covered Bonds and the Covered Bond Guarantee have not been nor will be registered under the Securities Act, and such securities are subject to certain restrictions on transfer. The Covered Bonds may be offered and sold outside the United States to non-U.S. Persons in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act ("**Rule 144A**"). Prospective investors are hereby notified that the seller of any Covered Bond may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on resale or transfer of the Covered Bonds, see "*Subscription and Sale and Transfer and Selling Restrictions*".

Offers and sales of the Covered Bonds in the United States will be made by the Dealer(s) through their affiliates which are registered broker-dealers under the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or in accordance with Rule 15a-6 thereunder.

Notice to residents of New Hampshire

NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED ("RSA"), 1955 WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 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

If any Rule 144A Global Covered Bonds are issued, the Issuer will agree, for so long as any of the Covered Bonds are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which it is neither subject to and in compliance with the reporting

requirements of Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act to any holder of such restricted securities or to any prospective purchaser designated by such holder of such restricted securities in order to permit compliance by such holder with Rule 144A in connection with the resale of such restricted securities or any interest therein, in each case at the request of such holder or prospective purchaser.

By requesting copies of the documents referred to herein or by making any other requests for additional information relating to the issue of the Covered Bonds or to the Issuer, each potential investor agrees to keep confidential the various documents and all written information which from time to time has been or will be disclosed to it, to the extent that such documents or information are not otherwise publicly available, and agrees not to disclose any portion of such information to any person except in connection with the proposed resale of the Covered Bonds or as required by law.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS BASE PROSPECTUS, ALL PERSONS MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL, STATE AND LOCAL TAX TREATMENT OF THE COVERED BONDS AND THE ISSUER, ANY FACT THAT MAY BE RELEVANT TO UNDERSTANDING THE U.S. FEDERAL, STATE AND LOCAL TAX TREATMENT OF THE COVERED BONDS AND THE ISSUER, AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) RELATING TO SUCH U.S. FEDERAL, STATE AND LOCAL TAX TREATMENT AND THAT MAY BE RELEVANT TO UNDERSTANDING SUCH TAX TREATMENT.

Rounding Adjustments

Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments. Accordingly, figures shown as currency translations in certain tables may not be an arithmetic aggregation of the figures which preceded them.

Forward-Looking Statements

This Base Prospectus contains statements which constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, as amended. Such statements appear in a number of places in this Base Prospectus and reflect significant assumptions and subjective judgments by the Issuer and/or the LLP that may or may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans", or similar terms. Any projections, forecasts and estimates contained herein are forward-looking statements and are based upon certain assumptions. Projections are necessarily speculative in nature, and some or all of the assumptions underlying the projections may not materialize or may vary significantly from actual results. Consequently, future results may differ from the Issuer's and/or the LLP's expectations due to a variety of factors, including (but not limited to) the economic environment in the United Kingdom. Moreover, past financial performance should not be considered a reliable indicator of future performance and prospective purchasers of the Covered Bonds are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer and/or the LLP. The Dealers have not attempted to verify any such statements, nor do they make any representations, express or implied, with respect thereto.

None of the Dealers, the Arrangers, the Issuer, the LLP, the Agents, the Security Trustee, the Bond Trustee or any other party to the Programme Document has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Capitalised terms used in this document, unless otherwise indicated, have the meanings set out in this document. A glossary of defined terms appears at the back of this document (see "*Glossary*").

Enforceability of Judgments

The Issuer is a public company with limited liability incorporated in England and Wales. All of the Issuer's assets are located outside the United States. None of the officers and directors of the Issuer are residents of the United States. As a result, it may not be possible for investors to effect service of process

within the United States upon the Issuer or such persons not residing in the United States with respect to matters arising under the federal or state securities laws of the United States, or to enforce against them judgments of the courts of the United States predicated upon the civil liability provisions of such securities laws. There is doubt as to the enforceability in the United Kingdom, in original actions or in actions for the enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon such securities laws.

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PRINCIPAL CHARACTERISTICS OF THE COVERED BOND PROGRAMME

The information in this section is an overview of the principal characteristics of the Programme and does not purport to be complete. The information is taken from, and is qualified in its entirety by, the remainder of the Base Prospectus. Words and expressions defined elsewhere in this Base Prospectus shall have the same meanings in this overview. A glossary of certain defined terms used in this document is contained at the end of this Base Prospectus.

Issuer:	The Co-operative Bank plc.
Guarantor:	The Covered Bond LLP.
Regulated Covered Bonds:	The Issuer will apply for the Issuer and the Covered Bond Programme and for any Covered Bonds previously issued under the Programme at such time to be registered under the RCB Regulations.
Nature of eligible property:	Residential mortgage loans (which includes for the avoidance of doubt, Buy-to-Let Mortgage Loans) and their Related Security, Substitution Assets (up to the prescribed limit) and Authorised Investments.
Compliant with the Banking Consolidation Directive (Directive 2006/48/EC):	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 previously issued under the Programme at such time have been admitted to the register of regulated covered bonds under the RCB Regulations.
Location of eligible residential property underlying Mortgages:	England and Wales.
Maximum Loan to Value Ratio given credit under the Asset Coverage Test:	75 per cent.
Asset Coverage Test:	See page 84.
Amortisation Test:	See page 87.
Reserve Fund:	A Reserve Fund will be established if the Issuer's short term unsecured and unsubordinated obligations are downgraded below F1+ by Fitch or P-1 by Moody's to trap available Revenue Receipts.
Maximum Asset Percentage:	92 per cent.
Extendable Maturities:	Available.
Bullet Maturities:	Available.
Asset Monitor:	KPMG Audit Plc
Asset Segregation:	Yes.

DOCUMENTS INCORPORATED BY REFERENCE

The Co-operative Bank's Annual Reports and Financial Statements for the financial years ended 13 January 2007 and 12 January 2008, which have previously been published or are published simultaneously with this Base Prospectus, and have been submitted to and filed with the Financial Services Authority (the "FSA"), shall be deemed to be incorporated in, and to form part of, this Base Prospectus.

Any statement contained herein or any of the documents incorporated by reference in, and forming part of, this Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement (whether expressly, by implication or otherwise), provided that such modifying or superseding statement is made by way of an annual information update or supplements to this Base Prospectus pursuant to Articles 10 and 16 respectively of the Prospectus Directive. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus.

Where documents incorporated by reference in this Base Prospectus themselves incorporate further information or documents, such further information or documents will not form part of the Base Prospectus for the purposes of the Prospectus Directive.

A copy of this Base Prospectus will be available on www.cfs.co.uk. Copies of the documents incorporated by reference in this Base Prospectus will be available for viewing at the offices of the Issuer at 1 Balloon Street, Manchester M60 4EP. Information regarding the publication of annual results and of other documents incorporated by reference in this Base Prospectus can be obtained from the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/engb/pricesnews/marketsnews/. Please note that websites and urls referred to herein do not form part of this Base Prospectus. To the extent that any document incorporated by reference in this Base Prospectus incorporates further information by reference, such further information does not form part of this Base Prospectus.

If at any time the Issuer shall be required to prepare a supplement to the Base Prospectus pursuant to Section 87G of the FSMA, or to give effect to the provisions of Article 16(1) of the Prospectus Directive, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further base prospectus which, in respect of any subsequent issue of Covered Bonds to be listed on the Official List and admitted to trading on the Regulated Market of the London Stock Exchange, shall constitute a supplementary base prospectus as required by the FSA and Section 87G of the FSMA.

STRUCTURE OVERVIEW

The information in this section is an overview of the structure relating to the Programme and does not purport to be complete. The information is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus. Words and expressions defined elsewhere in this Base Prospectus shall have the same meanings in this overview. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area (and "EEA State"), no civil liability will attach to the Issuer or the LLP in any such Member State solely on the basis of this Structure Overview, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to the information contained in this Base Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated. A glossary of certain defined terms used in this document is contained at the end of this Base Prospectus.

Structure Diagram

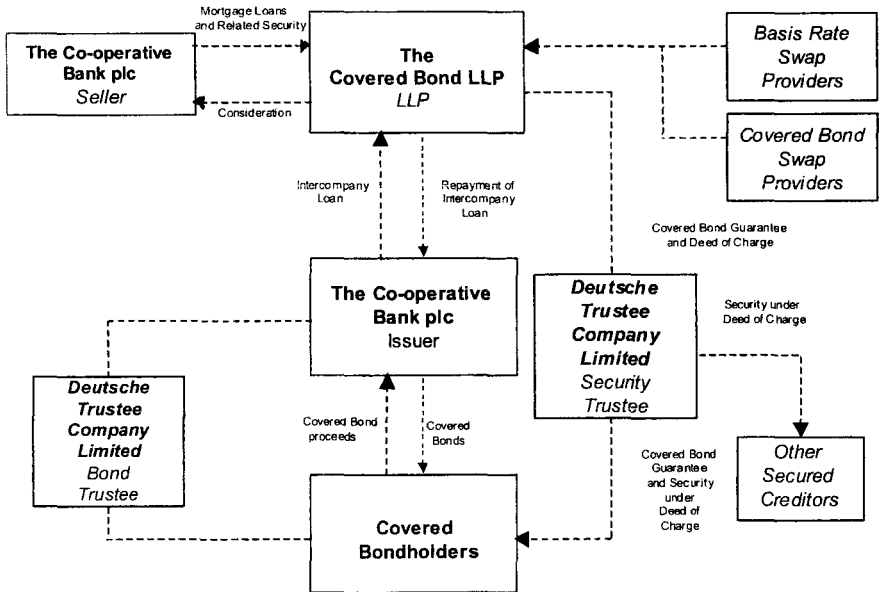
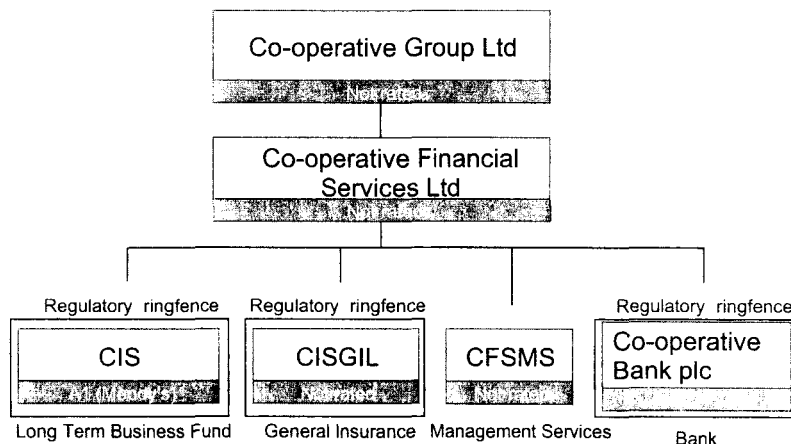


Diagram of Ownership Structure



The Programme

Programme

Pursuant to 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, unsubordinated and unconditional obligations of the Issuer.

Intercompany Loan Agreement

Pursuant to 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 (or, as applicable, the Sterling Equivalent thereof) on the Issue Date of each Series or, as applicable, each 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 under the Covered Bond Guarantee.

Covered Bond Guarantee

Pursuant to the terms of the Trust Deed, the LLP will provide the Covered Bond Guarantee which guarantees payments of interest and principal under the Covered Bonds and, in certain limited circumstances, any other payments due on an accelerated basis (see the definition of "Guaranteed Amounts" in the Glossary). The LLP will agree 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 an Issuer Acceleration Notice on the Issuer and a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) 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 the service of an Issuer Acceleration Notice on the Issuer (whereupon the Covered Bonds will become immediately due and payable as against the Issuer but not at such time as against the LLP).

An LLP Acceleration Notice may be served by the Bond Trustee on the Issuer and the LLP following the occurrence of an LLP Event of Default. If an LLP Acceleration Notice is served, the Covered Bonds will become immediately due and payable as against the Issuer (if not already immediately due and payable as

against the Issuer pursuant to the occurrence of an Issuer Event of Default) and also against the LLP 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 be obliged to use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time, after swapping the same into Sterling under the relevant Swap Agreement (to the extent necessary): (i) to purchase the Initial Mortgage Loan Portfolio and each New Mortgage Loan Portfolio, consisting of Mortgage 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 (as specified in the LLP Deed) to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test; and/or (iii) thereafter the LLP may use such proceeds (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or (iv) 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 (v) to make a deposit of all or part of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit). To protect the value of the Mortgage Loan 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. The Seller will, subject to the satisfaction of certain conditions (including the Eligibility Criteria) be permitted to assign and substitute further Mortgage Loans to the LLP from time to time.

Consideration

Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Mortgage Loans and their Related Security to the LLP on any Transfer Date will be a combination of: (i) a cash payment paid by the LLP to the Seller; and/or (ii) the Seller being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the Current Balance of the Mortgage Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP to the Seller at such time as consideration); and (iii) Deferred Consideration.

Security

To secure its obligations under the Covered Bond Guarantee and the Programme Documents to which it is a party, the LLP will grant security over the Charged Property (which consists principally of the LLP's interest in the Mortgage Loan Portfolio, the Substitution Assets, its rights under the Programme Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.

Cashflows

Prior to service of a Notice to Pay on the LLP, an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, under the Covered Bond Guarantee, 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/or to make certain payments to the Members in accordance with their respective entitlements to income under the LLP Deed. 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 Swap Providers and amounts (if any) to be credited to the Reserve Fund); and
- (b) apply Available Principal Receipts towards payments of principal due on the Term Advances and 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,

funding any liquidity that may be required in respect of Bullet Covered Bonds following any breach of the Pre-Maturity Test and acquiring New Mortgage Loans and their Related Security offered by the Seller to the LLP). For further details of the Pre-Acceleration Principal Priority of Payments, see "*Cashflows*" below.

Following service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and the Issuer and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP) the LLP will use all moneys (other than Third Party Amounts) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the LLP under 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 the Issuer 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 repayable (if not already due and payable following the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice on the Issuer) 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 in accordance with the Deed of Charge will become enforceable. Any moneys received by the Security Trustee following enforcement of the Security created by the LLP in accordance with the Deed of Charge will be distributed according to the Post-Enforcement Priority of Payments, as to which, see "*Cashflows*" below.

Asset Coverage

The Programme provides that, prior to the service of a Notice to Pay on the LLP, the assets of the LLP are subject to the Asset Coverage Test. 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 Mortgage 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 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 by the immediately succeeding Calculation Date will constitute an Issuer Event of Default (subject in each case to the Bond Trustee having actual knowledge or express notice of such Issuer Event of Default) 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 on the Issuer, the Bond Trustee must serve a Notice to Pay on the LLP.

Amortisation Test

In addition, on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice on the LLP and the Issuer and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each such Calculation Date, the Amortisation Test Aggregate Mortgage Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds on such Calculation Date. A breach of the Amortisation Test will constitute an LLP Event of Default and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) (subject in each case to the Bond Trustee having actual knowledge or express notice of such Issuer Event of Default) to serve an LLP Acceleration Notice declaring all the Covered Bonds immediately due and repayable and the Security Trustee shall be entitled (and, in certain circumstances, may be required) to enforce the Security over the Charged Property.

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 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 moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds), then payment of the unpaid amount pursuant to the Covered Bond Guarantee shall be automatically deferred (without an LLP Event of Default occurring as a result of such non payment) and shall be due and payable one year later on the Extended Due for Payment Date (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 will be payable on the Original Due for Payment Date and on the Extended Due for Payment Date in accordance with Condition 4 (*Interest*).

Pre-Maturity Test

The Programme provides that the Bullet Covered Bonds are subject to a Pre-Maturity Test on each Business Day prior to the occurrence of an Issuer Event of Default and/or an LLP Event of Default which is intended to provide liquidity for such Covered Bonds if the Issuer's credit ratings fall to a certain level within a certain period prior to the maturity of such Series of Bullet Covered Bonds. If the Pre-Maturity Test is breached within such specified period and certain actions are not taken, the Bond Trustee (subject to the Bond Trustee having actual knowledge or express notice of such breach and/or failure to take any such actions) will (following the service of an Issuer Acceleration Notice pursuant to condition 9) serve a Notice to Pay on the LLP to require it to sell and/or refinance Selected Mortgage Loans.

Administration

In its capacity as Administrator, The Co-operative Bank plc will enter into the Administration Agreement with the LLP and the Security Trustee, pursuant to which the Administrator will provide administrative services in respect of, *inter alia*, the Mortgage Loans and their Related Security sold by The Co-operative Bank (in its capacity as Seller) to the LLP.

Register of Regulated Covered Bonds

The Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and for the Covered Bonds issued under the Programme prior to the date of admission to be admitted to the register of regulated covered bonds, under the RCB Regulations. As of the date of this Base Prospectus, neither the Issuer nor the Programme is so registered or regulated. The timetable for recognition by the FSA is expected to take not more than six months from the date of the application being made or further information being provided to the extent any Covered Bonds are issued prior to approval from the FSA in relation to the RCB Regulations. Covered Bondholders will promptly be notified by the Issuer upon receipt from the FSA of its final decision on the application.

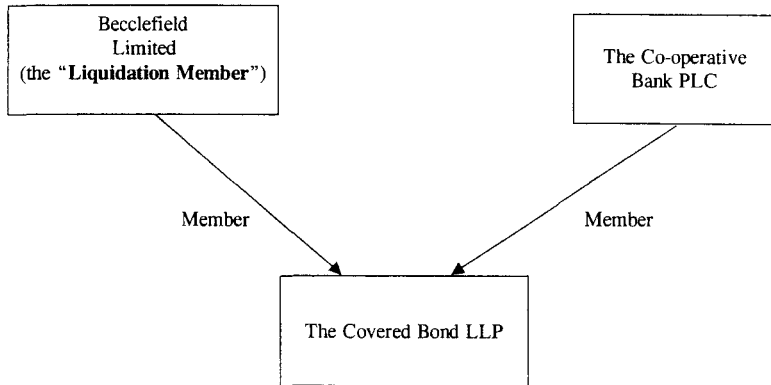
Further Information

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

Member Structure of the LLP

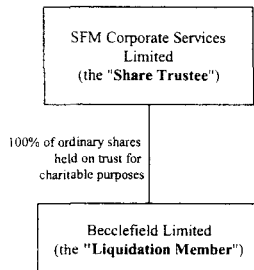
As at the Programme Date, the Members of the LLP are the Seller and the Liquidation Member. A New Member may be admitted to the LLP, subject to meeting certain conditions precedent and if such conditions precedent are satisfied, the Security Trustee will consent to such accession, without any liability to any person for doing so. 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) 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, the entire issued share capital of the Liquidation Member is held by SFM Corporate Services Limited as share trustee under the terms of a declaration of trust (the "Share Trust") for charitable purposes.



PROGRAMME OVERVIEW

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

The Parties

Issuer: The Co-operative Bank plc ("**The Co-operative Bank**") obtained clearing bank status in 1975 and was granted recognised status by the Bank of England under the terms of the Banking Act 1979. In 1981, The Co-operative Bank was re-registered as a public company with limited liability under the Companies Act 1980 and was re-registered again on 10 January 1993 with its present name. The Co-operative Bank is registered with the Registrar of Companies in England and Wales under registration number 0990937. The registered office of The Co-operative Bank is 1 Balloon Street, Manchester M60 4EP and the telephone contact number is +44 (0) 161 829 4475. The Co-operative Bank is authorised and regulated by the FSA.

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

The LLP: The Covered Bond LLP, a limited liability partnership incorporated in England and Wales (registered number OC338509). The Members of the LLP on the Programme Date are The Co-operative Bank and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, Mortgage Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee the Covered Bonds.

The LLP will hold the Mortgage Loan Portfolio and the other Charged Property in accordance with the terms of the Programme Documents. The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following the service of a Notice to Pay on the LLP or LLP Acceleration Notice on the LLP and the Issuer. The obligations of the LLP under such guarantee and the other Programme Documents to which it is a party are secured by the Charged Property from time to time of the LLP and recourse against the LLP is limited to such Charged Property.

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

Dealers: ABN AMRO Bank N.V., London Branch, The Royal Bank of Scotland plc and UBS Limited and any other Dealers appointed from time to time in accordance with the Programme Agreement.

Seller: The Co-operative Bank will be the Seller pursuant to the terms of the Mortgage Sale Agreement to be entered into on the Programme Date between, *inter alios*, The Co-operative Bank in its capacity as Seller, the Security Trustee and the LLP.

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

- Administrator:** The Co-operative Bank will be appointed as the Administrator pursuant to the terms of an Administration Agreement between, *inter alios*, The Co-operative Bank in its capacity as Administrator, the Security Trustee and the LLP.
- Pursuant to the terms of the Administration Agreement, the then Administrator agrees with, *inter alios*, the LLP and the Seller, on behalf of the LLP, to perform certain administrative functions in respect of the Mortgage Loans in the Mortgage Loan Portfolio, including collecting payments under the Mortgage Loans and taking steps to recover arrears.
- Cash Manager:** The Co-operative Bank will be appointed to provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test, the Amortisation Test and the Pre-Maturity Test pursuant to the terms of the Cash Management Agreement entered into on the Programme Date between, *inter alios*, The Co-operative Bank in its capacity as Cash Manager, the Security Trustee and the LLP.
- Principal Paying Agent and Agent Bank:** Deutsche Bank AG, London Branch, acting through its offices at Winchester House, 1 Great Winchester Street, London EC2N 2DB, will be appointed pursuant to the Agency Agreement as issuing and principal paying agent and agent bank.
- Exchange Agent and Transfer Agent:** Deutsche Bank Trust Company Americas will be appointed pursuant to the Agency Agreement as Exchange Agent and Transfer Agent.
- Bond Trustee:** Deutsche Trustee Company Limited, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, will be appointed to act as Bond Trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, *inter alia*, the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the terms of the Trust Deed.
- Registrar:** Deutsche Bank Trust Company Americas will be appointed pursuant to the Agency Agreement as Registrar.
- Security Trustee:** Deutsche Trustee Company Limited whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB will be appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee for itself and the Bond Trustee (for itself and on behalf of the Covered Bondholders and other Secured Creditors) under the Deed of Charge.
- Asset Monitor:** KPMG Audit Plc, whose registered office is at 8 Salisbury Square, London EC4Y 8BB acting through its office at 1 Canada Square, Canary Wharf, London E14 5AG, has been appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.
- Covered Bond Swap Provider:** Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP, as defined in the Applicable Final

Terms, to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Mortgage Loans and the Basis Swap Agreement and amounts payable by the LLP under the Intercompany Loan Agreement or, if a Notice to Pay or an LLP Acceleration Notice has been served, under the Covered Bond Guarantee in respect of the Covered Bonds 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, transfer the Covered Bond Swaps to an appropriately rated entity or put in place some other arrangement in order to maintain the then current ratings of the Covered Bonds.

- Basis Rate Swap Provider:** The Co-operative Bank will be the basis rate swap provider in relation to cashflows relating to the Mortgage Loans pursuant to the terms of a swap agreement to be entered into on or about the Programme Date between the LLP and The Co-operative Bank as basis rate swap provider.
- GIC Provider:** The Co-operative Bank will be appointed the GIC Provider to the LLP pursuant to the terms of the Bank Account Agreement.
- Account Bank:** The Co-operative Bank plc will be appointed as the Account Bank to the LLP pursuant to the terms of the Bank Account Agreement.
- Liquidation Member:** Becclefield Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered number 6569572). All the Liquidation Member's share capital is held by (or by nominees for) the Share Trustee. The shares held by the Share Trustee are pursuant to the terms of a trust established under English law held pursuant to the terms of a declaration of trust (the "**Share Trust**") dated 18 August 2008, for any trust foundation or company established exclusively for charitable purposes.
- Share Trustee:** SFM Corporate Services Limited, having its registered office at 35 Great St Helen's, London EC3A 6AP.
- Corporate Services Providers:** Structured Finance Management Limited, having its registered office at 35 Great St Helen's, London EC3A 6AP, will be appointed to provide certain corporate services to the Liquidation Member pursuant to the Corporate Services Agreement.
- The Covered Bonds*
- Certain Restrictions:** Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*").
- Programme Size:** Up to £3 billion (or its equivalent in other currencies determined as described in the Programme Agreement)

outstanding at any time as described herein or in the relevant Final Terms. 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 "*Subscription and Sale and Transfer and Selling Restrictions*" below.
- Specified Currencies:** Subject to any applicable legal or regulatory restrictions, Covered Bonds may be issued in such currency or currencies as may be agreed from time to time by the Issuer, the Relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the Applicable 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 such Final Terms.
- 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) (in each case as set out in the Applicable Final Terms).
- Floating Rate Covered Bonds:** Floating Rate Covered Bonds will bear interest at a rate determined:
- (i) on the same basis as the floating rate under a notional basis rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or
 - (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
 - (iii) on such other basis as may be agreed between the Issuer and the Relevant Dealer(s),
- as set out in the Applicable 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 set out 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 set out 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).
Bullet Covered Bonds	Covered Bonds which are scheduled to be redeemed in full on the Final Maturity Date therefor and without any provision for scheduled redemption other than on the Final Maturity Date.
Rating Agency Confirmation:	The issuance of each Series of Covered Bonds shall be subject to the then current ratings for any outstanding Covered Bonds not being adversely affected by the issuance of such types of Covered Bonds.
Maturities:	Subject to compliance with all applicable legal, regulatory and/or central bank requirements, Covered Bonds may be issued with such maturities as may be agreed between the Issuer and the Relevant Dealer(s) (as set out in the Applicable Final Terms).
Redemption:	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 upon giving notice to the Covered Bondholders, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the Relevant Dealer(s) (as set out in the Applicable Final Terms).

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.

Final Redemption: If a Series of Covered Bonds has not already been redeemed in full in accordance with the Conditions, those Covered Bonds will be finally redeemed at their respective Principal Amount Outstanding (plus any accrued interest thereon) on the Final Maturity Date for such Covered Bonds as set out in the Applicable Final Terms.

Mandatory Redemption: Each Series of Covered Bonds will be subject to mandatory early redemption in part or in full in accordance with the Conditions of such Covered Bonds.

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 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 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 moneys to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient moneys to pay in part 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) (*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.

Denomination of Covered Bonds: Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the Relevant Dealer(s) (as set out in the Applicable Final Terms). Except in certain limited circumstances, the minimum denomination of each 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.

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

Kingdom taxes 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 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 under the Covered Bond Guarantee. The LLP is under no obligation to make payment in respect of the Guaranteed Amounts when Due for Payment unless (a) an Issuer Event of Default has occurred, an Issuer Acceleration Notice is served on the Issuer, and a Notice to Pay is served on the LLP or, (b) an LLP Event of Default has occurred and an LLP Acceleration Notice is served on the LLP and the Issuer. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP and the Guaranteed Amounts will become immediately due and payable 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 Charged Property from time to time of the LLP and recourse against the LLP is limited to such Charged Property. If an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds, then following the service of an Issuer Acceleration Notice the Covered Bonds of all Series outstanding will accelerate at the same time against the Issuer but will be subject to, and have the benefit of, payments made by the LLP under the Covered Bond Guarantee.

Ratings:

Each Series of Covered Bonds to be issued under the Programme will, unless otherwise specified in the Applicable Final Terms, be rated "AAA" by Fitch and "Aaa" by 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 Agency.

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 Regulated Market of the London Stock Exchange. 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.

U.S. Federal Income Tax and ERISA

It is not anticipated that the Covered Bonds will be offered to U.S. Persons, however, if the Issuer determines to offer the Registered Global Covered Bonds to U.S. Persons at any time in the future, U.S. Federal Tax disclosure and ERISA disclosure will be made available in a Supplemental Prospectus or Final Terms.

Regulated Covered Bonds Application:

Application will be made to the FSA for the Issuer and the Programme and for the Covered Bonds issued under the Programme prior to the date of admission to be admitted to the register of issuers and the register of regulated covered bonds, as appropriate, under the RCB Regulations.

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, Japan, the United Kingdom and the European Economic Area. 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

The Issuer and the LLP believe that the following factors may affect their ability to fulfil their respective obligations under the Covered Bonds. All of these factors are contingencies which may or may not occur and the Issuer and the LLP are not in a position to express a view on the likelihood of any such contingency occurring.

This section of the Base Prospectus is divided into three main sections – General Risk Factors, Risk Factors relating to the Issuer and Risk Factors relating to the LLP. Factors which the Issuer and the LLP believe may be material for the purpose of assessing the market risks associated with the Covered Bonds are also described below.

Each of the Issuer and the LLP believes that the factors described below represent the principal risks inherent in investing in the Covered Bonds, but the inability of the Issuer or the LLP to pay interest, principal or other amounts on or in connection with the Covered Bonds may occur for other reasons and the Issuer and the LLP do not represent that the statements below regarding the risks of holding the Covered Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

(1) 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 and any applicable statutory provisions) equally with all other present and future 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 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 and the Issuer 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 will constitute an LLP Event of Default which will 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 entitles the Security Trustee to enforce the Security subject, in each case, to the Bond Trustee or the Security Trustee, as the case may be, being indemnified and/or secured and/or pre-funded to its satisfaction.

Obligations under the Covered Bonds

The Covered Bonds will not represent an obligation or be the responsibility of any of the Dealers, the Arrangers, the Bond Trustee, the Security Trustee, the Agents 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 (in which case they will form part of such Series) or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series).

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the security granted by the LLP under the Deed of Charge. Prior to the occurrence of an LLP Event of Default, if an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds, then, following the service of an Issuer Acceleration Notice on the Issuer the Covered Bonds of all Series

then outstanding will accelerate as against the Issuer 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 on the LLP) **provided that** the LLP will be obliged, under the terms of the Covered Bond Guarantee, to make such payments only on the dates on which they were originally due. If an LLP Event of Default occurs in respect of a particular Series of Covered Bonds, then following the service of an LLP Acceleration Notice, the Covered Bonds of all Series outstanding will become immediately due and payable as against the Issuer (if not already immediately due and payable following the occurrence of an Issuer Event of Default and the service on the Issuer of an Issuer Acceleration Notice) and also against the LLP 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 existing Covered Bondholders:

- (a) 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 pursuant to the Swap Agreements, if necessary) (i) to purchase Mortgage 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 (as set out in the LLP Deed) to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the requirements of the Asset Coverage Test; and/or (iii) thereafter the LLP may use such proceeds (subject to complying with the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulation and the Asset Coverage Test) to make a Capital Distribution to a Member; and/or (iv) 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 (v) to make a deposit of all or part of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the Reserve Fund Required Amount); and

(subject to the waiver of such conditions by the Relevant Dealer(s)),

- (b) the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
- (c) such further issue must not adversely affect the then current ratings of the existing Covered Bonds.

The Seller will, subject to the satisfaction of certain conditions (including the Eligibility Criteria) be permitted to assign and substitute further Mortgage Loans and their Related Security to the LLP from time to time.

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

In the exercise of its powers, trusts, authorities and discretions the Security Trustee shall only have regard to the interests of the Covered Bondholders whilst any of the Covered Bonds remain outstanding and shall not be required to have regard to the interests of any other Secured Creditor whilst any amount remains owing to any Covered Bondholder. In the exercise of its powers, trusts, authorities and discretions, the Security Trustee may not act on behalf of the Seller.

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 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

If an Extended Due for Payment Date is set out in the Final Terms for a Series of Covered Bonds and (a) the Issuer fails to pay, in full, the Final Redemption Amount for such Covered Bonds on the Final Maturity Date for such Covered Bonds (subject to the applicable grace period) and (b) following the service of a Notice to Pay on the LLP, the LLP fails to pay, in full, the Guaranteed Amount corresponding to the Final Redemption Amount by no later than the Extension Determination Date for such Covered Bonds in accordance with the terms of Covered Bond Guarantee (for example because, following the service of a Notice to Pay on the LLP, there are insufficient moneys available to it to pay, in accordance with the Guarantee Priority of Payments, such Guaranteed Amounts in full), then (subject to no LLP Event of Default having occurred) the obligation of the LLP to pay the unpaid portion of such Guaranteed Amount, or any part thereof will be deferred (and an LLP Event of Default shall not occur as a result of the failure by the LLP to pay such Guaranteed Amount in full on the Extension Determination Date) until the first Interest Payment Date thereafter on which sufficient moneys are available (after providing for liabilities ranking in priority thereto or *pari passu* therewith subject to and in accordance with the Guarantee Priority of Payments) to fund the payment of such unpaid portion, or any part thereof, **provided that** such payment shall not be deferred beyond the Extended Due for Payment Date when the unpaid portion of such Guaranteed Amount (together with accrued interest) shall be due and payable. Interest will accrue on any such unpaid portion during such extended period and will be due and payable on each Interest Payment Date up to, and including, the Extended Due for Payment Date in accordance with Condition 4 (*Interest*) of the Conditions 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 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 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. Such deferred payment as referred to above may result in a delay of payments of principal on the relevant Covered Bonds.

If applicable, the Extended Due for Payment Date for a Series of Covered Bonds will be set out in the Applicable Final Terms for such Covered Bonds and will occur on the Interest Payment Date falling on or immediately preceding the date which is the first anniversary of the Final Maturity Date for such Covered Bonds.

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 Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield.

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 general 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.

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:

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

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.

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:

- (a) *Covered Bonds subject to optional redemption by the Issuer*

If Issuer Call is specified as applicable in the relevant Final Terms, the Issuer may elect to redeem all or some of the Covered Bonds at the Optional Redemption Amount (specified in the relevant Final Terms) plus Accrued Interest.

An optional redemption feature of Covered Bonds is likely to limit their market value. 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.

- (b) *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 Fixed Rate Covered Bonds.

(c) *Index Linked Covered Bonds and Dual Currency 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 principal or 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:

- (i) the market price of such Covered Bonds may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency from that expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) 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 are likely to be magnified; and
- (vii) 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 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 Covered Bonds and the suitability of such Covered Bonds in light of their particular circumstances.

(d) *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.

(e) *Variable rate Covered Bonds with a multiplier or other leverage factor*

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

(f) *Inverse Floating Rate Covered Bonds*

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

(g) *Fixed/Floating Rate Covered Bonds*

Fixed/Floating Rate Covered Bonds may 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 Fixed/Floating Rate Covered Bonds may be less favourable than then 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 then prevailing rates on its Covered Bonds.

(h) *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.

Ratings of the Covered Bonds

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

The expected ratings of a Series of Covered Bonds will be set out in the Applicable Final Terms for such 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 or qualified, the market value of the Covered Bonds may be reduced. A 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 the structure, market, the 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 Programme Documents provide that, in certain circumstances, the Issuer must, and the Bond Trustee or the Security Trustee may, obtain and rely on confirmation from the Rating Agencies that any particular action proposed to be taken by the Issuer, the LLP, the Seller, the Administrator, 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 Administrator, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Programme Document is either (i) permitted by the terms of the relevant Programme 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, the Secured Creditors and 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, 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 securities 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 Bond Trustee and the Security Trustee may agree to modifications to the Programme Documents without, respectively, the Covered Bondholders or other Secured Creditors' prior consent

Pursuant to the terms of the Trust Deed and the Deed of Charge, the Bond Trustee and the Security Trustee may, without the consent or sanction of any of the Covered Bondholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modifications to or waive or authorise any breach or proposed breach in respect of the Programme Documents or the Conditions of the Covered Bonds or determine without any such consent 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:

- (a) **provided that** the Bond Trustee is of the opinion that such modification (save in relation to a Series Reserved Matter), waiver or authorisation or determination will not be materially prejudicial to the interests of any of the Covered Bondholders; or
- (b) **provided that** any such modification is, in the opinion of the Bond Trustee (i) is made to correct a manifest error or (ii) is of a formal, minor or technical nature or is made to comply with mandatory provisions of law; or
- (c) in the case of the Security Trustee (save as otherwise provided in the Deed of Charge) only if so directed by (a) the Bond Trustee, so long as there are Covered Bonds outstanding or (b) all Secured Creditors if there are no Covered Bonds,

and **provided that**, prior to the Bond Trustee agreeing to any such modification, waiver or authorisation or determination, the Issuer must send a certificate signed by two authorised signatories of the Issuer to the Bond Trustee:

- (a) that such modification, waiver or authorisation, as applicable, would not result in a breach of the RCB Regulations and/or the Issuer, the Programme and/or any Covered Bonds ceasing to be registered under the RCB Regulations; and
- (b) that either: (i) such modification waiver or authorisation would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or (ii) if such modification, waiver or authorisation 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 Programme 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 Programme 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 Programme Documents and/or the 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. 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, and without any liability to any person for so doing, 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 (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 of 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. 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 Programme Documents and/or the Conditions of the Covered Bonds.

Certain decisions of 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 the holders of all Covered Bonds of all Series then outstanding and therefore the holders of a single Series of Covered Bonds may not be able to give any directions in relation to any enforcement action to the Bond Trustee or the Security Trustee without the agreement of the holders of other outstanding Series of Covered Bonds.

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 Mortgage Loan Portfolio or any part thereof or pending such realisation (or if the Mortgage Loan Portfolio or any part thereof cannot be sold), the ability of the LLP to make payments of interest and principal on the Covered Bonds under the Covered Bond Guarantee.

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 change 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 Mortgage 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.

The RCB Regulations

The Issuer will apply to the FSA for admission to the register of issuers and for the Programme and for any Covered Bonds issued under the Programme prior to the date of admission to be admitted to the register of regulated covered bonds under the RCB Regulations. As at the date of this Base Prospectus, neither the Issuer nor the Programme will be so registered or regulated. The exact timetable for assessment by the FSA of the Issuer's application is unknown and although the RCB Regulations provide that the FSA must notify its decision on an application within six months of the application being made, there is no assurance that the assessment process will not take longer. Furthermore, where the FSA requests additional information from the Issuer within such six-month period, the FSA is permitted six months from the date of receipt of such additional information to notify its decision on an application. The Issuer considers that its application for admission should be accepted by the FSA, however, the FSA holds considerable discretion in this regard and certain aspects of the new regime are unclear and therefore, no assurance can be given that the FSA will accept the Issuer's application.

Furthermore, while the RCB Regulations are intended to meet the requirements set out in Article 22(4) of the UCITS Directive, it is not certain that the RCB Regulations meet such requirements. Accordingly, there is no guarantee that admission of the Programme and/or any Covered Bonds previously issued under the Programme to the register of covered bonds kept by the FSA will confer on Covered Bondholders any of the benefits associated with UCITS Directive-compliant covered bonds.

While the RCB Regulations have been tailored to accommodate certain aspects of existing UK covered bond structures, certain changes are required to such structures to meet the requirements of the RCB

Regulations. Covered Bondholders should be aware that the structural features included in the Programme depart from the market standard of covered bonds issued to date by issuers of this type.

In addition, the RCB Regulations and the RCB Sourcebook impose certain new ongoing obligations and liabilities on both the Issuer and the LLP. In this regard, the LLP is required to, amongst other things, following the insolvency of the Issuer, make arrangements for the maintenance and administration of the asset pool, to ensure compliance with certain asset capability and quality related requirements. Following an Issuer Event of Default, Mortgage Loans and their Related Security will not be transferred to the LLP. This may affect the ability of the LLP to comply with such maintenance, administration and other quality related requirements.

The FSA has the authority to 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. Additionally, 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). In May 2008, the FSA published draft proposals setting out its enforcement approach in relation to decisions on applications for registration, material changes to the terms of regulated covered bond and a change of owner and the imposition of financial penalties, amongst other matters. However, to date there is no example and/or clarity as to how the FSA will exercise the discretionary powers that it has been given under the RCB Regulations. There is a risk that any such enforcement actions by the FSA may reduce the amounts available to pay Covered Bondholders. In particular, a winding up of the LLP, prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice may have an adverse effect on the ability of the Issuer to make payments under the Covered Bonds.

With respect to the risks referred to above, see also the sections "*Cashflows*" and "*Description of the RCB Regulations*" below for further details.

Liquidity of Secondary Market in Covered Bonds issued prior to approval of the Issuer's application under the RCB Regulations

In the event that (i) Covered Bonds are issued under the Programme prior to the FSA's decision on the application for admission of the Issuer and the Programme to the relevant registers (the "**RCB Registers**") under the RCB Regulations (such Covered Bonds, the "**Pre-Approval Covered Bonds**"), and (ii) the Issuer and the Programme are subsequently so admitted to such RCB Registers but only following the satisfaction of certain specified conditions to such admission which involve an amendment to the Conditions of any Covered Bonds and/or any other Programme Document relating to the Programme, there is a risk that such Pre-Approval Covered Bonds will not be admitted to the relevant RCB Register until such time as any such required amendments to the Conditions and/or the Programme Documents relating to the Pre-Approval Covered Bonds are made. Such amendments may be subject to approval by the Bond Trustee and the Security Trustee and, depending on their materiality, may require wider approval by holders of the Pre-Approval Covered Bonds, and there is the risk that any such amendment might not be made at all if the relevant approvals are not obtained. Further, in the event that any Pre-Approval Covered Bonds are outstanding, and have not been subsequently admitted to the relevant RCB Register, at a time when Covered Bonds are issued (either by the Issuer or any other covered bond issuer) following the relevant approval and admission by the FSA under the RCB Regulation (such Covered Bonds, the "**RCB Covered Bonds**"), there is a risk that a parallel market could exist in respect of such Pre-Approval Covered Bonds and RCB Covered Bonds respectively, which could adversely affect the market value of any such Pre-Approval Covered Bonds and/or the liquidity of the secondary market in respect thereof.

Expenses of insolvency officeholders

Under the RCB Regulations, following the realisation of the Security and/or a winding-up of the LLP, certain costs and expenses of an insolvency officeholder in respect of the LLP (including a liquidator, administrator or an administrative receiver) are payable out of the fixed and floating charge assets of the LLP in priority to the claims of the other Secured Creditors (including the Covered Bondholders) with respect to both fixed and floating charge realisations. It appears that these costs and expenses would include costs incurred by the officeholder in relation to certain senior service providers and hedge

counterparties and also general expenses incurred in a winding up, administration, administrative receivership or receivership 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 or winding-up only rank ahead of unsecured debts and the claims of a holder of a floating charge (but not the holders of a fixed charge).

While 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 each Secured Creditor agrees that if it receives any amounts in respect of any secured liabilities owed to it other than in accordance with the provisions of the Deed of Charge (including the Post-Enforcement Priorities of Payment set out therein) 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 the Post-Enforcement Priority of Payments set out in the Deed of Charge and referred to under the section "*Cashflows*" below, there is a risk that in certain circumstances the relevant provisions of the RCB Regulations may result in a reduction in the amounts available to pay Covered Bondholders.

Integral multiples of less than €50,000

Covered Bonds which are admitted to trading on a regulated market in the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive are required to have a minimum denomination of €50,000 (or, where the Specified Currency is not Euro, its equivalent in the Specified Currency). In relation to any issue of Covered Bonds which have a denomination consisting of the Minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Covered Bonds may be traded in amounts in excess of €50,000 (or its equivalent) that are not integral multiples of €50,000 (or its equivalent). In such a case a Covered Bondholder who, as a result of trading such amounts, holds a principal amount of less than the Minimum Specified Denomination may not receive Definitive Covered Bonds (should Definitive Covered Bonds be printed) and may need to purchase a principal amount of Covered Bonds such that, its holding is an integral multiple of the Minimum Specified Denomination.

If Definitive Covered Bonds are issued, Covered Bondholders should be aware that Definitive Covered Bonds which have a denomination that is not an integral multiple of the Minimum Specified Denomination may be illiquid and difficult to trade.

(2) Risk Factors Relating To The Issuer

Economic Activity in the United Kingdom

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

United Kingdom Housing Market

One of the Issuer's main activities is mortgage lending in the United Kingdom with loans secured against residential property. Residential mortgages constituted approximately 25% of the Issuer's assets and there was a significant property and construction portfolio of £1.3 billion on the Issuer's corporate lending book as at 12 January 2008.

A downturn in the UK economy could have an adverse effect on the housing and property market particularly if this leads to increased unemployment or higher interest rates. A fall in property prices could result in lenders suffering losses on loans that have defaulted. This might have consequences for the Issuer's funding costs and credit ratings if there were deemed to have been a material deterioration in the credit quality of the mortgage and property portfolio, notwithstanding the fact that the Issuer's very low loan to value ratios in both personal and corporate secured lending provides some degree of protection against a significant fall in property values before capital is eroded.

Personal Financial Services Market

The UK housing and savings markets are competitive. Developments and increased competition could have an adverse impact on the Issuer's financial position. Unsecured personal lending constituted approximately 14% of Bank's assets at 12 January 2008. Increasing levels of consumer indebtedness and personal bankruptcies experienced market wide could have an adverse impact on the Issuer's financial position and reputation, via increased impairment losses.

The Issuer strives to remain up to date with market developments, and to differentiate itself from its competitors, and has strategically reduced its exposure to the unsecured personal lending market. The Issuer's credit assessment and arrears processes are subject to continuous review and improvement.

Risks Related to the business of the Issuer

As a result of its business activities, the Issuer is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk, liquidity risk and reputational and group risk, as described more fully below. Failure to control these risks could result in material adverse effects on the financial performance and reputation of the Issuer. The Issuer has implemented risk management methods to mitigate and control credit risk, market risk, operational risk and liquidity risk and other risks to which the Issuer is exposed, and exposures are constantly measured and monitored.

- Credit Risk

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the businesses of the Issuer. The Issuer's Credit Risk Management Policies are approved by its Board annually and specify credit management standards, including country, sector and counterparty limits, along with delegated authorities. The Board's Exposures Committee sanctions larger corporate facilities. There can be no assurance that such Credit Risk Management Policies will be effective to identify credit risks.

Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in the economic conditions in the United Kingdom or globally, or arising from systemic risks in the financial markets, could affect the recoverability and value of the assets of the Issuer and require an increase in the allowance for its impairment losses on credit exposures and other provisions. The Issuer is at risk to spread widening and ultimately defaults on its significant amount of inter bank exposures, mitigated through credit assessment and limits procedures.

Over the past two years and as a result of, among other things, the increased cost of funds for lenders has resulted in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future. However, the Issuer, at the underwriting stage of every mortgage loan, stresses the interest rates being offered to borrowers at The Co-operative Bank's standard variable rate.

Borrowers seeking to avoid these monthly payments by refinancing their mortgage loans may no longer be able to find 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 or in combination with other economic factors, may contribute to higher delinquency rates and losses for mortgage lenders.

- Market Risk

Market risk arises from the effect of changes in market prices of financial instruments, on income derived from the structure of the balance sheet, execution of inter-bank business and proprietary trading. The majority of market risk for the Issuer arises from changes in interest rates as it does not trade in equities or commodities and has limited foreign currency activities. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs.

The Issuer's Treasury foreign exchange activities are primarily to provide a service in meeting the foreign exchange requirements of customers and maintaining liquidity in euros and dollars by raising funds and investing these to generate a return. The Issuer also performs limited intra-day trading and overnight positioning in major currencies to generate incremental income. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing.

The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios.

The Issuer has implemented risk management to mitigate and control the market risks to which it is exposed, and exposures are regularly measured and monitored. However, it is difficult to predict accurately changes in economic and market conditions, and the effects that these changes could have on the Issuer's financial performance and business operations.

- Operational Risk

The Issuer's businesses are dependant on the ability to process a very large number of transactions efficiently and accurately. Operational risk arises from the potential for key systems failures, breaches in internal controls, or from external events resulting in financial loss or reputational damage. Key operational risks include outsourced contracts, compliance (with legal and regulatory requirements), a decline in customer service levels, financial crime, prolonged supplier disruption, payment & information systems failures, and change management.

Specifically, given the integration of The Co-operative Bank and the Co-operative Insurance Society businesses, and the ongoing business transformation to integrate and improve the service offerings, competitiveness, and efficiency of Co-operative Financial Services, there is a substantial change programme in place monitored by a dedicated Change Risk & Governance team.

Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices which include formal internal control procedures, training, and segregation of duties, delegated authorities and contingency planning. However, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List or that the Issuer and its consolidated subsidiaries will be unable to comply with their obligations as supervised firms regulated by the FSA.

- Liquidity Risk

Liquidity risk arises from the timing of cash flows generated from the Issuer's assets, liabilities and off-balance sheet instruments. The Issuer's liquidity management policies are reviewed and approved annually by the Risk Management Committee and compliance is reviewed against these policies monthly by its Asset and Liability Committee (ALCO).

In line with other mortgage lenders, the Issuer utilises wholesale funding sources (including accessing the international debt capital markets). Since the beginning of August 2007, the wholesale funding markets have experienced disruption. Such disruptions have resulted in an increase in the cost of wholesale funds to which the Issuer has not been immune, though it has not paid above market for such funding. There can be no assurance that the wholesale funding markets will not deteriorate further, or that the Issuer's cost of funding will not increase further, which may have an adverse effect on the Issuer's ability to meet its obligations when they fall due.

The Issuer has implemented risk management methods to mitigate and control credit risk, market risk, operational risk and liquidity risk and other risks to which the Issuer is exposed, and such exposures are constantly measured and monitored.

- Reputational and Group Risk

As part of the Co-operative Group, the established ethical stance of the Issuer and the integrity of the Issuer's reputation are important factors in attracting and retaining a significant percentage of the Bank's

customers. Any adverse perception of the image of any member of The Co-operative Group by its customers, or more widely by its counterparties, shareholders, investors or regulators could have an adverse impact on the capital, earnings and balance sheet of the Issuer.

The Issuer is part of a relatively diverse group of companies whose businesses include, amongst other things, financial services, food and non-food retailing, farming, funerals, travel and pharmacy. Given the diverse nature of The Co-operative Group's businesses, there is a contagion risk that losses or liabilities from the businesses of one part of the group could deplete or divert financial resources from the Issuer.

Impact of Strategic Decisions taken by The Co-operative Financial Services Group

The Co-operative Financial Services Group devotes substantial management and planning resources to the development of strategic plans for its businesses, including the ability to provide suitable products and services to its customers. If the strategic plans do not deliver as expected, The Co-operative Financial Services Group's earnings could grow more slowly or decline.

Regulatory compliance risk

Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial service industry. Non compliance could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate.

Details of the current regulatory proceedings in which the Issuer is involved are set out below under "*The Issuer — Competition and regulatory matters*". It is not possible for the Issuer to predict what other similar regulatory proceedings may arise in the future.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Issuer will be unable to comply with its obligations as a supervised firm regulated by the FSA.

Impact of Regulatory Changes

The Issuer is subject to laws, regulations, administrative actions and policies affecting financial institutions in the United Kingdom. Changes in supervision and regulation in the United Kingdom could materially affect the business of the Issuer, the products and services offered or the value of its assets. Although the Issuer works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Issuer.

Exchange rate risks and exchange controls

Subject to any applicable legal or regulatory restrictions, the Issuer will pay principal and interest on the notes and other securities in euro, Sterling, U.S. Dollars and such other currency or currencies as may be agreed from time to time by the Issuer and specified in the Applicable Final Terms (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in currency or currency units (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the notes, (2) the Investor's Currency-equivalent value of the principal payable on the notes and (3) the Investor's Currency equivalent market value of the notes and other securities.

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 on the notes.

Banking (Special Provisions) Act 2008

Under the Banking (Special Provisions) Act 2008, HM Treasury has been given certain powers in relation to authorised UK deposit takers. These comprise entities incorporated in or formed under the laws of any

part of the United Kingdom who have permission to accept deposits under Part 4 of FSMA 2000 (or their UK subsidiaries). These powers are currently enacted to last until 21 February 2009 and are capable of having retrospective effect. They can only be exercised in certain circumstances namely: (i) to maintain the stability of the UK financial system in circumstances where HM Treasury considers that there would be a serious threat to its stability; or (ii) to protect the public interest in circumstances where financial assistance has been provided by HM Treasury to the deposit taker for the purpose of maintaining the stability of the UK financial system.

The powers are wide ranging and may entail divesting the authorised UK deposit-taker of its assets or transferring ownership of any securities issued by the authorised UK deposit-taker irrespective of any encumbrance or trust over them. Accordingly the enforceability of the obligations of The Co-operative Bank could be affected if HM Treasury were to exercise such powers.

If such powers were to be exercised HM Treasury would be required to make provision for compensation or consideration (depending upon whether a public or private entity has acquired the asset) to be paid, in the case of securities, to the holder of the assets, which may not be the encumbrancer.

It should also be noted that the Government has indicated its intention to bring forward a Banking Reform Bill during 2008, which, according to the Government's consultation papers published in January and July 2008, is likely to provide, *inter alia*, for powers of the FSA, HM Treasury and the Bank of England to direct and accelerate transfers of banking business to a third party, to take control of a failing bank through a "bridge bank" and to take temporary ownership of all or part of a bank as a last resort.

(3) Risk Factors Relating To The LLP

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

Subsequent to the occurrence of an Issuer Event of Default, the Bond Trustee may, but is not obliged to, serve an Issuer Acceleration Notice on the Issuer 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) (*Issuer Events of Default*) and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction. Following service of an Issuer Acceleration Notice on the Issuer, a Notice to Pay will be served by the Bond Trustee on the LLP. 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.

A Notice to Pay will also be served by the Bond Trustee on the LLP following a breach of the Pre-Maturity Test (subject to the Bond Trustee having actual knowledge or express notice of such breach), if certain actions are not taken within a specified period. However, service of a Notice to Pay under such circumstances will not oblige the LLP to make payment under the Covered Bond Guarantee until an Issuer Event of Default has occurred and an Issuer Acceleration Notice has been served.

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 and the Issuer 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 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 Covered Bondholders will receive amounts from the LLP to the extent that there are sufficient funds available following the application of funds in accordance with the Post-Enforcement Priority of Payments 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 moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the LLP 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 (following service of an LLP Acceleration Notice) unconditional and irrevocable 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.

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

Subject as provided in Condition 9 and the Trust Deed, following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice on the Issuer, all amounts payable under the Covered Bonds will be accelerated by the Bond Trustee as against the Issuer following which a Notice to Pay will be served by the Bond Trustee on the LLP. A Notice to Pay will also be served by the Bond Trustee on the LLP following a breach of the Pre-Maturity Test, if certain actions are not taken within a specified period and an Issuer Acceleration Notice has been served in accordance with Condition 9. However, service of a Notice to Pay under such circumstances will not oblige the LLP to make payment under the Covered Bond Guarantee until an Issuer Event of Default has occurred and an Issuer Acceleration Notice has been served. The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on (i) the realisable value of Selected Mortgage Loans and their Related Security in the Mortgage Loan Portfolio, (ii) the amount of Mortgage Loan Revenue Receipts and Mortgage Loan Principal Receipts generated by the Mortgage Loan 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. 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 realisation of the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

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

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Mortgage Loan Amount is at least equal to 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 Mortgage Loans and Related Security by the Seller to the LLP may be required to avoid or remedy a breach of the Asset Coverage Test). Each of the LLP and the Seller (in its capacity as members of the LLP) will be required to ensure that, following the occurrence of an Issuer Event of Default, the Amortisation Test is met on each Calculation Date. 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 and the Issuer. The Asset Coverage Test, the Amortisation Test, the Yield Shortfall Test and the Pre-Maturity 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 in fact generate sufficient amounts for such purposes (see "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test and Credit Structure – Asset Coverage Test*", and "*Summary of Principal Documents – LLP Deed – Asset Coverage Test and Credit Structure – Amortisation Test*").

Reliance of the LLP on third parties

The LLP has entered into agreements with a number of third parties, which will agree to perform services for the LLP. In particular, but without limitation, the Administrator will be appointed to service Mortgage Loans in the Mortgage Loan Portfolio sold to the LLP, the Cash Manager will be appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the LLP, the Asset Monitor will be appointed to report on the accuracy of the Cash Manager's calculations and the GIC Account and the Transaction Accounts 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 Mortgage Loans Portfolio or any part thereof or pending such realisation (if the Mortgage Loan 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 Administrator fails to adequately administer the Mortgage Loans in the Mortgage Loan Portfolio, this may lead to higher incidences of non-payment or default by Borrowers. The LLP will also be 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 an Administrator Termination Event occurs, then the LLP (with the consent of the Security Trustee) will be entitled to terminate the appointment of the Administrator and appoint a new Administrator in its place. There can be no assurance that a replacement Administrator with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Mortgage Loans in the Mortgage Loan Portfolio on the terms of the Administration Agreement.

In addition, as described below, any replacement Administrator will be required to be authorised under the FSMA in respect of the administration of Mortgage Loans that constitute regulated mortgage contracts under the FSMA. The ability of a replacement Administrator to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a replacement Administrator may affect payments on the Mortgage Loans in the Mortgage Loan Portfolio, the realisable value of such Mortgage Loans and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

The Administrator 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 Administrator under the Administration Agreement.

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

Change of counterparties

The parties to the Programme Documents who receive and hold monies pursuant to the terms of such documents (such as the Account Bank) will be required to satisfy certain criteria in order to continue to receive and hold such monies.

These criteria will include requirements imposed by the FSA under the FSMA and criteria 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 such ratings criteria, 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 Programme Documents.

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Programme 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.

Reliance on Swap Providers

All of the Mortgage Loans in the Mortgage Loan Portfolio carry either variable rates of interest based on the Standard Variable Rate, fixed rates of interest or rates of interest linked to the Bank of England base rate. To provide a hedge against possible variances in the rates of interest payable on the Mortgage Loans in the Mortgage Loan Portfolio and LIBOR for three month Sterling deposits, the LLP has entered into the Basis Rate Swap Agreement with the Basis Rate Swap Provider.

In order to hedge certain interest rate, currency or other risks in respect of amounts received by the LLP under the Mortgage Loans and the Basis Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement to the Issuer and/or amounts payable by the LLP under the Covered Bond Guarantee to Covered Bondholders in respect of the Covered Bonds in issue, the LLP may enter into certain Covered Bond Swap Agreements with swap providers (each, a "**Covered Bond Swap Provider**"), including but not limited to, currency and/or interest rate swap transactions.

If the LLP fails to make timely payments of amounts due under any Swap Agreement, then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated. Further, a Swap Provider is only obliged to make payments to the LLP if the LLP complies with its payment obligations under the relevant Swap Agreement. If a Swap Agreement terminates or the relevant Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on the payment date under such 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 both sufficiently high ratings as may be required by any of the Rating Agencies and which agrees to enter into a replacement swap agreement on similar commercial terms.

If the LLP is obliged to pay a termination payment under any Swap Agreement, any such termination payment will, prior to enforcement, rank senior to amounts due to the Issuer under the Intercompany Loan Agreement or amounts due to the Covered Bondholders on the Covered Bonds or post-enforcement will rank *pari passu* with such amounts, 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 Provider under the Covered Bond Swaps

With respect to the Covered Bond Swap, the LLP will pay a monthly amount, on each LLP Payment Date, to the Covered Bond Swap Provider based on LIBOR for three month Sterling deposits. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to twelve months until amounts are due and payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP or the service of a LLP Acceleration Notice on the Issuer and the LLP) or are Due for Payment under the Covered Bond Guarantee (after the service of a Notice to Pay on the LLP or the service of a LLP Acceleration Notice on the Issuer and the LLP). If the Covered Bond Swap Provider does not meet its payment obligations to the LLP under the Covered Bond Swap and the 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 the Covered Bond Swap Provider under the Covered Bond Swap may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

Limited description of the Mortgage Loan Portfolio

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

- (a) the Seller selling additional Mortgage Loans and their Related Security (or Mortgage Loans of New Product Types and their Related Security) to the LLP;
- (b) payments by the Borrowers on those Mortgage Loans; and
- (c) the Seller repurchasing Mortgage Loans and their Related Security in accordance with the Mortgage Sale Agreement, in particular, in relation to non-compliance with the Representations and Warranties and in the case of an Additional Mortgage Loan Advance or Product Switch (see "Summary of the Principal Documents — The Mortgage Sale Agreement — Repurchase by the Seller").

There is no assurance that the characteristics of the New Mortgage Loans sold to the LLP will be the same as those of the Mortgage Loans in the Mortgage Loan Portfolio as at the relevant Transfer Date. However, each Mortgage Loan will be required to meet, on the date of transfer to the LLP, the Eligibility Criteria and the Seller will also be required to make the Representations and Warranties set out in the Mortgage Sale Agreement on such date – see "Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Mortgage 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 Programme 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 Mortgage Loan Amount is an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding and the Cash Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test and selected portfolio statistics.

If any new Mortgage Loans have been originated under revised Lending Criteria and the Mortgage Loans are then sold to the LLP in accordance with and pursuant to the terms of the Mortgage Sale Agreement, the characteristics of the Mortgage Loan Portfolio could at such time change. This could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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 Mortgage Loans and their Related Security, the Substitution Assets and its rights and benefits in the LLP Accounts and all Authorised Investments purchased from time to time.

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the LLP 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, ordinarily as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets.

This distinction is of less importance if the RCB Regulations apply because their effect is to prioritise the claims of regulated covered bondholders, other specified parties and certain expenses of the relevant insolvency officeholder regardless of whether the security is fixed or floating in nature. Such prioritised claims and expenses will not however include preferential debts or a "prescribed part" of realisations for unsecured creditors because the duty of the relevant insolvency officeholder to make such payments is disappplied by the RCB Regulations (as described in more detail below under "Enterprise Act 2002").

Liquidation Expenses

For all liquidations commenced after 6 April 2008, the costs and expenses of the liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of a floating charge holder. This change has been effected by the coming into force of Section 176ZA of the Insolvency Act 1986 which, in effect, reverses the decision of the House of Lords in the case of *Re Leyland Daf* [2004] UKHL 9. For those liquidation expenses that are categorised as litigation expenses, approval from certain specified creditors who have a claim in the property comprised in or subject to a floating charge will be required or alternatively, in some cases, approval will be required from the court. It is unclear whether these provisions apply to limited liability partnerships (such as the LLP) in general or "owners" under the RCB Regulations in particular. If they do apply, floating charge realisations upon the enforcement of the floating charge security granted by the LLP would be reduced by the amount of any liquidation expenses.

Maintenance of Portfolio

Pursuant to the terms of the Mortgage Sale Agreement, the Seller will agree to use all reasonable efforts to transfer Mortgage Loans and their Related Security to the LLP in order to ensure that the Mortgage Loan Portfolio is in compliance with the Asset Coverage Test. The consideration payable to the Seller for the sale of the Mortgage 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 Current Principal Balance of the Mortgage 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 Mortgage Loans) and (iii) Deferred Consideration.

Alternatively, the Issuer (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 by the next Calculation Date, an Issuer Event of Default will occur. There is no specific recourse by the LLP to the Seller in respect of the failure to sell Mortgage Loans and their Related Security to the LLP nor is there any specific recourse to the Issuer if it does not make Cash Capital Contributions to the LLP.

Pursuant to the LLP Deed, the LLP and the Issuer (in its capacity as a Member of the LLP) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to the service of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the Amortisation Test Aggregate Mortgage Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate 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 to ensure that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee and senior expenses which rank in priority or *pari passu* with amounts due on the Covered Bonds.

If the aggregate collateral value of the Mortgage Loan 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 Mortgage Loan 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. 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 (to the extent not already accelerated against the Issuer) and also against the LLP and the LLP's obligations under the Covered Bond Guarantee against the LLP subject to and in accordance with the Conditions and the Trust Deed.

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 First Issue 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, nor the monitoring of, the Asset Coverage Test, the Pre-Maturity Test or the Amortisation Test or any other test, or supervising the performance by any other party of its obligations under any Programme Document.

Sale of Selected Mortgage Loans and their Related Security following Service of Notice to Pay

If a Notice to Pay is served on the LLP, then the LLP will be obliged to sell Selected Mortgage Loans (selected on a random basis) and their Related Security. The proceeds of the sale of the Selected Mortgage Loans and their Related Security will be used by the LLP 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 Mortgage Loans and their Related Security following a Notice to Pay").

There is no guarantee that a buyer will be found to acquire Selected Mortgage 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 Mortgage 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 Applicable 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 Mortgage Loans for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount.

Sale of Selected Mortgage Loans and their Related Security if Pre-Maturity Test is breached

If the Pre-Maturity Test is breached the LLP will be obliged to sell Selected Mortgage Loans and their Related Security to enable the LLP to pay the Final Redemption Amount on a Bullet Covered Bond under the Covered Bond Guarantee in the event of the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice. If the required action is not taken within a specified period of time, an Issuer Event of Default will occur.

There is no guarantee (i) that a suitable buyer will be found to acquire Selected Mortgage Loans and their Related Security, or (ii) that the Selected Mortgage Loans and their related Security may be refinanced, in each case, at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained. Such circumstances may affect payments under the Covered Bond Guarantee.

Realisation of Charged Property following the occurrence of an LLP Event of Default and/or 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 the Issuer 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 Programme Documents.

If an LLP Acceleration Notice is served on the LLP and the Issuer 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 Mortgage Loan 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 Mortgage Loans

and their Related Security comprised in the Mortgage Loan Portfolio may be reduced (which may affect the ability of the LLP to make payments under the Covered Bond Guarantee) by:

- (a) representations or warranties not being given by the LLP or (unless otherwise agreed with the Seller) the Seller;
- (b) default by Borrowers of amounts due on their Mortgage Loans;
- (c) changes to the lending criteria of the Seller;
- (d) the LLP not having legal title to the Mortgage Loans in the Mortgage Loan Portfolio;
- (e) risks in relation to some types of Mortgage Loans which may adversely affect the value of the Mortgage Loan Portfolio or any part thereof;
- (f) limited recourse to the Seller;
- (g) possible regulatory changes by the Office of Fair Trading, the FSA and other regulatory authorities;
- (h) regulations in the United Kingdom that could lead to some terms of the Mortgage Loans being unenforceable; and
- (i) other issues which impact on the enforceability of the Mortgage Loans.

Some of these factors are considered in more detail below. However, it should be noted that the Asset Coverage Test, the Amortisation Test, the Yield Shortfall Test and the Eligibility Criteria are intended to ensure that there will be an adequate amount of Mortgage Loans in the Mortgage Loan Portfolio and moneys standing to the credit of the GIC Account to enable the LLP to repay the Covered Bonds following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP and accordingly it is expected (but there is no assurance) that Selected Mortgage 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 Mortgage Loans and their Related Security are to be sold

Following a breach of the Pre-Maturity Test and/or the occurrence of an Issuer Event of Default, service on the Issuer of an Issuer Acceleration Notice and service on the LLP of a Notice to Pay (but prior to the service of 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 be obliged to sell Selected Mortgage 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 Mortgage Loans and their Related Security*"). In respect of any sale of Selected Mortgage 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 Mortgage 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 advice of a financial or other adviser (selected or approved by it) opining or confirming that the provision 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 Mortgage 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 Mortgage Loans and their Related Security. Any Representations or Warranties previously given by the Seller in respect of the Mortgage Loans in the Mortgage Loan 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 Mortgage 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 Mortgage Loan Portfolio or the Mortgage Loans and their Related Security comprised in the Mortgage Loan Portfolio, neither shall the Security Trustee be obliged to monitor the performance of the Mortgage Loans and their Related Security or be responsible for monitoring whether or not the best price has been achieved for the sale of Mortgage Loans (including Selected Mortgage 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 Programme 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.

Competition in the UK mortgage loan market

Historically, the mortgage loan market in the United Kingdom has been highly competitive. Both traditional and new lenders have used targeted marketing, aggressive pricing competition and loyalty schemes in an effort to expand their presence in or to facilitate their entry into the market and compete for customers. For example, certain of the Seller's competitors have implemented aggressive pricing policies (via discount mortgages, fixed rate and tracker style mortgage loans) to attract borrowers to re-mortgage with such lender. Due to the current weakening in the United Kingdom economy, however, the refinancing risk for existing borrowers is more acute than in the past.

The current United Kingdom economic environment may affect the rate at which the Seller originates new Mortgage 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 Mortgage 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 Mortgage Loans in such a region may be expected to exacerbate all of the risks relating to the Mortgage 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 Mortgage 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.

Default by Borrowers in paying amounts due on their Mortgage Loans

Borrowers may default on their obligations due under the Mortgage Loans. Defaults may occur for a variety of reasons. The Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Mortgage 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 Mortgage Loans. In addition, the ability of a Borrower to sell a property given as security for a Mortgage Loans at a price sufficient to repay the amounts outstanding under that Mortgage Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

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

Seller to initially retain legal title to the Mortgage Loans

Each assignment by the Seller to the LLP of the benefit of the Mortgage Loans and their Related Security will take effect in equity only until the transfer of legal title. This means that legal title to the Mortgage Loans and their Related Security assigned to the LLP will remain with the Seller but the LLP will have all

the other rights and benefits relating to ownership of each Mortgage Loan and its Related Security. The LLP will, however, have the right to demand that the Seller give it legal title to the Mortgage Loans and their Related Security in the limited circumstances described in "Summary of the Principal Documents – Mortgage Sale Agreement – Transfer of title to the Mortgage Loans to the LLP" and until such right arises, the LLP will not give notice of the sale of the Mortgage Loans and their Related Security to any Borrower or apply to the Land Registry to register or record its equitable interest in the Mortgage Loans and their Related Security. In addition, it may not be possible for there to be a legal assignment of the benefit of those Insurance Contracts in relation to which the LLP has acquired only an equitable interest.

At any time during which the LLP does not hold legal title to the Mortgage Loans in the Mortgage Loan Portfolio or their Related Security and has not protected its interest in the Mortgage Loans and their Related Security by registration of a notice at the Land Registry, the following risks exist:

- (a) *first*, if the Seller wrongly sells a Mortgage 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 Mortgage Loan and its Related Security, then such person might obtain good title to the Mortgage 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 Mortgage Loan and its Related Security and it would not be entitled to payments by a Borrower in respect of that Mortgage 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;
- (b) *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 Mortgage Loans directly to the Seller; and
- (c) *third*, unless the LLP has perfected the assignment of the Mortgage Loans (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 Mortgage Loan or Mortgage itself but would have to join the Seller as a party to any legal proceedings.

If the risks described in (a), (b) or (c) above were to occur, then the realisable value of the Mortgage Loan Portfolio or any part thereof and/or the ability of the LLP to make payments under the Covered Bond Guarantee may be affected.

Once notice has been given to the Borrowers of the assignment of the Mortgage 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 Mortgage Loan) ("**Transaction Set-Off**") will not be affected by that notice and will continue to exist. In relation to potential Transaction Set-Off in respect of the Mortgage 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 Mortgage Loans and their Related Security.

Risks in relation to Mortgage Loans

As described in "Seller to initially retain legal title to the Mortgage Loans" the Seller will retain legal title to the Mortgage Loans and their Related Security in the Mortgage Loan Portfolio and any New Mortgage Loans and their Related Security that are sold to the LLP in accordance with the Mortgage Sale Agreement. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the Seller, including rights of set-off existing prior to notification to the Borrowers of the sale of the

Mortgage Loans and their Related Security to the LLP. Such set-off rights may occur if the Seller fails to advance an Additional Mortgage Loan Advance (except for a Credit Reassessment Advance) to a Borrower under a Mortgage Loan in the Mortgage Loan Portfolio when the Borrower is entitled to such Additional Mortgage Loan Advance, where Borrowers are also depositors with The Co-operative Bank and with respect to employee Mortgage Loans (which, as at 19 February 2008, only comprised 0.18 per cent. of the Mortgage Loan Portfolio).

If the Seller fails to advance such Additional Mortgage Loan Advance in accordance with the Mortgage Conditions of the relevant Mortgage Loan, then the relevant Borrower may set off any damages claim arising from the Seller's breach of contract against the Seller's and, as the assignee in equity or beneficiary under trust of the Mortgage Loans in the Mortgage Loan Portfolio and their Related Security, the LLP's claim for payment of principal and/or interest under the Mortgage Loan as and when it becomes due. Such set-off claims will constitute Transaction Set-Off as described in the immediately preceding risk factor.

The amount of the claim in respect of such an additional Mortgage Loan Advance will, in many cases, be the cost to the Borrower of finding an alternative source of funds. The Borrower may obtain a mortgage loan elsewhere, in which case, the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees), incurred by such Borrower. If the Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other losses arising from the Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Borrower entered into the Mortgage Loan or which otherwise were reasonably foreseeable.

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

The exercise of set-off rights by Borrowers whose Mortgage Loans are in the Mortgage Loan Portfolio would reduce the incoming cash flow to the LLP during such exercise.

Further, there may be circumstances in which:

- (a) a Borrower may seek to argue that a Mortgage Loan is unenforceable by the LLP or the Seller or the LLP or the Seller is liable in damages to the Borrower because of a breach of FSA rules by the Seller or the LLP;
- (b) a Borrower may seek to argue that certain Additional Mortgage Loan Advances are unenforceable by virtue of non-compliance with the Consumer Credit Act 1974; or
- (c) certain Additional Mortgage Loan Advances may rank behind liens created by a Borrower after the date upon which the Borrower entered into its Mortgage Loan with the Seller.

As mentioned in the preceding risk factor, it should however be noted 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) and that 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 Mortgage Loans and their Related Security.

Value of the Mortgage Loan Portfolio

The guarantee granted by LLP in respect of the Covered Bonds, will, *inter alia*, be backed by the LLP's interest in the Mortgage Loan Portfolio. Since the economic value of the Mortgage Loan Portfolio may increase or decrease, the value of the LLP's assets may decrease (for example if there is a general decline in property values). The Issuer makes no representation, warranty or guarantee that the value of a Mortgaged Property will remain at the same level as it was on the date of the origination of the related Mortgage Loan or at any other time. If the residential property market in England and Wales experiences

an overall decline in property values, the value of the Mortgage Loan could be significantly reduced and, ultimately, may result in losses to the Covered Bondholders if such security is required to be enforced.

Payments on the Mortgage Loans

Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal on the Mortgage Loans. These factors include changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, mortgage interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' personal or financial circumstances may also affect the ability of Borrowers to repay Mortgage 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 Mortgage Loans.

The rate of prepayments on mortgage loans may be increased due to borrowers refinancing their Mortgage Loans and sales of Mortgaged Properties (either voluntarily by Borrowers or as a result of enforcement action taken), as well as the receipt of proceeds from buildings insurance and life assurance policies. The rate of prepayment of Mortgage Loans may also be influenced by the presence or absence of early repayment charges.

Prospective investors should also note that the Seller started its mortgage business in 2000 and since that time the United Kingdom has generally benefited from a low interest rate climate with high property prices and low levels of unemployment, Borrowers (and in particular first-time Borrowers) with Mortgage Loans in the Mortgage Loan Portfolio may not yet have experienced a more adverse economic climate and the arrears and default history of the Seller is, in part, reflective of the recent economic climate.

In addition, the ability of a Borrower to sell the Mortgaged Property relating to the relevant Mortgage Loans at a price sufficient to repay the amounts outstanding under such Mortgage Loans will depend upon a number of factors, including the availability of buyers for that property, the value of the property and property values and the property market in general at the time of such proposed sale.

The outstanding principal balance of any Defaulted Mortgage Loans in the Mortgage Loan Portfolio will be given a reduced weighting for the purposes of any calculation of the Asset Coverage Test and the Amortisation Test.

If the timing and payment of the Mortgage Loans is adversely affected by any of the risks described above, the ability of the LLP to make payments under the Covered Bond Guarantee could be reduced or delayed.

Buy-to-Let Mortgage Loans

The Mortgage Loan Portfolio may include Buy-To-Let Mortgage Loans, save that at no time will such Buy-To-Let Mortgage Loans be permitted to comprise more than 5 per cent. of the Mortgage Loan Portfolio as at 31 December 2007, Buy-To-Let Mortgage Loans represented only 3.6% by value of the Issuer's mortgage portfolio. The Borrower's ability to make payments in respect of a Mortgage Loan secured on such property is likely to depend on the Borrower's ability to lease the property on appropriate terms. This dependency on leasing income increases the likelihood, during difficult market conditions, that the rate of delinquencies and losses on such non-owner occupied properties will be higher than for Mortgage Loans secured by the Borrower's primary residence.

Upon enforcement of a Mortgage Loan in the Mortgage Portfolio in respect of a property which is the subject of an existing tenancy, the Administrator may not be able to obtain vacant possession of that property, in which case the Administrator will only be able to sell the property as an investment property with one or more sitting tenants. This may affect (i) the amount that the Administrator could realise upon enforcement of the Mortgage and (ii) the speed at which such sale can be achieved. However, the Administrator will have the ability to appoint a receiver of rent to collect any rents payable in respect of such property and apply them in payment of any interest and arrears accruing under that Mortgage Loan. If the timing and payment of the Buy-to-Let Mortgage 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.

The Lending Criteria

Each of the Mortgage Loans in the Mortgage Loan Portfolio originated by the Seller will have been originated in accordance with the Seller's Lending Criteria applicable at the time of origination. Unless stated in the relevant Final Terms, the Lending Criteria applicable to the Mortgage Loans and their Related Security included in the Mortgage Loan Portfolio as of an Issue Date is anticipated to be the same as or substantially similar to the criteria described in the Mortgage Sale Agreement. The Seller's Lending Criteria consider a variety of factors such as a potential Borrower's credit history, employment history and status and repayment ability, as well as the value of the Property to be mortgaged. In the event of the sale of any new Mortgage Loans and their Related Security to the LLP, representations and warranties will at such time be given by the Seller to the LLP and the Security Trustee that those new Mortgage Loans and their Related Security were originated in accordance with the Seller's Lending Criteria then applicable at the time of the origination of such new Mortgage Loans. However, the Seller retains the right to revise its Lending Criteria as determined from time to time, and so the Lending Criteria applicable to any New Mortgage Loan at the time of its origination may not be the same as those set out in this Base Prospectus or any Final Terms.

If any New Mortgage Loans have been originated under revised Lending Criteria and are then sold to the LLP pursuant to the terms of the Mortgage Sale Agreement, the characteristics of the Mortgage Loan Portfolio could at such time change. This could lead to a delay or reduction in the payments received by the Covered Bondholders under the Covered Bond Guarantee.

Limited recourse to the Seller

The LLP, the Bond Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Mortgage 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 Mortgage Loans sold by the Seller to the LLP.

If any Mortgage Loan or its Related Security 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 Mortgage Loan, then the Seller will be required to notify the LLP and the Security Trustee as soon as reasonably practicable after becoming aware of the fact and upon receipt of a request to do the same from the LLP to 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 such 28 Business Day period, then the Seller will be required (but only prior to the occurrence of an Issuer Event of Default) to repurchase on or before the next following Calculation Date (or such other date that may be agreed between the LLP and the Seller) the relevant Mortgage Loan and its Related Security and any other Mortgage Loans of the relevant Borrower that are included in the Mortgage Loan Portfolio, at their Current Principal 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 from the LLP a Mortgage Loan or Mortgage Loans and its or their Related Security. However, if the Seller does not repurchase those Mortgage Loans and their Related Security which are in breach of the Representations and Warranties then the Current Principal Balance of those Mortgage Loans will be excluded from the calculation of the Asset Coverage Test. There is no further recourse to the Seller in respect of a breach of a Representation or Warranty.

Legal and Other Considerations

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 its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity 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.

Also, a number of non-EU countries, and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

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 any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 (if such state exists).

Insolvency Act 2000

The Insolvency Act 2000 which amends the Insolvency Act 1986 (as amended from time to time) (the "**Insolvency Act**") allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting together a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. Prior to 1 October 2005, the moratorium provisions of the Insolvency Act 2000 did not expressly state that they applied to limited liability partnerships such as the LLP. On 1 October 2005, the Limited Liability Partnership (Amendment) Regulations 2005 confirmed 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 will not, at any given time, be determined to be a "small" company. The United Kingdom Secretary of State for Business Enterprise and Regulatory Reform ("**DBERR**") (formerly the Secretary of State for Trade and Industry) may by regulation modify the eligibility requirements for "small" companies and can make different provision for different cases. No assurance can be given that any such modification or different provision will not be detrimental to the interest of the Covered Bondholders.

Certain special purpose companies in relation to capital markets transactions are excluded from the optional moratorium provisions. Such exclusions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms of part of a "capital market arrangement" (as defined in paragraph 4D of Schedule A1 of the Insolvency Act 1986) under which a party has incurred, or when the agreement was entered into was expected to incur, 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 modifications of the exceptions will not be detrimental to the interest 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.

Enterprise Act 2002

On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 came into force, amending certain provisions of the Insolvency Act and, in particular, the administration provisions which were reformed by introducing a new Schedule B1 to the Insolvency Act. These provisions introduced significant reforms to corporate insolvency law. In particular, the reforms restrict the right of the holder of a floating charge to appoint an administrative receiver (unless the floating charge was created prior to 15 September 2003 or an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company had the ability to block the appointment of an administrator by

appointing an administrative receiver, who would act primarily in the interests of the floating charge holder.

From 1 October 2005, the Limited Liability Partnership (Amendment) Regulations 2005 have applied the new administration provisions of Schedule B1 of the Insolvency Act to limited liability partnerships (such as the LLP) with certain modifications.

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

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating charge-holder, the relevant company itself or its directors. These provisions have been applied to limited liability partnerships (such as the LLP) with certain modifications from 1 October 2005. The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the directors or the company or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating charge-holder does not respond to the directors' or company's notice of intention to appoint, the directors' or, as the case may be, the company's appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge which was created prior to 15 September 2003 or within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court based procedure) by appointing an administrative receiver prior to the appointment of the administrator being completed.

The new administration provisions of the Insolvency Act give primary emphasis to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. The purpose of realising property to make a distribution to secured creditors is secondary. As noted above, these new administration provisions will now apply to limited liability partnerships (such as the LLP) and have done so from 1 October 2005. From this date, no assurance could be given that the primary purpose of the new provisions would not conflict with the interests of the Covered Bondholders were the LLP ever subject to administration.

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

This obligation does not apply if the net property is less than a prescribed minimum and the relevant officeholder is of the view that the cost of making a distribution to unsecured creditors would be

disproportionate to the benefits. The relevant officeholder may also apply to court for an order that the provisions of section 176A of the Insolvency Act should not apply on the basis that the cost of making a distribution would be disproportionate to the benefits. It should however be noted that the RCB Regulations disapply the provisions of section 176A of the Insolvency Act and the provisions of the Insolvency Act that relate to the priority of payments of preferential debts. 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.

Mortgage Loans regulated by the Consumer Credit Act 1974

Consumer Credit Act

The Consumer Credit Act 1974 (CCA) imposes requirements on Mortgage Loans and Further Advances which are regulated consumer credit agreements. Mortgage Loans and Further Advances entered into prior to 6 April 2008 will be subject to the CCA if the "amount of credit" (as defined in the CCA) did not exceed the £25,000 financial limit or the loan is not otherwise exempt. On 6 April 2008 the £25,000 threshold was removed with the effect that unless an exemption applies, a loan of any amount entered into after that date could be subject to the CCA.

Certain mortgage loans and further advances that finance the purchase of land or the provision of dwellings on any land and which are secured by a land mortgage on that land are treated as exempt agreements under Section 16 of the Consumer Credit Act 1974 (as amended) (the "CCA"). Such mortgage loans and further advances are not subject to the origination, documentation or ongoing compliance requirements of the CCA. However, generally, they are subject to the unfair relationship provisions under sections 140A to 140D CCA unless they are exempt agreements under section 16(6C) of the CCA. Accordingly, Mortgage Loans and further advances which are regulated under the Financial Services and Markets Act 2000 are, by reason of section 16(6C), CCA exempt from the origination, documentation and ongoing compliance requirements of the CCA as well as from the unfair relationship provisions of the CCA.

Insofar as a Mortgage Loan finances the supply of insurance under arrangements with the supplier of the insurance, that part of the Mortgage Loan may fall to be treated as a regulated agreement under the CCA and may give rise to liability under Section 56 and/or Section 75 of the CCA (*liability of creditor for misrepresentations and breaches of contract by supplier*). Part V of the CCA sets out requirements for the format, content and execution of regulated agreements and for the procedures to be taken by the lender when originating a CCA regulated agreement.

Sections 137 to 140 of the CCA regarding extortionate credit bargains were repealed as from 6 April 2007 by the CCA 2006. However, the repeal of these provisions does not affect the court's power to re-open an agreement which is made before the repeal was brought into effect and which is a completed agreement before 6 April 2008.

Any agreement that is wholly or partly regulated by the CCA or treated as such has to comply with specific documentation, procedures and (in so far as applicable) pre-contract disclosure requirements. Further the CCA also imposes licensing obligations on lenders and brokers. If a regulated credit agreement does not comply with those requirements, then to the extent that the agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower if:

- (a) the lender or any broker does not hold the required "enforcement" licence at the relevant time; or
- (b) totally, if the credit agreement has been made before 6 April 2007 and if:
 - (i) it is not properly signed by the borrower or if it omits or mis-states a "prescribed term"; or
 - (ii) it is a "cancellable agreement" and the requirements under Sections 62,63 and 64(1) CCA regarding the provision of copies of documents and notices of cancellation rights was not satisfied; or
- (c) without a court order in other cases.

Where the court is able to exercise its discretion, the court will take into account any prejudice suffered by the borrower and any culpability by the Seller.

The court has the power, if it appears just to do so, to amend the regulated agreement or any further advance that may fall within the scope of CCA regulation or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

In addition under section 126 of the CCA, a land mortgage securing a regulated credit agreement is only enforceable by a court order.

Pursuant to the terms of the Mortgage Sale Agreement, the Seller will represent and warrant to, *inter alios*, the LLP that no agreement for any Mortgage Loan to be included in the Mortgage Loan Portfolio is, or has ever been, wholly or partly regulated by the CCA (other than in relation to Sections 137 to 140 of the CCA) or constitutes an extortionate credit bargain under Sections 137 to 140 of the CCA or, to the extent that it is so regulated or partly regulated, such Mortgage Loan is a valid and binding obligation on the borrower and enforceable upon order of a court.

Recent reforms to the Consumer Credit Act 1974 and subordinate legislation

The Consumer Credit Act 2006, which amends the Consumer Credit Act 1974, was enacted in March 2006. Recent reforms which came into force on 6 April 2008 include:

- (i) the removal of the £25,000 financial limit from the CCA in respect of credit for non-business lending (with the exception of buy-to-let lending);
- (ii) the exemption from the CCA regime of high net worth debtors and credit above the value of £25,000 where such credit is entered into by the debtor predominantly for the purposes of a business carried on, or intended to be carried on, by such debtor;
- (iii) the creation of an independent ombudsman service, allowing consumers to challenge agreements without court proceedings and the creation of a Consumer Credit Appeals Tribunal;
- (iv) the extension of the unfair relationship test to all existing credit agreements (except for those regulated by the FSA);
- (v) the strengthening of the powers of the Office of Fair Trading ("OFT") in relation to CCA licence holders; and
- (vi) new provisions relating to the licensing of consumer credit businesses.

Unfair relationships under the CCA

As from 6 April 2008 the unfair relationship test under Sections 140A to 140D of the CCA applies to all regulated credit agreements including those entered into prior to the commencement date and those to which most CCA exemptions apply. For example, where a loan was exempt by the reason of the amount advanced or where a loan is an advance of credit for unrestricted use in respect of land (Sections 16(1) and (2) CCA), the unfair relationship provisions of the CCA will apply. It should be noted that the test does not apply to Regulated Mortgage Contracts (Section 140A(5)).

There is no statutory definition of what constitutes an unfair relationship. The provisions were kept intentionally wide to allow the courts to be able to consider a broad range of circumstances including the creditor's conduct before and after making the agreement.

If a Mortgage Loan subject to the unfair relationship test is found to be unfair, the court may require the creditor repay sums to the debtor, to do, not do or cease doing anything in relation to the agreement, reduce or discharge any sums payable by the debtor or surety, return surety, alter the terms of the agreement or direct accounts to be taken.

The Consumer Credit Act 2006 is expected to be fully implemented by October 2008. However, the new Consumer Credit Directive which is due to be implemented by May 2010, may result in further amendment of the CCA and secondary legislation (see "*Consumer Credit Directive*" below).

Variations to agreements regulated by the CCA and the abolition of the financial threshold

The variation of credit agreements is regulated by section 82(2) CCA. Section 82 states that where an agreement (a "modifying agreement") varies or supplements an earlier agreement, the modifying agreement shall for the purposes of the CCA be treated as (a) revoking the earlier agreement and (b) creating a new combined agreement. Section 82 effectively operates to create a new CCA regulated agreement comprising the earlier agreement and the modifying agreement.

With the abolition of the £25,000 financial threshold on 6 April 2008, previously unregulated agreements which are varied or supplemented after this date could potentially fall within the scope of the CCA.

The Consumer Credit Act 2006 (Commencement No.4 and Transitional Provisions) Order 2008 provides that unregulated loans entered into prior to 6 April 2008 and subsequently varied, will not be subject to CCA regulation, if the variation (e.g. an interest rate switch) does not relate to the advance of further credit or an appropriate exemption applies. Notwithstanding the points above, many lenders do not treat further advances on unregulated loans as comprising a separate agreement but instead treat the loan (having been made before 6 April 2008) and further advance as a unitary agreement which avoids CCA regulation and therefore obviates the need to rely on the Order.

Buy-to-let Mortgage Loans

With the removal of the £25,000 threshold, concerns were raised during consultation that buy-to-let properties could unintentionally fall within the scope of the CCA. In light of this concern, the DBERR proposes to exempt agreements entered into for buy-to-let purposes, regardless of value, from the CCA. The DBERR defines buy-to-let loans as being agreements secured on land where the borrower or a connected person occupies or intends to occupy less than 40 per cent. of the property as a dwelling. It is anticipated that the Legislative Reform Order 2008 (the "**Order**"), which is required to make the changes, will be implemented as from 1 October 2008. In view of the disconnect between the removal of the financial limit in April 2008 and the Order coming into force, the DBERR has implemented transitional arrangements within the 4th Commencement Order 2008 which temporarily disapplies the abolition of the £25,000 limit for buy-to-let loans. This is to ensure that the loans are not brought into CCA regulation during the intervening period. Consequential amendments are also being made to section 82 of the CCA to avoid bringing existing buy-to-let loans into regulation in the event that they are varied or supplemented.

These amendments in the Consumer Credit Act 2006 (a) will make all Mortgage Loans subject to some form of regulation (unless an exemption applies); (b) may increase the possibility of a challenge to agreements on the basis of "unfairness"; (c) would set out proportionality principles for courts in their enforcement of consumer credit agreements; and (d) may result in more restrictions being placed upon the activities of consumer credit licence holders.

Mortgage Loans regulated by the Financial Services Authority under the Financial Services and Markets Act 2000

Mortgage Regulation prior to October 2004

Prior to the introduction of FSA regulation as from 31 October 2004, the business relating to the provision of residential owner-occupied mortgages was subject to self-regulation by The Council of Mortgage Lenders' ("**CML**") Mortgage Code (the "**CML Code**"). The CML Code was introduced for lenders on 1 July 1997 and April 1998 for mortgage intermediaries. When the CML Code was extended to mortgage intermediaries, subscribing lenders undertook not to accept mortgage introductions from intermediaries who were not also registered as subscribers. The CML Code remained in force until 31 October 2004, when it was superseded by the Financial Services Authority's Mortgages and Home Finance: Conduct of Business sourcebook: ("**MCOB**"). The Seller was a member of the CML and subscribed to the CML Code during the relevant period.

As from 31 October 2004, a number of activities relating to "regulated mortgage loans" (as defined in Article 61(3) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**Order**") became "regulated activities" under section 19 of FSMA and these activities require authorisation from the Financial Services Authority ("**FSA**"). These activities are: (a) entering into a regulated mortgage loan as lender; (b) administering a regulated mortgage loan (administering in this context means notifying borrowers of changes in payments, interest rates or other notifiable matters

and/or collecting payments due); (c) advising on regulated mortgage loans; (d) arranging regulated mortgage loans; and (e) agreeing to do any of the foregoing.

The Issuer is authorised by the FSA to carry out such regulated activities and is registered by the FSA with registration number 121885. The LLP is of the view that it does not require to be authorised since its activities are such that they either do not fall within the regulated activities as defined in the Order or they benefit from a specific exclusion in respect of those activities.

In addition, on or after 31 October 2004 no variation has been or will be made to the Mortgage Loans, and no Additional Mortgage Loan Advance or Product Switch has been or will be made under the Mortgage Loans, where it would result in the LLP arranging or advising in respect of administering or entering into a Regulated Mortgage Loan.

Authorisation by the FSA subjects the Seller to the full regulatory regime imposed by FSMA and the FSA. In particular, the Seller is required to have in place full systems and controls, to ensure that those carrying out controlled functions are authorised by the FSA, to maintain prescribed prudential ratios, and its activities and Regulated Mortgage Loans will be subject to the Financial Ombudsman Scheme. In addition, the regulated activities relating to Regulated Mortgage Loans will be subject to MCOB.

Failure to comply with the provisions of MCOB will not render any Regulated Mortgage Loans unenforceable. However, breach of the rules in MCOB are actionable by borrowers who suffer loss as a result of the contravention. A breach could therefore give rise to a claim by a borrower to set off sums due under a Regulated Mortgage Loan. However, Regulated Mortgage Loans will be unenforceable if, when entered into, they are advised upon, arranged, entered into or administered by a company which is not authorised. The Seller is authorised by the FSA to carry out such regulated activities (other than advising on Regulated Mortgage Loans) as stated above. Regulated Mortgage Loans will also be unenforceable if they are originated as a result of financial promotion in relation to which there has been a contravention of Section 21(1) of the FSMA. In both cases a court may allow the Regulated Mortgage Loan in question to be enforced against the borrower if it considers it just and equitable to do so in the circumstances of the particular case.

The FSA has significant regulatory flexibility to alter its rules and to provide guidance on existing rules. No assurance can be given that the FSA will not change its rules or guidance or take a particular regulatory approach which may adversely affect the Seller's particular sector in the mortgage market or the Seller specifically. Any such development may have a material adverse effect on the LLP and/or the Issuer and/or the Administrator, as applicable, and their respective businesses and operations.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1994 apply to all of the Mortgage Loans that were subject to standard terms and entered into during the period 1 July 1995 to 30 September 1999, and the Unfair Terms in Consumer Contracts Regulations 1999 apply to all of the Mortgage Loans that are subject to standard terms and have been entered into since 1 October 1999. The effect of these regulations (collectively, the "UTCCR") on the Mortgage Loans is that:

- (a) a borrower may challenge a term in an agreement on the basis that it is an "unfair" term within the meaning of the UTCCR. An unfair term will not be binding on the borrower, although the contract itself will continue to bind the parties if it is capable of continuing in existence without the unfair term; and
- (b) the OFT, the FSA and any "qualifying body" (as defined in the UTCCR) may take court proceedings to injunct the Seller from using and relying on unfair terms.

The UTCCR will not generally affect "core terms" which set out the main subject matter of the contract **provided that they are written in plain and intelligible language** (such as the borrower's obligation to repay principal) but may affect terms deemed to be ancillary terms, which may include, *inter alia*, interest variation provisions and other terms the application of which are in the Seller's discretion. For example, if a term permitting the Seller to vary the interest rate is found to be unfair, the borrower will not be liable to pay the increased rate or, to the extent that she or he has paid it, will be able, as against the Seller or the LLP, to claim repayment of the extra interest amounts paid or to set off the amount of such claim against the amount owing by the borrower under the Mortgage Loan. Any such non-recovery, claim or set off

ultimately may adversely affect the ability of the LLP to make payments under the Covered Bond Guarantee.

On 24 February 2000, the OFT issued a guidance note on what the OFT considers to be fair and unfair terms for interest variation in mortgage contracts. The guidance note accepts the principle of a term linking an interest rate to an external rate which is outside the lender's control. It provides that, generally, the OFT and Consumers' Association will not regard such a term as unfair if the lender explains at the outset how the interest rate is linked to the external rate and, if the link does not provide for precise and immediate tracking, the maximum margin of difference, and the time limits within which charges will be made. 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 could be considered to be locked in by, for example, an early repayment charge, the OFT indicated that it considered the term would be open to challenge as unfair under the UTCCR unless the lender (i) notifies the borrower in writing at least 30 days before the rate change and (ii) permits the borrower to repay the whole mortgage loan during the next three months after the rate change, without paying the early repayment charge. The Seller has reviewed the guidance note and believes that the Mortgage Loans and its business in general complies with the guidance note.

The guidance note was withdrawn from the OFT website a number of years ago. Prior to regulation by the FSA of Regulated Mortgage Loans, the FSA agreed with the OFT to take responsibility for the enforcement of the UTCCR in mortgage agreements. Following this understanding, the FSA published guidance on interest rate variation practices in May 2005. The FSA also published a general FSA fact sheet entitled "*Challenging unfair contract terms*" in January 2005. The FSA guidance is not materially different from the withdrawn OFT guidance.

On 31 July 2006 a Concordat between the OFT and FSA became effective. The purpose of the Concordat is to ensure co-ordination of enforcement action and co-operation in delivery of consumer protection in relation to the UTCCR and the Enterprise Act 2002. The FSA published the Unfair Contract Terms Regulatory Guide in August 2007, which explains how the FSA utilises its powers under the UTCCR. Both the FSA and the OFT have issued guidance and undertakings specific to or relevant to mortgage contracts.

In August 2002 the Law Commission for England and Wales and the Scottish Law Commission published a Joint Consultation Paper proposing changes to the UTCCR, including harmonising provisions of the UTCCR and the Unfair Contract Terms Act 1977, applying the UTCCR to business to business contracts and revising the UTCCR to make it "clearer and more accessible". A final report was published in 2005. In July 2006, the Law Commission stated that the government accepted the recommendations subject to a regulatory impact statement. No assurances can be given that changes to the UTCCR, if implemented, will not have an adverse effect on the Seller, the Issuer and/or the Administrator.

Compliance with Non Status Lending Guidelines and responsible lending requirements for lenders and brokers

On 18 July 1997, the OFT issued Non Status Lending Guidelines for lenders and brokers, which were revised in November 1997. These guidelines apply to all residential mortgage loans made to non status borrowers, which are defined for the purposes of these guidelines as individuals with a low or impaired credit rating. These guidelines regulate the activities of lenders in areas such as advertising and marketing, loan documentation and contract terms, the relationship between lenders and brokers, selling methods, underwriting, dual interest rates and early repayment charges. None of the Mortgage Loans in the Mortgage Loan Portfolio will have been made to non status borrowers but, in any event, the Seller believes that it currently complies with these guidelines.

The actions of a lender and of any broker or other intermediary involved in marketing a lender's products can jeopardise a lender's fitness to hold a consumer credit licence. These guidelines make clear that lenders must take all reasonable steps to ensure that such brokers and other intermediaries comply with the guidelines and all relevant statutory requirements, even if the lender has no formal or informal control or influence over the broker or other intermediary.

The guidelines provide that lenders must carry on responsible lending, with all underwriting decisions being subject to a proper assessment of the borrower's ability to repay, taking into account all relevant circumstances, such as the purpose of the loan, the borrower's income, outgoings, employment and credit

history. Lenders must take all reasonable steps to verify the accuracy of information provided by borrowers on or in support of the loan application, and all underwriting staff must be properly trained and supervised.

OFT consultation on irresponsible lending

On 1 August 2008, the OFT launched a public consultation on the scope of its project looking at irresponsible lending in UK consumer credit markets.

The consultation follows major changes to the CCA, which include the identification of irresponsible lending as a matter to which the OFT must have regard when it considers fitness to hold a consumer credit licence. It is envisaged that one of the key outcomes of the project is expected to be clear guidance on lending behaviours and practices which the OFT considers to be irresponsible. As at the date of this Base Prospectus, it is not known what impact (if any) this guidance will have on the origination procedures of the Seller and in turn, on the LLP and its ability to make payments under the Covered Bond Guarantee.

Intermediary commission disclosure

Should a Mortgage Loan be introduced by an intermediary in circumstances where the intermediary is paid a commission by the lender, information about the commission must be provided to the Borrower. Failure to do so could render the Mortgage Loan unenforceable for being a secret commission under common law (*Wilson and another v Hurstanger Ltd* [2007] EWCA Civ 299). To the extent that a Mortgage Loan is a Regulated Mortgage Contract and documentation provided to the Borrower complies with MCOB, disclosure of such commission (if any) to the Borrower would have been made. Similarly, disclosure would have been made where introductions were compliant with the CML Code and OFT's Non-Status Lending Guidelines. Furthermore, under the Mortgage Sale Agreement, the Seller will represent and warrant that it is not involved in any disputes with any Borrower relating to the payment by the Seller of any fees or commissions to any intermediary.

Ability to charge and recover fees on the Mortgage Loans

Charges payable on any early repayment (in whole or in part) are restricted under the Non Status Lending Guidelines. Part repayments must be permitted, and any early repayment charges must do no more than cover the costs reasonably incurred by the lender in processing the payments. A formula for calculating the maximum amount payable on early settlement is prescribed by the CCA and applies to the extent that a credit agreement is regulated by the CCA or to be treated as such. These guidelines state that, for other credit agreements, the current formula prescribed by the CCA is unfair and oppressive, and that lenders must discontinue its use at the earliest opportunity.

In January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees ("MEAFs"). The FSA set out where it considered MEAFs to be contractually unfair under the UTCCR, and under the "Treating Customers Fairly" principles. The FSA stated that lenders could consider five options for the treatment of past and current customers, and all lenders had to decide which options to adopt and put this into practice by 28 February 2007. For new customers, lenders were required to decide whether to amend their terms and conditions by 31 July 2007.

In August 2007 the FSA updated the statement after analysing the responses of a sample of firms, comprising a significant proportion of the mortgage market, on the outcome of their reviews of how to treat future customers. The results of this review found that most major lenders have opted either to charge a fee that would not be varied during the lifetime of the mortgage or to remove the MEAF altogether. Other lenders have decided to charge a MEAF which will reflect the administrative costs of exiting the mortgage and can only be varied for valid reasons clearly explained at the outset.

Prior to 28 February 2007, the Issuer confirmed that it would continue to apply its policy of charging the mortgage exit administration fee as it was set out to the relevant borrower at the time that the original contract was taken out, in line with the FSA Statement of Good Practice. This course of action is in line with the vast majority of other mortgage lenders.

In September 2006, the OFT announced that it had decided to undertake a fact find on the application of its statement on credit card fees to current account unauthorised overdraft fees. The fact find was completed in March 2007, and on 26 April 2007, the OFT announced its decision to conduct a market

study of personal current accounts ("PCAs") in the United Kingdom which it will conduct alongside a formal investigation into the fairness of charges for unauthorised overdrafts and returned items.

On 26 July 2007, the OFT announced that it would be commencing proceedings in the High Court for a declaration on the application of the law in respect of unauthorised overdraft charges.

On 15 November 2007, the OFT announced that the findings of the market study will not be published in advance of the test case. When they are published there will be a consultation with stakeholders before the final recommendations are published.

The High Court test case was heard between 17 January 2008 and 8 February 2008 and sought to establish the preliminary legal principle of whether the unauthorised overdraft charges fell within the scope of the UTCCRs and whether the charges amounted to penalties at common law. In the judgment, handed down on 24 April 2008, the court ruled that the charges are not unenforceable penalties but were assessable for fairness under UTCCRs. The banks have been given permission to appeal the findings that relevant terms can be assessed for fairness under the UTCCR. The OFT is continuing with its investigation into the fairness of the relevant terms in the banks current terms and conditions. The OFT has stated that it aims to be in a position to begin discussing its preliminary views on the question of fairness during July 2008.

The banks were granted a waiver in relation to the settling of customer complaints over charges on retail bank accounts until the outcome of the ongoing OFT litigation is settled. This was to expire on 26 July 2008, but has now been extended to 26 January 2009.

A range of outcomes is possible from the appeal, some of which could have a significant financial impact on the Issuer.

No assurance can be given that additional regulations from the OFT, the FSA or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller (including, without limitation, in the ability to charge, or the level of, early repayment fees or other types of fees and charges payable in respect of the mortgage assets). Any such action or developments or compliance costs may have a material adverse effect on the Mortgage Loans in the Mortgage Loan Portfolio, the Seller, the LLP, the Issuer and/or the Administrator and their respective businesses and operations.

This may adversely affect the LLP's ability to make payments in relation to the Covered Bond Guarantee when due.

Consumer Credit Directive

The Consumer Credit Directive (2008/48/EC) was adopted in May 2008. The Official Journal states that the directive should be implemented by member states by 12 May 2010. Once fully implemented in May 2010, it will regulate consumer credit agreements between EUR 200 - 75,000 between credit providers and consumers. Notably, however, the Directive excludes a number of credit agreements from regulation including credit agreements secured by a mortgage (whether first or second mortgage) and credit agreements the purpose of which is to acquire or retain property rights in land. However, until the details of the implementing legislation are published, it is not certain what effect the implementation of the Directive would have on the Seller, the Issuer and/or the Administrator and their respective businesses and operations.

Proposed Mortgage Credit Directive

In July 2005, the European Commission published a Green Paper on mortgage credit, in which it announced its intention that loans secured by a mortgage on land will be excluded from the proposed consumer credit directive but will be covered by any initiatives resulting from the Green Paper process in relation to mortgage credit.

The White Paper on the Integration of EU Mortgage Credit Markets was published on 18 December 2007. In the paper, the Commission has stated that it is yet to be determined as to whether legislation is the most appropriate way forward. The Commission is therefore undertaking further assessments and cost-benefit analyses during 2008. The Commission has stated that no directive will be tabled if the costs of legislative measures outweigh their benefits.

On 14 March 2008, the European Commission published a notice, requesting tenders to undertake a study on the costs and benefits of the different policy options for mortgage credit. Tenders were required to be made by 13 May 2008. The tender anticipates that the study should take 9 months to complete.

No assurance can be given that the finalised directive or initiatives will not adversely affect the ability of the LLP to make payments under the Covered Bond Guarantee.

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 on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, *inter alia*, law and guidance. 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 the Ombudsman. The Ombudsman may order a money award to a borrower, which may adversely affect the value at which the Mortgage Loans could be realised and accordingly the ability of the LLP to make payments under the Covered Bond Guarantee and may have an adverse effect on the Issuer and its businesses and operations.

Consumer Protection from Unfair Trading Regulations 2008

On 11 May 2005, the European Parliament and Council adopted a directive on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). The Unfair Practices Directive was implemented into United Kingdom law through the Consumer Protection from Unfair Trading Regulations 2008 (CPRs). The CPRs commenced 26 May 2008 and affect all contracts entered into with persons who are natural persons and acting for purposes outside their respective business. Although the CPRs are not concerned solely with financial services, they do apply to the residential mortgage market.

Under the CPRs a commercial practice is to be regarded as unfair and prohibited if it is:

- (a) contrary to the standard of special skill and care which a trader may reasonably be expected to exercise towards consumers, commensurate with honest market practice and/or general principles of good faith in the trader's field of activity; and
- (b) materially distorts or is likely to distort the economic behaviour of the average consumer (who is reasonably well-informed and reasonably observant and circumspect, and taking into account social, cultural and linguistic factors) who the practice reaches or to whom it is addressed (or where a practice is directed at or is of a type which may affect a particular group of consumers, the average consumer of that group).

In addition to the general prohibition on unfair commercial practices, the CPRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair.

Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment.

The effect (if any) of the CPRs on the Mortgage Loans, the Seller or the LLP and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the Unfair Practices Directive. No assurance can be given that the CPRs will not adversely affect the ability of the LLP to make payments under the Covered Bond Guarantee.

Distance Marketing of Financial Services

With effect from 31 October 2004, the Distance Marketing of Financial Services Directive (the "DMD") has been implemented in the United Kingdom by way of the Financial Services (Distance Marketing) Regulations 2004 (the "Regulations") and amendments to MCOB. In essence the regulations require that in respect of distance contracts, consumers have the right to receive certain information and, for some financial services, a right to cancel.

For the purposes of the Regulations, a distance contract means "any contract concerning one or more financial services concluded between a supplier and a consumer under an organised distance sales or service provision scheme run by the supplier or by an intermediary, who, for the purposes of that contract, makes exclusive use of one or more means of distance communication up to and including the time at which the contract is concluded". A similar definition is adopted in MCOB.

The Regulations and MCOB require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service; contractual terms and conditions; and whether or not there is a right of cancellation. In general, consumers of distance contracts have a right to cancel contracts for financial services during a set period after commencement of the contract. However, cancellation rights will not apply, amongst others, in the case of contracts for financial services where (i) the price of the service depends on fluctuations in the financial market outside the supplier's control (such as interest rate changes); (ii) the supplier provides credit to a consumer and the consumer's obligation to repay is secured by a legal mortgage on land; or (iii) it is a restricted use credit agreement (within the meaning of the CCA) to finance the purchase of land or an existing building, or an agreement for a bridging loan in connection with the purchase of land or an existing building. The above provisions may be enforced by way of injunction and any breach may render the Seller and possibly its officers liable to a fine.

Any term in a distance contract will be void and unenforceable if, and to the extent that, it is inconsistent with the application of a provision of the Regulations.

If a significant portion of the Mortgage Loans are characterised as being cancellable under the Regulations, then there could be an adverse effect on the Issuer and the LLP, which could affect the ability of the LLP to make payments under the Covered Bond Guarantee.

General review of UK consumer law

In May 2008, the DBERR published a consultation paper seeking views on whether and how it might reform UK consumer law. Specifically, comments were requested on whether consumer law should be consolidated in a single instrument, whether specific areas of legislation should be updated, and whether a review of UK consumer credit law should be undertaken. No assurance can be given that any such reform of UK consumer law would not adversely affect the ability of the LLP to make payments under the Covered Bond Guarantee, the Seller, the Issuer and/or the Administrator and their respective businesses and operations.

Basel Capital Accord

The original Basel Accord was agreed in 1988 by the Basel Committee on Banking Supervision (the "Committee"). The 1988 Accord, now referred to as Basel I, helped to strengthen the soundness and stability of the international banking system as a result of the higher capital ratios that it required. The Committee supervision published the text of the new capital accord under the title: "*Basel II; International Convergence on Capital Measurement and Capital Standards: a revised framework*" (the "**Framework**") in June 2004. In November 2005, the Committee issued an updated version of the Framework. On 4 July 2006, the Committee issued a comprehensive version of the Framework. This Framework places enhanced emphasis on market discipline and sensitivity to risk and serves as a basis for national and supra-national rule-making and approval processes for banking organisations. The Framework was put into effect for credit institutions in Europe via the recasting of a number of prior directives. This consolidating directive is referred to as the EU Capital Requirements Directive ("**CRD**"). Member States were required to transpose, and financial services industry have to apply, the CRD by 1 January 2007. The more sophisticated measurement approaches for operational risk are required to be implemented from January 2008. The Framework, as implemented, will affect risk weighting of the Covered Bonds for investors. Consequently, Covered Bondholders should consult their own advisers as to the consequences to and effect on them of the application of the Framework as implemented by their own regulator, to their holding of any Covered Bonds. The Issuer is not responsible for informing Covered Bondholders of the effects of the changes to risk-weighting which will result for investors from the adoption by their own regulator of the Framework.

The Basel Committee announced in April 2008 that it would take steps to strengthen certain aspects of the Framework and, to this end, it confirmed that it would introduce a number of measures over the coming months. The European Commission also published in April 2008 a consultation paper on certain changes proposed to the Capital Requirements Directive and it has also sought technical advice on its proposed changes from the Committee of European Banking Supervisors. There can be no guarantee that the regulatory capital treatment of the Covered Bonds for investors will not be affected by any future changes to the Framework or the Capital Requirements Directive.

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. As the LLP is a member of The Co-operative Group, it may be treated as connected to an employer under an occupational pension scheme which is within The Co-operative Group.

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 it 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 the interests of the Covered Bondholders.

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 Programme Documents which could, in turn, adversely affect the interests of Covered Bondholders.

Changes of law and/or regulatory, accounting and/or administrative practices

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law, regulatory, accounting and administrative practice in effect as at the date of this Base Prospectus, and having due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of the United Kingdom HM Revenue & Customs in force or applied in the United Kingdom as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to English law, regulatory, accounting or administrative practice in the United Kingdom or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of the United Kingdom HM Revenue & Customs as applied in the United Kingdom after the date of this Base 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 when due or the ability of the LLP to make payments under the Covered Bonds Guarantee when due.

Absence of Regulatory Oversight Under the U.S. Investment Company Act

In the event the Covered Bonds are offered within the United States or to, or for the account or benefit of, U.S. Persons, neither the Issuer nor the Guarantor is required and nor do they intend to register with the U.S. Securities and Exchange Commission (the "SEC") as an investment company under the U.S.

Investment Company Act of 1940, as amended (the "**Investment Company Act**"). The Issuer and the Guarantor will rely on the exemption provided in Section 3(c)(7) of the Investment Company Act, limiting the availability of its securities to investors who are not "U.S. Persons" as defined in Regulation S promulgated under the Securities Act, or who are "U.S. Persons" who are also "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act and the rules and regulations promulgated thereunder. Accordingly, the provisions of the Investment Company Act (which may provide certain regulatory safeguards to investors) will not be applicable.

Restrictions On Transfer

In the event the Covered Bonds are offered within the United States or to, or for the account or benefit of, U.S. Persons, the Covered Bonds will not be registered under the Securities Act or any state securities laws and may not be transferred unless registered under applicable federal and state securities laws or unless an exemption from such laws is available. The Issuer has no plans, and is under no obligation, to register the Covered Bonds under the Securities Act.

No sale, assignment, participation, pledge or transfer of a Covered Bond or any interest therein may be made unless made in compliance with the transfer and selling restrictions set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". Purchasers of the Covered Bonds in the United States or who are U.S. Persons will be required to make certain representations set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

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):

- (i) to purchase the Initial Mortgage Loan Portfolio and each New Mortgage Loan Portfolio consisting of the Mortgage Loans and their Related Security and to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test; and thereafter the LLP may use such proceeds;
- (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 (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit).

THE ISSUER

General Information

History & Development

The legal name of the Issuer is The Co-operative Bank PLC and its commercial name is The Co-operative Bank.

The Co-operative Bank's origins date back to 1872, originally being formed as the banking department of The Co-operative Wholesale Society Limited ("CWS"), which changed its name on 14 January 2001 to Co-operative Group (CWS) Limited and then subsequently changed its name on 3 December 2007 to Co-operative Group Limited ("**The Co-operative Group**") following the merger with United Co-operatives on 29 July 2007.

In October 1970, The Co-operative Bank Limited was incorporated in England and Wales under registration number 990937, and, following the passing of The Co-operative Bank Act 1971, the business formerly carried on by the banking department of The Co-operative Group was transferred to and vested in The Co-operative Bank Limited in July 1971. This was followed, in June 1973, by the transfer of the business of the banking department of the former Scottish Co-operative Wholesale Society to The Co-operative Bank.

The Co-operative Bank obtained clearing bank status in 1975 and was granted recognised status by the Bank of England under the terms of the Banking Act 1979. In 1981, The Co-operative Bank re-registered under the Companies Act 1980 as a public company and was re-registered on 10 January 1993 with its present name. On 19 June 2002, The Co-operative Group transferred its entire shareholding in The Co-operative Bank to Co-operative Financial Services Limited ("CFS"), a newly incorporated industrial and provident society. The ultimate parent organisation remains The Co-operative Group.

The Co-operative Group operates a range of businesses in food and non-food retailing, farming, funerals, travel, and pharmacy. It also provides buying, marketing, distribution and other services for the cooperative movement.

CFS is also the parent of The Co-operative Bank's sister organisations – Co-operative Insurance Society Limited ("CIS") and CIS General Insurance Limited.

The Co-operative Bank owns 27 per cent. of the equity of Unity Trust Bank Plc ("**UTB**", together with The Co-operative Bank, CFS and CIS, "**The Co-operative Financial Services Group**"). UTB and its subsidiaries provide retail banking services to personal and corporate customers, principally trade unions and their members. In accordance with U.K. accounting practice, the financial results of UTB are consolidated within the statutory accounts of The Co-operative Bank.

With effect from 15 January 2006, the executive management of the boards of CFS, CIS and The Co-operative Bank have been reorganised under a single executive management framework. At this date all the Directors of the CFS Board were appointed to The Co-operative Bank Board ensuring a common understanding of objectives.

The short term unsecured obligations of the Issuer are rated F1 by Fitch and P-1 by Moody's and the long term obligations of the Issuer are rated A by Fitch and A2 by Moody's.

The Co-operative Bank's registered office, which is also its Head Office, is situated at 1 Balloon Street, Manchester M60 4EP, telephone number: +44 161 832 3456, fax number: +44 161 829 4475.

Recent events

There are no recent events particular to the Issuer that are, to a material extent, relevant to the evaluation of its solvency.

Business Overview

Strategy of the Issuer

The Co-operative Bank, as part of The Co-operative Financial Services Group, has five key goals: profit generation to create a sustainable business, market leading customer satisfaction, market leading colleague satisfaction, market leading social responsibility approach, and membership growth.

Business & Principal Activities

The Co-operative Bank is an established U.K. settlement bank with a diversified range of retail banking activities, substantially servicing U.K. customers. It has an established presence in its chosen segments of the U.K. market and has a continuing programme to differentiate itself from the competition and to improve customer loyalty.

Retail banking services are provided to the personal sector, the small to medium sized corporate and commercial sectors *along with public sector and charitable institutions*. *Financial advice and specialised financial services* are also provided to individuals, corporates and institutions by The Co-operative Bank's financial advisory, treasury and asset based finance operations. The Co-operative Bank is a major supplier of financial services to local authorities and to The Co-operative retail sector.

The Co-operative Bank operates in the following principal markets:

Residential Mortgage Lending

The Co-operative Bank offers variable, fixed and tracker mortgages. As at 12 January 2008, The Co-operative Bank had £3.3 billion of advances secured on residential property. At 31 December 2007, the total arrears were £16.5 million and the loan to value ratio (not indexed) was 47%. The assets are well spread geographically throughout the UK.

*Personal Unsecured Lending**

The book comprises mostly fixed rate lending to The Co-operative Bank customers (personal loans) and non-bank customers (direct loans). Risk based pricing is utilised. The book has reduced in size from £1.1 billion at 13 January 2007 to £1.0 billion at 12 January 2008 as The Co-operative Bank focuses on its secured personal lending, and relationship business. Fixed rate loans are written up to £25,000 and out to 7 years.

*Credit Cards**

The Co-operative Bank's credit card book was £0.9 billion at 12 January 2008 (£1.0 billion at 13 January 2007). Credit card growth is focused on customer retention and targeted growth opportunities, and the book is being strategically reduced in the same manner as other unsecured retail lending.

smile

In October 1999, The Co-operative Bank launched smile, the UK's first full Internet bank. *smile* currently has approximately 380,000 customers, of which a high proportion are relationship customers.

*Commercial Lending**

The Co-operative Bank had £3.9 billion of corporate and commercial lending as at 12 January 2008, including approximately £0.2 billion of leases. The focus is on key sectors including commercial property, syndicated/leveraged finance, PFI, geographically spread mid corporate relationship banking, public sector, renewable energy, charity and community sectors. A total of 16 regionally based corporate banking centres operate across the UK, with four of these having opened in 2007 as part of a programme to expand the geographic reach of the business.

More specialised financial services are provided including access to wholesale money markets, structured/project finance together with a range of risk management solutions.

*All balances quoted are gross advances pre impairment provisions.

Wholesale Lending

The Co-operative Bank has extensive inter-bank assets, including certificates of deposit and floating rate notes of up to five years initial maturity. The Co-operative Bank has a small residual exposure to structured investment vehicles. As at 12 January 2008 The Co-operative Bank had £31m residual investment (£63m investment less £32m impairment provision) over three structured investments and £50m investment over two credit trading funds. However, the remainder of The Co-operative Bank's debt securities book at 12 January 2008 is investment grade credit quality (single A rated or above) and liquid.

Retail Savings and Current Accounts

The Co-operative Bank had £6.0 billion personal and £2.9 billion corporate customer deposit balances as at 12 January 2008, excluding deposit notes. These balances are held in a mixture of instant access, notice accounts and fixed rate deposits as well as current accounts.

The Co-operative Bank provides a 24 hour, 7 days a week service to its personal customers. In addition to telephone banking, its nationwide distribution system encompasses 121 outlets (at 12 January 2008) and 56,000 ATMs, through its membership of LINK. The Bank also offers its retail customers cash and deposit facilities at 16,000 UK post offices.

Independent financial advice is offered by Co-operative Bank Financial Advisers Limited, which is a wholly owned subsidiary of The Co-operative Bank.

Trend Information

There has been no material adverse change in the prospects of the Issuer since 12 January 2008.

Profit Forecasts Or Estimates

The Issuer does not intend to make or imply any profit forecasts or profit estimates in this Base Prospectus. No statement contained in this Base Prospectus should be interpreted as such a forecast or estimate.

Directors

The Directors of the Issuer, their functions in relation to The Co-operative Bank and their principal outside activities (if any) of significance to The Co-operative Bank Group are as follows:

Name	Business Address	Function(s) within The Co-operative Bank	Principal outside activity
G. R. Bennett, FIMgt	Southern Co-operatives Ltd 44 High Street, Fareham, Hampshire PO16 7BN	Chairman	Chief Executive, Southern Co-operatives Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited Director, Co-operative Financial Services Limited Director, Unity Trust Bank Plc Director, Co-operative Group Limited
D. Anderson, MA (OXON)	Co-operative Financial Services CIS Building Miller Street Manchester M60 0AL	Group Chief Executive	Chief Executive, Co-operative Financial Services Limited Chief Executive, Co-operative Insurance Society Limited Chief Executive, CIS General Insurance Limited
B. Tootell BA, FCA	Co-operative Financial Services CIS Building Miller Street Manchester M60 0AL	Group Finance Director	Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
D. Parkhouse	Co-operative Financial Services CIS Building Miller Street Manchester M60 0AL	Managing Director (Retail)	Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited

<u>Name</u>	<u>Business Address</u>	<u>Function(s) within The Co-operative Bank</u>	<u>Principal outside activity</u>
A. J. Reizenstein MA (CANTAB), FRAM	Corporate & Markets Co-operative Financial Services CIS Building, Miller Street, Manchester M60 0AL	Managing Director	Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
G. Pennell	Co-operative Financial Services CIS Building Miller Street Manchester M60 0AL	Executive Director (Business Transformation and Shared Services)	Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
D. W. Davies, BA (econ), FIA	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Senior Independent Director	Chief Executive, Sun Life Assurance Company of Canada (UK) Limited Senior Independent Director, Co-operative Financial Services Limited Senior Independent Director, Co-operative Insurance Society Limited Senior Independent Director, CIS General Insurance Limited
R. H. Burlton	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Strategic Projects Executive, Midcounties Co- operative Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited Chairman, Co-operative Financial Services Limited
S. J. Butler, B.Ed	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Director, Co-operative Group Limited Director, Co-operative Financial Services Limited Chairman, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
P. W. Hewitt, BA (Hons), ACA	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
T.M. Morton, C.Eng MIEE, MCMI, BSc (Hons)	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Director, Co-operative Group Ltd Director, Co- operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
R. Newton	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited
K. A. Smith	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Director, Co-operative Group Limited Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
G. H. Stow, FCIB, FCIPD	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
L.A. Wardle	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Chairman, Co-operative Group Limited Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
S.G. Watts, MA (econ), BA (Hons)	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Director, Co-operative Group (CWS) Limited Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
M. Wates	Governance Department Co-operative Group Limited	Non Executive Director	Chief Financial Officer, Co-operative Group Limited Director, Co-operative Financial Services Limited

Name	Business Address	Function(s) within The Co-operative Bank	Principal outside activity
	New Century House Corporation Street Manchester M60 4ES		Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited
J.P. Williamson ACIB, MCT	c/o Governance Department Co-operative Group Limited New Century House Corporation Street Manchester M60 4ES	Non Executive Director	Chief Executive Officer, The Housing Finance Corporation Director, Co-operative Financial Services Limited Director, Co-operative Insurance Society Limited Director, CIS General Insurance Limited

No potential conflicts of interest exist between any duties to the Issuer of the Board of Directors listed above and their private interests or other duties.

Employees

The Co-operative Bank had 4,071 employees as at 12 January 2008, excluding agency staff.

Financial Information Concerning the Issuer's Assets And Liabilities, Financial Position And Profits And Losses

Historical financial information

The Annual Report and Financial Statements of the Issuer for the years ended 13 January 2007 and 12 January 2008 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The following information in relation to the Issuer for its financial years ending 13 January 2007 and 12 January 2008 is contained in the Annual Reports and Financial Statements (at the locations listed) which are incorporated by reference into this Base Prospectus:

- the balance sheets (at pages 41 and 42 of its Annual Reports to 13 January 2007 and 12 January 2008);
- the income statements (at pages 40 and 41 of its Annual Reports to 13 January 2007 and 12 January 2008);
- the cash flow statements (at pages 44 and 45 of its Annual Report to 13 January 2007 and 12 January 2008); and
- the accounting policies and explanatory notes (at page 63 of its Annual Report to 13 January 2007 and page 71 of its Annual Report to 12 January 2008, referred to as the "Notes to the Financial Statements").

The financial statements are consolidated financial statements.

Auditing of historical annual financial information

The historical financial information referred to above has been audited; please see the Reports of the Independent Auditors, at pages 38 and 39 of its Annual Reports to 13 January 2007 and 12 January 2008.

Legal and arbitration proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12-month period before the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer and that of its consolidated subsidiaries.

On 27 July 2007, the Office of Fair Trading ("OFT") announced that it would be commencing test case proceedings in the High Court ("Test Case") between eight major bank current account providers (which do not include the Issuer) and the OFT for a declaration on the application of the law in respect of unauthorised overdraft charges. The first step in the Test Case was heard between 17 January 2008 and 8

February 2008 and sought to establish the preliminary legal principle of whether the unauthorised overdraft charges fell within the scope of the Unfair Terms in Consumer Contract Regulations ("UTCCRs") and whether the charges amounted to penalties at common law.

In its judgment, handed down on 24 April 2008, the High Court ruled that the charges are not unenforceable penalties, but were assessable for fairness under the UTCCRs. The banks have been given permission to appeal the findings that relevant terms can be assessed for fairness under the UTCCRs.

The banks (as well as the Issuer) were granted a waiver in relation to the settling of customer complaints over charges on retail bank accounts until the outcome of the Test Case is settled. This waiver was to expire on 26 July 2008, but has now been extended to 26 January 2009.

Given the early stage of the proceedings and the fact that the Issuer is not a party to the Test Case, it is not practicable at this time to estimate any potential financial effect. The Issuer intends to comply with its obligations as a company admitted to the Official List in connection with further disclosure in relation to the Test Case.

Significant change in the financial or trading position of the Issuer

There has been no significant change in the financial or trading position of the Issuer and that of its consolidated subsidiaries which has occurred since 12 January 2008.

THE LLP

Introduction

The LLP was incorporated in England and Wales on 4 July 2008 as a limited liability partnership (registered number OC338509) with limited liability under the LLPA 2000 by The Co-operative Bank and the Liquidation Member as its Members. The principal place of business of the LLP is at 1 Balloon Street, Manchester M60 4EP (telephone number: +44 161 832 3456). 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 Mortgage 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 material activities other than activities incidental to its incorporation under the LLPA 2000, activities contemplated under the Programme 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 Base Prospectus are and their principal offices are:

<i>Name</i>	<i>Principal Office</i>
The Co-operative Bank plc	1 Balloon Street, Manchester, M60 4EP
Beclefield Limited	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.

<i>Name</i>	<i>Business Address</i>	<i>Business Occupation</i>
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Acting as Corporate company director of special purpose companies
SFM Directors (No. 2) Limited	35 Great St. Helen's, London EC3A 6AP	Acting as Corporate company director of special purpose companies

The directors of The Co-operative Bank are set out under "The Issuer" above.

No potential conflicts of interest exist between any duties to the LLP of the Directors of the Members, as described above, and their private interests or other duties.

The individual Directors of each of the Corporate Directors of the Liquidation Member are:

<i>Name</i>	<i>Business Address</i>	<i>Business Activities</i>
Jonathan Keighley	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.
James Macdonald	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.
Robert Berry	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.
Cane Pickersgill	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.
J-P Nowacki	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.
Debra Parsall	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.
Annika Goodwille	35 Great St. Helen's, London EC3A 6AP	To act as a nominee director for special purpose vehicles.

No potential conflicts of interest exist between any duties to the *LLP of the Directors of SFM Directors Limited and SFM Directors (No. 2) Limited*, as described above, and their private interests or other duties.

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

SUMMARY OF THE PRINCIPAL DOCUMENTS

Trust Deed

The Trust Deed to be entered into 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*:

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

The Covered Bond Guarantee

Pursuant to the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any moneys due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Receipts or Coupons, or 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 a 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 the Covered Bondholders), an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, Extended Due for Payment Date, by the Issuer. Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on the 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 the 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 (a) the day which is two Business Days following service of a Notice to Pay on the LLP or (b) 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 of such taxes, assessments or other governmental charges are required by law or regulation or administrative practice of the United Kingdom or any political subdivision thereof or any authority therein or thereof having the power to tax. If any such withholding or deduction is required, the LLP will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay any amount to the Bond Trustee or any Covered Bondholder 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 or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any 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 periods specified in Condition 9(b) (*LLP Events of Default*) of the Conditions, failure by the LLP to pay the Guaranteed Amounts when Due for Payment will constitute an LLP Event of Default.

The Trust Deed provides that, following the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice, the Excess Proceeds shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service 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.

Application will be made to enable the Issuer and the Programme to be registered under the RCB Regulations. The Issuer may request the Bond Trustee to agree to modifications to the Programme Documents and/or the Conditions of the Covered Bonds to enable the Issuer and/or the Programme and/or the Covered Bonds to qualify as Regulated Covered Bonds under the RCB Regulations (or any replacement or amended regulations). The Bond Trustee shall agree to such modifications without the consent or sanction of the Covered Bondholders, the Receiptholders or the Couponholders in respect of the Covered Bonds issued under the Programme on or after the date hereof and without the consent or sanction of any other Secured Creditors and without liability to any person for so doing, subject to receipt by the Bond 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 that (i) the requested amendments are to be made solely for the purpose of enabling the Covered Bonds to qualify under the Covered Bonds 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.

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 (or its Sterling Equivalent) 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 either be made in the relevant currency of the Covered Bonds and (to the extent necessary) will be swapped into Sterling by the LLP pursuant to the relevant Swap Agreement or its Sterling Equivalent. The Sterling Equivalent of each Term Advance will be used by the LLP (i) as consideration in part for the acquisition of the Initial Mortgage Loan Portfolio and each New Mortgage Loan Portfolio consisting of Mortgage 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 (as specified in the LLP Deed) to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test, and (iii) thereafter, the LLP may use such proceeds (a) (subject to complying with the Asset Coverage Test) to make a Capital Distribution to a Member; and/or (b) 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 (c) to make a deposit of all or part of the proceeds in the 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 Series or Tranche, as applicable, of Covered Bonds corresponding to such Term Advance.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in

accordance with the relevant Priorities of Payments. Prior to the service of a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the 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.

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(i) (*Cancellation*).

The Intercompany Loan Agreement will be governed by English law.

Mortgage Sale Agreement

The Seller

Mortgage Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement to be entered into on the Programme Date between The Co-operative Bank (in its capacity as Seller), the LLP and the Security Trustee.

Sale by the Seller of Mortgage Loans and Related Security

The Mortgage Loan Portfolio will consist of Mortgage Loans and their Related Security and Additional Mortgage Loan Advances sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Mortgage Loans forming part of the Mortgage Loan Portfolio will vary over time provided that, at the time the relevant Mortgage Loans are sold to the LLP, the Eligibility Criteria (as described below) in respect of such Mortgage Loans are met on the relevant Transfer Date. Accordingly, the Mortgage Loan Portfolio may, at any time, include Mortgage Loans and Additional Mortgage Loan Advances 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 Mortgage 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 Mortgage Loans and their Related Security from the Seller. In exchange for the sale of the Mortgage Loans and their Related Security to the LLP, the Seller will receive an amount equal to the Current Balance of those Mortgage Loans sold by it as at the Transfer Date, which will be satisfied by a combination of:
 - (i) a cash payment (if any) to be made by the LLP from the proceeds of the relevant Term Advance and/or from Available Principal Receipts; and/or
the Seller being treated as having made a Capital Contribution in Kind in an amount equal to the difference between the Current Balance of the Mortgage Loans comprised in the relevant New Mortgage Loan Portfolio sold by the Seller as at the relevant Transfer Date and the cash payment (if any) made by the LLP;
 - (ii) Deferred Consideration;
 - (iii) the covenant by the LLP (in its capacity as All Moneys Mortgage Trustee) to hold the trust property under each All Moneys Mortgage Trust upon trust for itself and the Seller as beneficiaries; and
 - (iv) the covenant by the LLP to pay to the Seller all Early Repayment Charges received by the LLP in respect of the Mortgage Loans in the Mortgage Loan Portfolio provided that, if any Mortgage Loans in respect of which Early Repayment Charges are payable are the

subject of a trust, the benefit of any Early Repayment Charges payable in respect of such Mortgage Loan (as described in the Mortgage Sale Agreement) shall, on the date of payment to the Seller of the related Early Repayment Charge, be released from such trust,

- (b) *second*, prior to service of a Notice to Pay on the LLP, the LLP will use the Available Principal Receipts to acquire New Mortgage Loans and their Related Security from the Seller and/or Substitution Assets (in respect of any Substitution Assets, up to the prescribed limit (as set out in the LLP Deed)); and
- (c) *third*, the LLP and the Seller are required to ensure that the Mortgage Loan Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable efforts to offer to sell sufficient New Mortgage Loans and their Related Security to the LLP in consideration of (i) the Seller being treated as having made a Capital Contribution (in an amount equal to the outstanding principal balance of the New Mortgage Loans sold by the Seller as at the relevant Transfer Date), (ii) the right to receive the Deferred Consideration, (iii) the covenant by the LLP (in its capacity as the All Moneys Mortgage Trustee) to hold the trust property under each applicable All Moneys Mortgage Trust upon trust for itself (as trustee for the Beneficiaries) and the Seller, (as the holder of the Associated Debt) as beneficiaries of each such All Moneys Mortgage Trust, and (iv) the covenant by the LLP to pay to the Seller any and all Early Repayment Charge receipts received by the LLP in respect of the Mortgage Loans in the Mortgage Loan Portfolio (provided that, if any Mortgage Loans in respect of which Early Repayment Charges are payable are the subject of a trust, the benefit of any Early Repayment Charges payable in respect of such Mortgage Loan shall (as described in the Mortgage Sale Agreement), on the date of payment to the Seller of the related Early Repayment Charge, be released from such trust), such sale of New Mortgage Loans and their Related Security to ensure compliance with the Asset Coverage Test as at the next Calculation Date provided that the Seller shall not be obliged to sell to the LLP, and the LLP shall not be obliged to acquire, New Mortgage Loans and their Related Security if in the reasonable opinion of the Seller the sale to the LLP of such New Mortgage Loans and their Related Security would materially adversely affect the business or financial condition of the Seller.

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

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

Eligibility Criteria

The sale of Mortgage Loans and their Related Security to the LLP will be subject to various conditions (the "**Eligibility Criteria**") being satisfied on the relevant Transfer Date, including:

- (a) *no Issuer Event of Default* or LLP Event of Default under the Programme 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 Mortgage Loans and their Related Security, would adversely affect the then current ratings by Moody's or Fitch of the Covered Bonds;
- (c) the weighted average yield on the Mortgage Loans currently comprised in the Mortgage Loan Portfolio, together with the weighted average yield on the New Mortgage Loans to be transferred to the Mortgage Loan Portfolio on the relevant Transfer Date, is at least 0.40 per cent. greater than LIBOR for three-month Sterling deposits after taking into account (i) the average yield on the Mortgage Loans and (ii) the margins on the Basis Rate Swaps and (iii) the average yield on any Substitution Assets held by the LLP;
- (d) no Mortgage Loan has a Current Balance of more than £2,500,000;

- (e) no Mortgage Loan relates to a Property which is not a residential Property and, other than in the case of Buy to-Let Mortgage Loans, that is not owner occupied; and
- (f) if the Mortgage Loan constitutes a New Product Type, written confirmation has been received by the Security Trustee from each of the Rating Agencies in accordance with the terms of the Mortgage Sale Agreement, that such Mortgage Loan may be sold to the LLP without having an adverse impact on the ratings of the Covered Bonds.

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

Transfer of Title to the Mortgage Loans to the LLP

The Mortgage Loans will be sold by the Seller to the LLP by way of equitable assignment. Such beneficial interest (as opposed to the legal title) cannot be registered or recorded in the H.M. Land Registry. As a result, legal title to Mortgage 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. Legal assignment of the Mortgage Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described below.

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

- (a) the occurrence of an Issuer Event of Default and service on the Issuer of an Issuer Acceleration Notice and the service on the LLP of a Notice to Pay (unless the Seller has notified the LLP and the Security Trustee that it will accept the offer set out in the Selected Mortgage Loan Offer Notice within the prescribed time in relation to all the Mortgage Loans in the Mortgage Loan Portfolio and their Related Security owned by the LLP);
- (b) in respect of Selected Mortgage Loans and their Related Security only, at the request of the LLP following the acceptance of any offer to sell the Selected Mortgage Loans and their Related Security to any person who is not the Seller;
- (c) the Seller and/or the LLP being required to perfect legal title to the Mortgage Loans by an order of a court of competent jurisdiction, or by a regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders with whose instructions it is customary for the Seller to comply, to perfect legal title to the Mortgage Loans and their Related Security;
- (d) it becoming necessary by law to take any or all such actions;
- (e) the security under the Deed of Charge or any material part of that security being, in the opinion of the Security Trustee, in jeopardy and the Security Trustee being required by the Secured Creditors to take action to reduce that jeopardy;
- (f) the termination of the Seller's role as Administrator under the Administration Agreement, unless as at the relevant date of termination any substitute administrator is a member of The Co-operative Financial Services Group or is appointed pursuant to the provisions of the Administration Agreement;
- (g) the Seller calling for perfection by serving notice in writing to that effect on the LLP and the Security Trustee;
- (h) the Seller requesting a transfer by way of assignment by giving notice in writing to the LLP and the Security Trustee;
- (i) the occurrence of an Insolvency Event in relation to the Seller; or
- (j) the Seller having been downgraded below BBB- by Fitch or Baa2 by Moody's.

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 (in relation to the Mortgage Loans assigned to the LLP pursuant to the terms of the Mortgage Sale Agreement).

The Title Deeds and Mortgage Loan Files relating to the Mortgage Loans in the Mortgage Loan Portfolio will be held by or to the order of the Seller or the Administrator, as the case may be, or by solicitors or licensed conveyancers acting for the Seller in connection with the creation of the Mortgage Loans and their Related Security. The Seller or the Administrator, as the case may be, will undertake that all the Title Deeds and Mortgage Loan Files relating to the Mortgage Loans in the Mortgage Loan Portfolio which are at any time in their possession or under their control or held to their order will be held to the order of the Security Trustee or as the Security Trustee may direct.

Representations and warranties

None of the LLP, 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 Mortgage Loans and their Related Security or in respect of Additional Mortgage Loan Advances to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties made by the Seller contained in the Mortgage Sale Agreement. The Seller's Representations and Warranties in relation to each Mortgage Loan (and each Additional Mortgage Loan Advance) sold from time to time to the LLP pursuant to the terms of the Mortgage Sale Agreement include, *inter alia*, substantially the following:

- (a) *Mortgage particulars:* The particulars of each Mortgage Loan and its Related Security included in the Initial Mortgage Loan Portfolio delivered in accordance with the Mortgage Sale Agreement and those in each New Mortgage Loan Portfolio set out in the Schedule to the relevant New Mortgage Loan Portfolio Notice are true, accurate and not misleading in all material respects.
- (b) *Legal and beneficial owner:* Immediately prior to a Transfer Date, as the case may be, subject to completion of any registration or recording which may be pending at the Land Registry the Seller was the sole beneficial and legal owner of all property, rights, interests and benefits in the Mortgage Loans and the Related Security to be sold and assigned by the Seller to the LLP pursuant to the Mortgage Sale Agreement at such Transfer Date and the Seller has not assigned (whether by way of absolute assignment or assignation or by way of security only), transferred, charged, disposed of or dealt with the benefit of any of the Mortgage Loans or their related Mortgages, any of the other rights relating thereto or any of the property, rights, titles, interests or benefits to be sold and assigned pursuant to the Mortgage Sale Agreement other than pursuant to the Mortgage Sale Agreement.
- (c) *Legal, valid and binding obligation:* Each Mortgage Loan and the Mortgage Deed constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms and each Mortgage Deed secures the repayment of all advances and interest payable by the relevant Borrower to the Seller in priority to any other charges registered against the relevant Mortgaged Property, provided however that this representation and warranty will not be deemed to have been breached if the reason for the invalidity, non binding nature or enforceability is a failure to comply with the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, the Consumer Credit Act 1974 (where such legislation applies to a particular Mortgage Loan) or the Financial Services and Markets Act 2000 (where such legislation applies to a particular Mortgage Loan) unless there is also a breach of representation and warranty (d), (f), (p), and/or (h) below.
- (d) *MCOB:* To the extent that any Mortgage Loan constitutes a regulated mortgage contract for the purposes of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, at the time it was made, such Mortgage Loan complied with all applicable provisions of the Mortgage Conduct of Business Rules as set out in the FSA Handbook of Rules and Guidance ("**MCOB**") and prior to the sale of such Mortgage Loan to the LLP pursuant to the terms of the Mortgage Sale Agreement such Mortgage Loan was administered in accordance with the provisions of MCOB.

- (e) *Compliance with applicable law:* At the time that it was made, each Mortgage Account was originated in all respects with applicable laws and regulations including, without limitation, consumer protection, data protection and contract law.
- (f) *FSA authorisation:* At all times after 31 October 2004, in relation to each Mortgage Loan originated by the Seller on or after such date (other than Buy-to-Let Mortgage Loans, which are not regulated by the FSA), the Seller has been authorised by the FSA and has maintained all requisite FSA permissions required pursuant to the FSMA in relation to advising on, the origination of and the administration of each relevant Mortgage Loan.
- (g) *First ranking mortgage:* Subject to completion of any registration or recording which may be pending at the Land Registry each Mortgage either constitutes, or will constitute, following registration or recording at the Land Registry a first ranking charge by way of legal mortgage.
- (h) *Location:* Each relevant Mortgaged Property is located in England and Wales.
- (i) *Searches and insurance as to title:* Save where the related Mortgage is covered by a valid title and/or local search insurance policy prior to making a Mortgage Loan to a Borrower, the Seller instructed or required to be instructed on its behalf solicitors or licensed conveyancers to carry out in relation to the relevant Mortgaged Property all usual and necessary investigations, searches and enquiries that would have been undertaken by the Seller acting in accordance with standards consistent with those of a Prudent Mortgage Lender, when advancing money in an amount equal to such advance to an individual to be secured on a Mortgaged Property of the kind permitted under the Lending Criteria and a report or certificate on title was received by or on behalf of the Seller from such solicitors which, either initially or after further investigation, revealed no material matter which would cause the Seller, acting reasonably, to decline the Mortgage Loan having regard to the Lending Criteria.
- (j) *Valid title:* In relation to each Mortgage Loan, the Borrower's solicitors have confirmed that the Borrower has good and marketable title to the relevant Mortgaged Property (subject to, in the case of Buy to Let Mortgage Loans, any Existing Tenancy Agreements) and if the relevant Mortgaged Property has joint legal owners, all of such joint legal owners have joined in the related Mortgage.
- (k) *Valuation:* Prior to making a Mortgage Loan:
 - (i) an independent valuation has been carried out or instructed by one of the Seller's panel managers on the relevant Mortgaged Property or, if in accordance with the Seller's then Lending Criteria, an automated valuation will be taken in respect of such Mortgaged Property; and
 - (ii) in the case of Buy to Let Mortgage Loans only and if required in accordance with the Seller's then Lending Criteria, an estimate of the rental income of relevant Mortgage Property will be carried out or instructed by one of the Seller's panel managers,
 and the results of such valuation and, where applicable, rental income estimate, would be acceptable to a Prudent Mortgage Lender.
- (l) *Lending Criteria:* The Seller's Lending Criteria are consistent with the lending criteria that would be used by a reasonable and Prudent Mortgage Lender.
- (m) *Compliance with Lending Criteria:* Prior to making a Mortgage Loan, the nature and amount of the Mortgage Account, the circumstances of the relevant Borrower and nature of the relevant Mortgaged Property of such Mortgage satisfied the Lending Criteria in force at that time in all material respects.
- (n) *Valid Guarantees:* To the extent that a Guarantee was required under the Lending Criteria in relation to a particular Mortgage Loan, that Guarantee constitutes the valid, binding and enforceable obligations of the guarantor thereunder (save to the extent that the Guarantee is not valid, binding or enforceable by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or the Unfair Terms in Consumer Contracts Regulations 1999).

- (o) *Exercise of discretion:* The exercise of any discretion by the Seller in the making of any Mortgage Loan has been consistent with the practice of a reasonable and prudent mortgage lender.
- (p) *Standard documentation:* Each Mortgage Loan and its Mortgage Deed has been made substantially on the terms of the then applicable Standard Mortgage Documentation which has not been varied in any material respect, other than as required to comply with any applicable law or regulation.
- (q) *Consumer Credit Act:* No agreement for any Mortgage Account is or has ever been, wholly or partly regulated by the Consumer Credit Act 1974 (other than by Sections 137 to 140 of such Act) or constitutes an unfair relationship under Sections 140A to 140D of such Act or, to the extent it is so regulated or partly regulated, it is a valid and binding obligation on the Borrower and enforceable upon order of a court. To the extent of any non-compliance, such non-compliance would not be such as to prevent enforcement of the Mortgage Loan or any of its material terms by the Seller.
- (r) *Interest:* Interest on each Mortgage Loan:
 - (i) is charged on each Mortgage Loan in accordance with the provisions of that Mortgage Loan and its Mortgage Deed;
 - (ii) is calculated by reference to the Tracker Rate or Standard Variable Rate (or any other similar rate as agreed in writing by the LLP and the Security Trustee), subject to any applicable caps discounts and fixed rates; and
 subject to (b) above, may be set by the Seller and its successors and assigns to that Mortgage Loan.
- (s) *Borrower not in material breach:* So far as the Seller is aware, no Borrower is in material breach of the Mortgage Conditions of its Mortgage Account.
- (t) *No fraud:* So far as the Seller is aware, the underwriting, origination and completion of each Mortgage Account is not the subject of fraud by any person (including, without limitation, the Borrower or any professional or third party employed or engaged on behalf of the Seller).
- (u) *First payment made:* As at the date of the Mortgage Sale Agreement, the first payment due has been paid by the relevant Borrower in respect of each Mortgage Loan and each Mortgage Account is fully performing.
- (v) *Scope of Insurance:* Except where a Mortgaged Property was at completion of the relevant Mortgage (or, where appropriate, in the case of self-build properties, at the date of completion of the relevant mortgaged property) covered by the Block Buildings Policy or a block buildings policy providing equivalent cover, the Seller required the Borrower's solicitors to confirm that at the date of completion of the relevant Mortgage Loan each Mortgaged Property was:
 - (i) insured under a buildings policy whether by the Borrower itself or by the relevant Landlord in the case of a property in a larger building; or
 - (ii) with respect to leasehold properties, insured by the relevant landlord with the Seller's approval,
 and in all cases against risks usually covered by a comprehensive buildings policy and to an amount not less than the amount referred to in the Mortgage Offer.
- (w) *Insurance valid:* So far as the Seller is aware, each Insurance Contract arranged by the Seller in respect of any Mortgaged Property is in full force and effect and all premiums thereon due on or before the date of the Mortgage Sale Agreement have been paid in full and the Seller is not aware of any circumstances giving the insurer under such Insurance Contract the right to avoid or terminate such policy in so far as it relates to the Mortgaged Properties or the Mortgage Loans.

- (x) *Nature and Age of Borrowers:* Each of the Borrowers are individuals (and not a partnership) and no Borrower was under 18 years of age at the time of completion of the relevant Mortgage Loan.
- (y) *Notice to residents:* In relation to each Mortgage, any person who at the date when the Mortgage Loan was made has been identified by the Borrower to the Seller as residing or about to reside in the relevant Mortgaged Property is either named as a joint Borrower or has signed a form of consent declaring that he or she agrees that any present or future rights or interests as he or she may have or acquire over or in respect of the relevant Mortgaged Property shall be postponed and made subject to the rights, interests and remedies of the Seller under the relevant Mortgage and that he or she shall not claim any such rights or interests against the Seller.
- (z) *Notice to Landlord:* If a Mortgaged Property is leasehold or long leasehold, written notice has been given to the landlord of the creation of the Mortgage
- (aa) *Buy to Let Mortgage Loans - Tenancies:* The relevant tenancy, if any, is (i) an Assured Shorthold Tenancy for a fixed term not more than 12 months or, where the Housing Act 1988 does not apply to the tenancy, a tenancy agreement on terms no less favourable to the Seller as would be the case if the tenancy had been an Assured Shorthold Tenancy (together with the Assured Shorthold Tenancies, the "Existing Tenancy Agreements") and (ii) the Seller is not aware of any material breach of such Existing Tenancy Agreements.
- (bb) *Loan term:* No Mortgage Loan in the Mortgage Portfolio has a final maturity falling on or after 2058.
- (cc) *Administration:* The Seller has procured that, since the creation of the Mortgage Loan, full and proper accounts, books and records have been kept showing clearly all material transactions, payments, receipts and any enforcement proceedings or any other correspondence relating to that Mortgage Account and its Mortgage and all such accounts, books and records are up to date, accurate in all material respects and have been kept to standards acceptable to a Prudent Mortgage Lender and are in the possession of the Seller or held to its order (subject to the provisions of the LLP Deed).
- (dd) *Pending litigation:* The Seller:
 - (i) has not received written notice of any litigation or claim calling into question in any material way its title to any Mortgage Loan and its related Mortgage or the value of any security; and
 - (ii) is not engaged in any litigation, and no litigation is pending or threatened by the Seller, against any person in connection with any report, valuation, opinion, certificate, consent or other statement of fact or opinion given in connection with any Mortgage Loan received by the Seller in connection with the origination of any Mortgage Loan that would affect the value of the Mortgage Loan in any material way.
- (ee) *Ordinary course:* All Mortgage Loans were originated by or on behalf of the Seller in the ordinary course of the Seller's secured lending activities.
- (ff) *Credit Reassessment Advances:* The Mortgage Loans and their related Mortgages contain no obligations on the part of the Seller to make any Credit Reassessment Advances, and all costs, fees and expenses incurred in making, closing or registering the Mortgage Loans and the Related Security have been paid in full.
- (gg) *Title Deeds:* Subject to completion of any registrations or recording which may be pending at the Land Registry, all Title Deeds which are retained by the Seller are held to the order of the Seller.
- (hh) *Collection practices:* The collection practices employed by the Seller with respect to the Mortgage Accounts have been, in all respects legal and consistent with the practice of a reasonable and Prudent Mortgage Lender.
- (ii) *Approvals and Consents:* All formal approvals, consents and other steps necessary to permit an equitable or beneficial transfer of the Mortgage Loans and their related Mortgages to be sold

under the Mortgage Sale Agreement whenever required under the Programme Documents have been obtained or taken.

- (jj) *Unfair Terms in Consumer Contracts Regulations:* So far as the Seller is aware, none of the terms in any Mortgage Loan and its related Mortgage are unfair terms within the meaning of the Unfair Terms in Consumer Contracts Regulations 1994 or the Unfair Terms in Consumer Contracts Regulations 1999 in any material respect save those which impose Early Repayment Charges.
- (kk) *Origination date:* Each Mortgage Loan, Mortgage Deed and Related Security in the Initial Mortgage Loan Portfolio was made not earlier than 1 January 2000.
- (ll) *Currency:* Subject to the Euro being adopted as the lawful currency of the United Kingdom, each Mortgage Loan was originated by the Seller in pounds Sterling and is denominated in pounds Sterling (or was originated and is denominated in Euro at any time when the Euro has been adopted as the lawful currency of the United Kingdom) and is currently repayable in pounds Sterling (or Euro at any time when the Euro has been adopted as the lawful currency of the United Kingdom).
- (mm) *Insurance claims:* The Seller is not aware of any material claim outstanding under any of the Insurance Contracts relating to a Mortgaged Property.
- (nn) *Seller representations to Borrower:* No representation or warranty has been made to a Borrower (whether prior to the execution of the relevant Mortgage Loan or at any time thereafter), which is inconsistent in any material respect with the terms and provisions set out in the relevant Mortgage Conditions.
- (oo) *Borrower Payments:* Payments on each Mortgage Loan comprised in the Initial Mortgage Loan Portfolio and each New Mortgage Loan Portfolio may be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any other jurisdiction or any authority thereof or therein having the power to tax.
- (pp) *RCB Regulations:* The Mortgage Loans and their Related Security comply with the definition of "Eligible Property" as set out in Regulation 2 (Eligible Property) of the RCB Regulations.
- (qq) *Distance contracts:* To the extent that any of the Mortgage Loans qualify as "distance contracts" (as defined by the Financial Services (Distance Marketing) Regulations 2004 (the "Regulations")), the Seller has complied with the provisions of the Regulations in respect of such Mortgage Loans.
- (rr) *Tax:* No Related Security consists of stock or marketable securities (in either case for the purpose of section 122 of the Stamp Act 1891), chargeable securities (for the purposes of section 99 of Finance Act 1986) or a "chargeable interest" for the purposes of section 48 of Finance Act 2003.
- (ss) *Undisclosed commissions:* The Seller is not currently involved in any disputes with a Borrower or Borrowers relating to the payment by the Seller of any fee or commission to any mortgage broker, independent financial advisor or other intermediary through whose agency the Seller has entered into a mortgage arrangement with such Borrower or Borrowers, where such fee or commission was paid in connection with the Borrower entering into such mortgage arrangement with the Seller, and where the fact that such fee or commission would be paid was not disclosed to the relevant Borrower or Borrowers (irrespective of whether the actual amount of such fee or commission was disclosed).
- (tt) *Variation:* None of the provisions of the Mortgage Loan Agreements were (at the time any such Mortgage Loan was entered into) or have since been waived, altered or modified in any material respect other than by a Product Switch.
- (uu) *Right to Buy:* No Mortgage Loan is a Right to Buy Mortgage Loan, where, for the purpose of this paragraph, "**Right to Buy Mortgage Loan**" means, a Mortgage Loan in respect of which the "right to buy" provisions of the Housing Act 1985 apply (other than any Mortgage Loan in

respect of which the period during which the statutory charge referred to in section 156 of that Act would have existed, had the relevant circumstances applied, has expired).

The Seller will make Representations and Warranties (subject to appropriate adjustments) in relation to each Mortgage Loan, which is subject to a Product Switch or a Credit Reassessment Advance that remains in the Mortgage Loan Portfolio on the date of the relevant Product Switch or Credit Reassessment Advance.

If New Product 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 Product Types. The prior consent of the Covered Bondholders to the requisite amendments will not be required to be obtained.

Repurchase by the Seller

If the Seller receives a Repurchase Notice from the Cash Manager identifying a Mortgage Loan or its Related Security in the Mortgage Loan Portfolio which does not, as at the relevant Transfer Date (other than in the case of a Product Switch or Credit Reassessment Advance, as to which see below), materially comply on the date of its sale with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase (i) any such Mortgage Loan and its Related Security and (ii) any other Mortgage Loans of the relevant Borrower and their Related Security that are included in the Mortgage Loan Portfolio. The repurchase price payable for each Mortgage Loan is an amount (not less than zero) equal to the Current Balance of such Mortgage Loan as at the date of repurchase plus all unpaid interest (including any Accrued Interest and Arrears of Interest) and expenses payable thereon as at the date of such repurchase. 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).

The Seller is solely responsible for the funding of all Additional Mortgage Loan Advances in respect of Mortgage Loans sold by the Seller to the LLP, if any. The Seller will be treated as having made a Capital Contribution in Kind in an amount equal to the amount of the funded Additional Mortgage Loan Advances, as set out in the LLP Deed.

Product Switches and Additional Mortgage Loan Advances

In accordance with the terms of the Mortgage Sale Agreement, a Mortgage Loan will be subject to a "**Product Switch**" if there is a variation in the terms and conditions applicable to the relevant Borrower's Mortgage Loan and/or the relevant Borrower is moved to an alternative mortgage product other than:

- (i) any variation agreed with a Borrower to control or manage arrears on the Mortgage Loan;
- (ii) any variation in the term of the Mortgage Loan;
- (iii) any variation imposed by statute;
- (iv) any variation of the principal available and/or the rate of interest payable in respect of the Mortgage Loan where that variation or rate is offered to the Borrowers under Mortgage Loans which constitute 2 per cent. or more by outstanding principal amount of Mortgage Loans comprised in the Mortgage Loan Portfolio in any LLP Payment Period; or
- (v) any variation in the frequency with which the interest payable in respect of the Mortgage Loan is charged.

The Seller has the right to agree or refuse a Borrower's request for a Product Switch. If the Seller agrees to such request and if the Mortgage Loan which is the subject of the Product Switch is in the Mortgage Loan Portfolio at such time, the Seller will agree pursuant to the terms of the Mortgage Sale Agreement that the Mortgage Loan must as at the date of such Product Switch, comply with the representations and warranties set out in the Mortgage Sale Agreement which are described earlier in this section under "*Representations and Warranties*". If the Mortgage Loan, following such Product Switch, does not comply as required in the foregoing sentence, the Seller will be required to repurchase such Mortgage Loan from the LLP on the Asset Determination Date immediately following such Product Switch.

The Seller has the right to agree or refuse a Borrower's request for a Credit Reassessment Advance. If the Seller agrees to such request and if the Mortgage Loan which is the subject of the Credit Reassessment Advance is in the Mortgage Loan Portfolio at such time, the Seller will agree pursuant to the terms of the Mortgage Sale Agreement that the Mortgage Loan must as at the date of such Credit Reassessment Advance, comply with the representations and warranties set out in the Mortgage Sale Agreement which are described earlier in this section under "*Representations and Warranties*". If the Mortgage Loan following such Credit Reassessment Advance does not comply as required in the foregoing sentence, the Seller will be required to repurchase such Mortgage Loan from the LLP on the Asset Determination Date immediately following the Credit Reassessment Advance to the LLP.

If the short-term unsecured, unguaranteed and unsubordinated debt obligations of the Seller are graded at least F1 by Fitch and P-1 by Moody's, the repurchase price for the Credit Reassessment Mortgage Loan shall be payable by the Seller to the LLP on the LLP Payment Date immediately following the Asset Determination Date on which the relevant Credit Reassessment Mortgage Loan is to be repurchased or if the short-term unsecured, unguaranteed and unsubordinated debt obligations of the Seller are graded below F1 by Fitch or P-1 by Moody's, the repurchase price for the relevant Credit Reassessment Mortgage Loan shall be payable by the Seller to the LLP on the Asset Determination Date immediately following such Credit Reassessment Advance.

The LLP may not, by itself, make any Additional Mortgage Loan Advances or advance moneys to the Seller for such purposes in any circumstances.

If the Administrator and the LLP are notified or are otherwise aware that a Borrower has requested an Additional Mortgage Loan Advance or a Product Switch and the LLP has received confirmation that the Seller is required, as set out above, to repurchase the relevant Mortgage Loan and its Related Security, the LLP shall at the relevant Asset Determination Date sell to the Seller and the Seller shall repurchase such Mortgage Loan together with its Related Security in accordance with and pursuant to the terms of the Mortgage Sale Agreement at a price (not less than zero) equal to the Current Balance on such Mortgage Loan as of the date of completion of such repurchase plus all Accrued Interest and Arrears of Interest and expenses payable on such Mortgage Loan to the date of repurchase.

Defaulted Mortgage Loans

If a Seller receives a Defaulted Mortgage Loans Notice identifying any Defaulted Mortgage Loan, then that Defaulted Mortgage Loan will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test on the relevant Calculation Date. In addition, the Seller may, at its option, repurchase a Defaulted Mortgage Loan for an amount equal to its Current Balance plus Accrued Interest and Arrears of Interest 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 Mortgage Loan and its Related Security from the LLP for a purchase price of not less than the aggregate Current Balance plus Accrued Interest and Arrears of Interest of the relevant Mortgage Loan. The LLP may accept such offer at its discretion. If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to repurchase Selected Mortgage Loans and their Related Security will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee.

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 Mortgage Loans and their Related Security.

The LLP will serve on the Seller a Selected Mortgage Loan Offer Notice offering to sell those Selected Mortgage Loans and their Related Security for an offer price equal to the greater of the then Current Balance of the Selected Mortgage 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 Mortgage Loans and their Related

Security to other Purchasers (as described under "*LLP Deed – Sale of Selected Mortgage 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 Mortgage Loans and their Related Security in accordance with the foregoing, the Seller will, within three Business Days of such acceptance, serve a Selected Mortgage Loan Repurchase Notice on the LLP. The Seller will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Mortgage Loans and their Related Security (and any other Mortgage Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Mortgage 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 Mortgage Loans Repurchase Notice(s) or such date as the LLP may direct in the Selected Mortgage 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 returning the Selected Mortgage Loan Repurchase Notice to the LLP and (b) the Final Maturity Date of the Earliest Maturing Covered Bonds) when the Seller shall pay to the GIC Account in accordance with the LLP Deed (or as the LLP shall direct) an amount in cash equal to the offer price specified in the relevant Selected Mortgage Loans Repurchase Notice.

The Mortgage Sale Agreement will be governed by English law and will be entered into by way of deed.

All Moneys Mortgage Trust

If any Mortgage Loan that is transferred by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement is an All Moneys Mortgage, the LLP shall hold the All Moneys Mortgage Trust Property in relation to such Mortgage Loan on trust for itself as trustee (in such capacity, the "**All Moneys Mortgage Trustee**") and itself and the Seller as beneficiaries. In the event of the enforcement of any All Moneys Mortgage, the Cash Manager shall distribute the enforcement proceeds which constitute All Moneys Trust Property (i) *firstly*, to the LLP, in an amount sufficient to pay in full all amounts due and payable to the LLP with respect to such Mortgage Loan and (ii) *secondly*, to the extent that amounts referred to in (i) have been paid in full, to the Seller in or towards discharge of the Associated Debt that is secured by the All Moneys Mortgage.

Administration Agreement

Pursuant to the terms of the Administration Agreement to be entered into on or about the Programme Date between, *inter alios*, the LLP, The Co-operative Bank (in its separate capacities as Administrator and as Seller) and the Security Trustee, the Administrator will agree to service on behalf of the LLP the Mortgage Loans and their Related Security to be sold by the Seller to the LLP.

In particular, the Administrator will agree with the LLP and the Seller on behalf of the LLP, to perform the day-to-day servicing of the Mortgage Loans in the Mortgage Loan Portfolio, including monitoring compliance with and administering the Mortgage Loan features and facilities applicable to the Mortgage Loans, responding to customer enquiries and managing Mortgage Loans that are in arrears.

The Administrator will continue to administer Mortgage Loans which are not subject to the Programme. The Administrator will agree to administer the Mortgage Loans in the Mortgage Loan Portfolio which are subject to the transaction in the same manner as it administers Mortgage Loans which are not subject to the Programme but remain on the books of the Seller.

The Administrator will agree to comply with any reasonable directions, orders and instructions which any of the LLP or the Seller may from time to time give to it in accordance with the provisions of the Administration Agreement (and, in the event of any conflict, those of the LLP shall prevail).

The Administrator will agree to administer and service the Mortgage Loans in the Mortgage Loan Portfolio and their Related Security in accordance with:

- (a) the Mortgage Conditions of the Mortgage Loans and the Mortgages from time to time in force;
- (b) the Administrator's administration procedures. The Administrator's "**Administration Procedures**" are the administration, arrears and enforcement policies and procedures from time to time in line with the policies and procedures which would be adopted by a Prudent Mortgage

Lender pursuant to which the Administrator administers and enforces Mortgage Loans and their Related Security which are beneficially owned by the Seller;

- (c) the terms and provisions of the Administration Agreement; and
- (d) the RCB Regulations.

Undertakings of the Administrator

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

- (a) determine and set the interest rates applicable to the Mortgage Loans in the Mortgage Loan Portfolio including the Standard Variable Rate, except in the limited circumstances set out in the Administration Agreement when the LLP will be entitled to do so. The Administrator may not at any time, without the prior written consent of the LLP and subject to the terms of the Administration Agreement, set or maintain the Standard Variable Rate (and other discretionary rates) for Mortgage Loans in the Mortgage Loan Portfolio at rates which are higher than the then prevailing rates for mortgage loans which are beneficially owned by the Seller outside of the LLP structure unless the Administrator is required to do so pursuant to the terms of the Administration Agreement to, *inter alia*, meet the Yield Shortfall Test (see "*Yield Shortfall Test*" below);
- (b) take all reasonable steps necessary under the Mortgage Conditions and applicable law to notify Borrowers of each change in interest rates, whether due to a change in the Standard Variable Rate (including any such change effected at the request of the LLP and/or the Security Trustee) or as a consequence of the Mortgage Conditions. The Administrator will also notify the LLP and the Security Trustee of any change in the Standard Variable Rate;
- (c) maintain such records as are necessary to enforce each Mortgage Loan and its Related Security in the Mortgage Loan Portfolio and to keep and maintain, on a loan by loan basis, records and accounts on behalf of the LLP in relation to the Mortgage Loans in the Mortgage Loan Portfolio;
- (d) keep or cause to be kept the Mortgage Loan Files and Title Deeds in safe custody and to the order of the LLP and the Security Trustee and in such a manner that they are readily identifiable and accessible;
- (e) provide the LLP and the Security Trustee and their agents and employees with access to the Mortgage Loan Files and access to the Title Deeds, at all reasonable times;
- (f) make available to the LLP and the Security Trustee a report on a monthly basis containing information about the Mortgage Loans and their Related Security comprised in the Mortgage Loan Portfolio;
- (g) assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;
- (h) take all reasonable steps to recover all sums due to the LLP, including instituting proceedings and enforcing any relevant Mortgage Loan, Mortgage and other Related Security in the Mortgage Loan Portfolio in accordance with the Administration Procedures but having regard to the Borrower's circumstances in each case;
- (i) enforce any Mortgage Loan which is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures that would be undertaken by a Prudent Mortgage Lender;
- (j) maintain and administer the Mortgage Loan Portfolio in accordance with the requirements of the RCB Regulations;
- (k) provide to the FSA such information about the Mortgage Loans and their Related Security contained in the Mortgage Loan Portfolio and/ or any other information as the FSA may require in accordance with the RCB Regulations;

- (l) not knowingly fail to comply with any legal requirements in the performance of its obligations under the Administration Agreement; and
- (m) forthwith upon becoming aware of the Administrator ceasing to have a long term, unsecured, unsubordinated and unguaranteed credit rating of at least Baa2 by Moody's or at least BBB by Fitch, notify the LLP and the Security Trustee in writing of such event.

In its capacity as Administrator, The Co-operative Bank will undertake that, on it ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 and by Fitch of at least BBB-, it will be required to use all reasonable endeavours to appoint as soon as possible thereafter, a standby administrator which will thereafter be in a position to replace The Co-operative Bank in its role as administrator in accordance with and pursuant to the terms of the Administration Agreement and thereafter be responsible for notifying the Borrowers of the change of any interest on any Mortgage Loan in the Mortgage Loan Portfolio as is required from time to time pursuant to the terms of the Administration Agreement.

Standard Variable Rate

Under the terms of the Administration Agreement, the LLP will grant the Administrator full right, liberty and authority from time to time to determine and set, in accordance with the applicable Mortgage Conditions, the Standard Variable Rate and any other discretionary rates and margins applicable to the Mortgage Loans chargeable to Borrowers from time to time.

The LLP and the Security Trustee may terminate the authority of the Administrator to determine the Mortgage Rate(s), as described in the preceding paragraph, on or after the occurrence of an Administrator Termination Event, in which case the LLP will agree to set the Mortgage Rate(s) from such date forth, in accordance with the Administration Agreement.

Determinations by the Administrator

The Administrator shall determine on each Calculation Date, having regard to:

- (a) the income which the LLP would expect to receive during the next succeeding LLP Payment Period (the "**Relevant LLP Payment Period**");
- (b) the Standard Variable Rate and any other discretionary rate or margin in respect of the Mortgage Loans in the Mortgage Loan Portfolio which the Administrator proposes to set under the Administration Agreement for the Relevant LLP Payment Period; and
- (c) the other resources available to the LLP the 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) by the LLP under the Intercompany Loan Agreement or, if a Notice to Pay has been served on the LLP, the Covered Bond Guarantee on the LLP Payment Date falling at the end of the Relevant LLP Payment Period and relevant amounts payable (or provisioned to be paid) to the Swap Providers under the Swap Agreements in respect of all Covered Bonds on the LLP Payment Date falling at the end of the Relevant LLP Payment Period and (2) the other senior expenses payable (or provisioned to be paid) 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 (the "**Interest Rate Shortfall Test**").

If the Administrator determines that the Interest Rate Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one London Business Day of the relevant Calculation Date, of the amount of the shortfall. If the LLP notifies the Administrator and the Seller that, having regard to the obligations of the LLP and the amount of the shortfall, further Mortgage 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 efforts to offer to sell New Mortgage 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 in order for no shortfall to arise and for the Interest Rate Shortfall Test to be met on such next following Calculation Dates. In consideration of such sale, the Seller will be

treated as having made a Capital Contribution (in an amount equal to the Current Balance of the New Mortgage Loans sold by the Seller as at the relevant Transfer Date) and will be entitled to receive the Deferred Consideration in relation thereto.

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

- (a) the Standard Variable Rate and any other discretionary rate or margin, in respect of the Mortgage Loans in the Mortgage Loan Portfolio which the Administrator proposes to set under the Administration Agreement for the Relevant LLP Payment Period; and
- (b) the other resources available to the LLP under the Swap Agreements,

whether the LLP would receive an aggregate amount of interest from the Mortgage Loans in the Mortgage Loan Portfolio and amounts under the Swap Agreements during the Relevant LLP Payment Period which would give a weighted average yield on the Mortgage Loans in the Mortgage Loan Portfolio of at least LIBOR plus 0.40 per cent. (the "**Yield Shortfall Test**").

If the Administrator determines that the Yield Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one London Business Day, of the amount of the shortfall and the Standard Variable Rate and the other discretionary rates or margins in respect of the Mortgage Loans in the Mortgage Loan Portfolio which would, in the Administrator's opinion, need to be set in order for no shortfall to arise, and the Yield Shortfall Test to be met, having regard to the date(s) on which the change to the Standard Variable Rate and the other discretionary rates or margins would take effect and at all times acting in accordance with the standards of a Prudent Mortgage Lender. If the LLP notifies the Administrator that, having regard to the obligations of the LLP, the Standard Variable Rate and/or the other discretionary rates or margins should be increased, the Administrator will take all steps which are necessary to increase the Standard Variable Rate and/or any other discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Conditions.

Compensation

As full compensation for its servicing duties and activities and as reimbursement for any expense incurred by it in connection therewith, the Administrator or any substitute administrator which is a member of The Co-operative Financial Services Group is entitled to receive the fee from the LLP as set out in Administration Agreement. If, however, an administrator is appointed from outside The Co-operative Financial Services Group, the level of this fee may be amended.

Removal or resignation of the Administrator

The LLP or the Seller (with the prior written consent of the Security Trustee) may, upon written notice to the Administrator, terminate the Administrator's rights and obligations immediately if any of the following events (each an "**Administrator Termination Event**" and, each of the events set out at (a), (b), (c) and (d) below, an "**Administrator Event of Default**") occurs:

- (a) default is made by the Administrator in the payment on the due date of any payment due and payable by it under the Administration Agreement and such default is not waived by the LLP or the Seller (in each case, with the prior written consent of the Security Trustee), as applicable, and such default continues unremedied for a period of five (5) London Business Days after the earlier of the Administrator becoming aware of such default or receipt by the Administrator of written notice of such default from the LLP, the Seller or the Security Trustee requiring the same to be remedied;
- (b) default is made by the Administrator in the performance or observance of any of its other covenants and obligations under the Administration Agreement or any of the other Programme Documents, which in the opinion of the Security Trustee (acting on a direction from the Bond Trustee), is materially prejudicial to the interests of the Covered Bondholders and such default continues unremedied for a period of twenty (20) London Business Days after the earlier of the Administrator becoming aware of such default or receipt by the Administrator of written notice of such default from the LLP, the Seller or the Security Trustee requiring the same to be remedied provided however that where the relevant default occurs as a result of a default by any person to whom the Administrator has sub-contracted or delegated part of its obligations under

the Administration Agreement, such default shall not constitute an Administrator Termination Event if within such twenty (20) day period the Administrator replaces the relevant subcontractor or delegate with an entity capable of remedying such default or alternatively indemnifies the LLP and/or the Security Trustee against the consequences of such default;

- (c) the Administrator at any time fails to obtain or maintain the necessary licence, permission or regulatory approval required by any UK mortgage or credit regulatory regime which would be required in order to enable it to continue administering and servicing the Mortgage Loans;
- (d) an Insolvency Event occurs in relation to the Administrator; or
- (e) the LLP resolves that the appointment of the Administrator should be terminated.

In addition, subject to the fulfilment of a number of conditions, including, without limitation, that a replacement administrator has been appointed, the Administrator may voluntarily resign by giving not less than 3 months' notice to the Security Trustee and the LLP. Any replacement administrator, pursuant to the Administration Agreement must be authorised to administer regulated mortgage contracts under the FSMA and hold any other applicable permissions and licences, must have with experience of administering Mortgage Loans secured on residential mortgaged properties in England and Wales has been appointed and must enter into an administration agreement with the LLP substantially on the same terms as the Administration Agreement.

If the appointment of the Administrator is terminated, the Administrator must deliver the Title Deeds (if any), the Mortgage Loan Files and all books of account and other records maintained by the Administrator that relate to the Mortgage Loans in the Mortgage Loan Portfolio and/or the Related Security administered by it to, or at the direction of, the LLP.

The Administration Agreement will terminate automatically at such time as the LLP has no further interest in any of the Mortgage Loans or their Related Security sold to the LLP and serviced under the Administration Agreement that have been comprised in the Mortgage Loan Portfolio.

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

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

The Administration Agreement will be governed by English law and will be entered into by way of deed.

Asset Monitor Agreement

Under the terms of the Asset Monitor Agreement to be 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, prior to the service of a Notice to Pay or LLP Acceleration Notice, 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 and for so long as the long-term ratings of the Cash Manager or the Issuer fall below BBB- by Fitch or Baa3 by Moody's, 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 and/or the Amortisation Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Mortgage Loan Amount or the Amortisation Test Aggregate Mortgage Loan Amount is mis-stated by an amount exceeding one per cent. of the Adjusted Aggregate Mortgage 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.

The LLP will pay to the Asset Monitor a fee per annum (exclusive of VAT) for the tests to be performed by the Asset Monitor in the amount set out in the Asset Monitor Agreement from time to time.

The LLP may, at any time, 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.

Upon giving notice of termination or receiving notice of resignation, the LLP shall immediately use its best endeavours to appoint a replacement (such replacement to be approved by the Security Trustee who shall give such approval if the replacement is an accountancy firm of national standing who agrees to perform the duties (or substantially similar 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 or about the Programme Date between the LLP, The Co-operative Bank, the Liquidation Member, the Cash Manager, the Bond Trustee and the Security Trustee (the "**LLP Deed**"). A management board comprised, as of the Programme Date, of directors and/or employees of the Seller and the Liquidation Member will manage and conduct the business of the LLP and will have all the rights, powers and authority to act at all times for and on behalf of the LLP subject to the terms of the LLP Deed.

Members

As at the Programme Date, each of The Co-operative Bank and the Liquidation Member will become a member (each a "**Member**", and together with any other members from time to time, the "**Members**") of the LLP. The Co-operative Bank and the Liquidation Member are also the 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 LIPA 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 Co-operative Bank, the Liquidation Member may, by written notice to the LLP, appoint another Member as a Designated Member or may, at its sole discretion (acting on behalf of itself and the other Members), admit a New Member to the LLP (in each case with the prior written consent of the Security Trustee).

A New Member may otherwise be admitted to the LLP, subject to meeting certain conditions precedent and, if such conditions precedent have been met, the Security Trustee will give its consent to such accession.

Capital Contributions

From time to time The Co-operative Bank (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 Mortgage Loans to the LLP in accordance with the terms of the Mortgage Sale Agreement). The Capital Contributions of The Co-operative Bank shall be calculated in Sterling on each Calculation Date as the difference between (a) the aggregate of the Current Balances of the Mortgage Loans in the Mortgage

Loan Portfolio as at the last day of the preceding Calculation Period plus Mortgage Loan Principal Receipts standing to the credit of the GIC Account plus the principal amount of Substitution Assets and Authorised Investments, in each case as at the last day of the 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 repaid or paid to Members after the LLP has paid or, as applicable, provided for all higher ranking amounts in the relevant Priority of Payments.

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 Mortgage 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 Mortgage Loan Amount is less than 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 Mortgage 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 Mortgage Loans and their Related Security*) or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met. An Issuer Event of Default shall occur if the Asset Coverage Test is not remedied on the next following Calculation Date.

For the purposes hereof:

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

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

where,

A = the lower of (1) and (2) below, where:

- i. is the aggregate of the Adjusted Current Balance of each Mortgage Loan in the Mortgage Loan Portfolio as at the relevant Calculation Date.

"Adjusted Current Balance" shall be {(the lower of (a) and (b)) minus (c)},

where,

- (a) is the actual Current Balance of the relevant Mortgage Loan in the Mortgage Loan Portfolio as calculated on the relevant Calculation Date;
- (b) is the Indexed Valuation relating to that Mortgage Loan multiplied by M

(where,

- (i) for all Mortgage Loans that are not Defaulted Mortgage Loans, M = 0.75;
- (ii) for all Mortgage Loans that are Defaulted Mortgage Loans and have a Current Balance to Indexed Valuation ratio of less than or equal to 75%, M = 0.40; and

- (iii) for all Mortgage Loans that are Defaulted Mortgage Loans and have a Current Balance to Indexed Valuation ratio of more than to 75%, $M = 0.25$); and
- (c) is the sum of the following deemed reductions to the aggregate Adjusted Current Balance of the Mortgage Loans in the Mortgage Loan Portfolio if any of the following occurred during the previous Calculation Period:
- (i) a Mortgage 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 Mortgage Loan and its Related Security, and in each case the Seller has not repurchased the Mortgage Loan or Mortgage Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted Current Balance of the Mortgage Loans in the Mortgage Loan Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted Current Balance of the relevant Mortgage Loan or Mortgage Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or
 - (ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Administrator was, in any preceding Calculation Period, in breach of a material term of the Administration Agreement. In this event, the aggregate Adjusted Current Balance of the Mortgage Loans in the Mortgage Loan Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated 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

2. is the aggregate Asset Percentage Adjusted Balance of the Mortgage Loans in the Mortgage Loan Portfolio as at the relevant Calculation Date.

"Asset Percentage Adjusted Balance" shall be the Asset Percentage (defined below) multiplied by {(the lower of (a) and (b)) minus (c)},

where:

- (a) is the actual Current Balance of the relevant Mortgage Loan as calculated on the relevant Calculation Date;
- (b) is the Indexed Valuation relating to that Mortgage Loan multiplied by N

(where,

- (i) for all Mortgage Loans that are not Defaulted Mortgage Loans, $N = 1$;
- (ii) for all Mortgage Loans that are Defaulted Mortgage Loans and have a Current Balance to Indexed Valuation ratio of less than or equal to 75%, $N = 0.40$; and
- (iii) for all Mortgage Loans that are Defaulted Mortgage Loans and have a Current Balance to Indexed Valuation ratio of more than 75%, $N = 0.25$); and

- (c) is the sum of the following deemed reductions to the aggregate Asset Percentage Adjusted Balance of the Mortgage Loans in the Mortgage Loan Portfolio if any of the following occurred during the previous Calculation Period:
- (i) a Mortgage 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 Mortgage Loan and its Related Security, and in each case the Seller has not repurchased the Mortgage Loan or Mortgage Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Asset Percentage Adjusted Balance of the Mortgage Loans in the Mortgage Loan Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Asset Percentage Adjusted Balance of the relevant Mortgage Loan or Mortgage Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or
 - (ii) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Administrator was, in the immediately preceding Calculation Period, in breach of a material term of the Administration Agreement. In this event, the aggregate Asset Percentage Adjusted Balance of the Mortgage Loans in the Mortgage Loan Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated 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).
- B = the aggregate amount of (i) any Mortgage Loan Principal Receipts on the Mortgage Loans in the Mortgage Loan Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Mortgage Loan Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Mortgage Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents and (ii) the amount of any Sale Proceeds standing to the credit of the Mortgage Loan Principal Ledger, Mortgage Loan Revenue Ledger and (as the case may be) the Pre-Maturity Liquidity Ledger, as at the relevant Calculation Date;
- C = the aggregate outstanding principal balance of any Substitution Assets and Authorised Investments;
- D = 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 Term Advances which have not been applied as at the relevant Calculation Date to acquire further Mortgage Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Programme Documents;
- X = zero, **provided that** if the long-term unsubordinated ratings of The Co-operative Bank are downgraded below A- by Fitch or A3 by Moody's, then X shall be 2 per cent. of the aggregate Current Balance of the Mortgage Loans, calculated as of the Asset Determination Date immediately preceding the relevant Calculation Date, **provided further that** on every quarterly Calculation Date starting in March, the Cash Manager shall provide written evidence to the Rating Agencies regarding the aggregate amount of deposits held at The Co-operative Bank by Borrowers and if such aggregate amount exceeds 2% of the aggregate Current Balance of the Mortgage Loans (calculated by the Cash Manager on a quarterly basis) then X shall be equal to the lower of (i) the amount of deposits in aggregate held at The Co-operative Bank by each Borrower whose Mortgage Loan is included in the Mortgage Loan Portfolio and (ii) the

aggregate Current Balance of those Borrowers' Mortgage Loans included in the Mortgage Loan Portfolio;

- Y = zero, **provided that** if the long-term unsubordinated ratings of The Co-operative Bank are downgraded below A- by Fitch or A3 by Moody's, then Y shall be 8 per cent. multiplied by the Flexible Redraw Capacity (as defined below) multiplied by 3, and
- Z = the weighted average remaining maturity of all Covered Bonds (expressed in years) 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 a percentage calculated by reference to the weighted average margin of the Covered Bonds and will, in any event, be not less than 0.50% (provided that if such weighted average is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one).

"**Asset Percentage**" on any Calculation Date shall be the lowest of:

- (i) 92 per cent.;
- (ii) *the percentage figure as selected from time to time by the LLP and/or the Cash Manager and notified by the LLP and/or the Cash Manager (if the Security Trustee so requests) to the Security Trustee in accordance with the LLP Deed on such Calculation Date or, where the LLP and/or Cash Manager has selected and (if the Security Trustee so requests) Security Trustee has been notified of the minimum percentage figure on the relevant Calculation Date, being the asset percentage required to ensure that the Covered Bonds maintain the then current ratings assigned to them by Fitch; and*
- (iii) *the percentage figure as selected from time to time by the LLP and/or the Cash Manager and notified by the LLP and/or the Cash Manager (if the Security Trustee so requests) to the Security Trustee in accordance with the LLP Deed on such Calculation Date or, where the LLP and/or the Cash Manager has selected and (if the Security Trustee so requests) Security Trustee has been notified of the minimum percentage figure on the relevant Calculation Date, 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).*

For the avoidance of doubt, the Asset Percentage may not, at any time, exceed 92 per cent. unless otherwise confirmation has been obtained from the Rating Agencies that the rating of the Covered Bonds would be Aaa after such increase.

Notwithstanding anything set out above, the Rating Agencies will not be required to provide a calculation of the Asset Percentage on a regular basis.

Prior to the date on which Fitch and/or Moody's have provided the Cash Manager with a new Asset Percentage, the Cash Manager will be entitled to rely on the previously provided Asset Percentage.

"**Flexible Redraw Capacity**" means an amount equal to the maximum aggregate amount of the Additional Mortgage Loan Advances (excluding any Credit Reassessment Advances or Mortgage Loan Fee Advances) that Borrowers are entitled to obtain under Mortgage Loans included in the Mortgage Loan Portfolio as at the relevant Transfer Date.

Amortisation Test

For so long as the Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following the service of a Notice to Pay on the LLP (but prior to the service of an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security), the Amortisation Test Aggregate Mortgage Loan Amount (as defined below) 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**").

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

$$A + B + C - Z$$

where,

A = the aggregate "Amortisation Test Current Balance" of each Mortgage Loan, which shall be the lower of:

(x) the actual Current Balance of the relevant Mortgage Loan as calculated on the relevant Calculation Date multiplied by M; and

(y) 100 per cent. of the Indexed Valuation multiplied by M

(where

(i) for all the Mortgage Loans that are not Defaulted Mortgage Loans M = 1.0; and

(ii) for all the Mortgage Loans that are Defaulted Mortgage Loans, 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;

C = the aggregate outstanding principal balance of any Substitution Assets, not taken into account elsewhere in this calculation;

Z = the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding multiplied by the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds multiplied by the Negative Carry Factor.

If on any Calculation Date following service of a Notice to Pay on the LLP (but prior to the service of an LLP Acceleration Notice on the LLP), the Amortisation Test Aggregate Mortgage 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 shall be deemed to be breached and an LLP Event of Default will occur. The LLP (or the Cash Manager on its behalf) shall immediately notify the Members, the Security Trustee and (whilst Covered Bonds are outstanding) the Bond Trustee thereof, and the Bond Trustee shall be entitled to serve an LLP Acceleration Notice on the LLP in accordance with the Conditions.

Sale of Selected Mortgage Loans and their Related Security if the Pre-Maturity Test is breached

The LLP Deed provides for the sale of Selected Mortgage Loans and their Related Security in circumstances where the Pre-Maturity Test has been breached in relation to a Series of Bullet Covered Bonds. The Pre-Maturity Test will be breached in relation to a Series of Bullet Covered Bonds if the ratings of the Issuer fall below a specified level and such Series of Bullet Covered Bonds is due for repayment within a specified period of time thereafter. The LLP will be obliged to sell or refinance the Selected Mortgage Loans and their Related Security, subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Mortgage Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement and subject to any Cash Capital Contribution made by the Members (other than the Liquidation Member). The proceeds from any such sale will be credited to the relevant Pre-Maturity Liquidity Ledger of the GIC Account and applied as set out in the Guarantee Priority of Payments through a *pro rata* allocation of such amount across all outstanding Series of Bullet Covered Bonds in proportion to the Principal Amount Outstanding of each Series up to each Series' Required Redemption Amount and, in the event of the making of any Cash Capital Contributions, as an entry in the relevant Capital Account Ledger. If the Issuer fails to repay any Series of Bullet Covered Bonds on the Final Maturity Date thereof, then the proceeds from any sale of Selected Mortgage Loans or the Cash Capital Contributions standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in "Credit Structure" below.

For a description of the Pre-Maturity Test, see "Credit Structure - Pre-Maturity Liquidity" below.

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

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

Method of Sale of Selected Mortgage Loans

If the LLP is required to sell Selected Mortgage Loans and their Related Security to Purchasers following a breach of the Pre-Maturity Test or the service of a Notice to Pay on the LLP, the LLP will be required to ensure that before offering Selected Mortgage Loans for sale:

- (a) the Selected Mortgage Loans have been selected from the Mortgage Loan Portfolio on a random basis as described in the LLP Deed; and
- (b) the Selected Mortgage Loans have an aggregate Current Balance in an amount (the "**Required Current Balance Amount**") which is as close as possible to the amount calculated as follows:

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

where "N" is an amount equal to the Sterling Equivalent of:

- (i) in respect of Selected Mortgage Loans and their Related Security being sold following a breach of the Pre-Maturity Test, the Required Redemption Amount of the relevant Series of Bullet Covered Bonds less amounts standing to the credit of the relevant Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Bullet Covered Bonds which mature prior to or on the same date as the relevant series of Bullet Covered Bonds; or
- (ii) in respect of Selected Mortgage Loans and their Related Security being sold following a Notice to Pay, the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds).

The LLP will offer the Selected Mortgage Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event for an amount not less than the Adjusted Required Redemption Amount.

If the Selected Mortgage Loans and their Related Security 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 either: (i) if the Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date or (ii) 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 Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto), then the LLP will offer the Selected Mortgage Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay but prior to the occurrence of an LLP Event of Default, in addition to offering Selected Mortgage 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 Mortgage 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 Mortgage Loans is being sold within six months of, as applicable, 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, 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 aggregate Current Balance of the Mortgage Loans in the Partial Portfolio bears to the aggregate Current Balance of the Mortgage Loans in the relevant portfolio of Selected Mortgage Loans.

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

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

The terms of any sale and purchase agreement with respect to the sale of Selected Mortgage Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee (acting on the instructions of the Bond Trustee itself acting in its sole discretion or as directed by holders of not less than 25 per cent. in aggregate of the Covered Bonds then outstanding or by an Extraordinary Resolution of the Covered Bondholders then outstanding). The Security Trustee will not be required to release the Selected Mortgage Loans from the Security unless the conditions relating to the release of the Security (as described under "*Deed of Charge – Release of Security*", below) are satisfied.

If Purchasers accept the offer or offers from the LLP so that some or all of the Selected Mortgage Loans and their Related Security shall be sold prior to the next following Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing 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 Representations and Warranties from the LLP in respect of the Selected Mortgage Loans and the Related Security unless expressly agreed by the Security Trustee (acting on the instructions of the Bond Trustee, itself acting on the advice of a financial or other advisor (selected or approved by it) opining or confirming that the provision of any such warranties and/or indemnities is appropriate in the circumstances and in accordance with market practice and neither the Bond Trustee nor the Security Trustee shall have any liability or be liable to any person for acting upon such advice, opinion or confirmation) or in respect of any representations and warranties to be given by the Seller, as otherwise agreed with the Seller. The Seller and the LLP will enter into such documentation as is required under such sale and purchase agreement to enable the Purchaser to obtain valid title to the Selected Mortgage Loans and their Related Security to be sold thereunder.

Covenants of the LLP and the Members

Each of the Members covenants that, subject to the terms of the Programme 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 and the Bond Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP covenants that it will not, save with the prior written consent of the LLP Management Committee (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by the Programme Documents:

- (a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future;
- (b) dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;
- (c) have an interest in a bank account;
- (d) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;
- (e) consolidate or merge with or transfer any of its property or assets to another person;
- (f) have any employees, premises or subsidiaries;
- (g) acquire assets other than pursuant to the Mortgage Sale Agreement, the Cash Management Agreement and the LLP Deed;
- (h) engage in any activities or derive income from any activities within the United States or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;
- (i) enter into any contracts, agreements or other undertakings;
- (j) compromise, compound or release any debt due to it;
- (k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or
- (l) be a member of any VAT group.

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, the LLP and each of the Members further covenants that, amongst other things, it will:

- (i) ensure that the Asset Pool is composed of those assets set out in items (a) to (h) of Regulation 3(1) (*Asset Pool*) of the RCB Regulations (including for the avoidance of doubt, the definition of "eligible property" as set out in Regulation 2 (Eligible Property) of the RCB Regulations);
- (ii) keep a record of those assets that form part of the Asset Pool, which, for the avoidance of doubt, shall not include Swap Collateral; and
- (iii) comply with its obligations under the RCB Regulations and the RCB Sourcebook at all times, including providing the FSA all the required information on the composition of the Asset Pool and any other notifications and confirmations required under the RCB Regulations and the RCB Sourcebook.

Limit on Investing in Substitution Assets and Authorised Investments

Prior to the service of a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances standing to the credit of the GIC Account in Substitution Assets, provided that the aggregate amount so invested in such Substitution Assets does not exceed 20 per cent. of the total assets of the LLP at any time provided that such investments are made in accordance with the terms of the Cash Management Agreement and the LLP Deed. Depositing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

Following service of a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the GIC Account after which the LLP will be permitted to invest all available moneys in Authorised Investments,

provided that such sales or investments are made in accordance with the terms of the Cash Management Agreement and the LLP Deed.

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 Mortgage Loan Revenue Receipts, Mortgage Loan Principal Receipts and all other amounts received by the LLP is described under "*Cashflows*" below.

The LLP Management Committee, which shall consist of each of the Members whilst it remains a member, will act on behalf of the LLP. 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 terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed *inter alia* not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or, following the occurrence of an LLP Event of Default and the enforcement of the Security, 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 or about the Programme Date between the LLP, The Co-operative Bank (in its capacity as the Cash Manager) and the Security Trustee.

The Cash Manager's services include but are not limited to:

- (a) establishing the LLP Accounts;
- (b) maintaining the Ledgers on behalf of the LLP;
- (c) distributing the Mortgage Loan Revenue Receipts and the Mortgage Loan Principal Receipts in accordance with the Priorities of Payment described under "*Cashflows*", below;
- (d) 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;
- (e) determining whether the Amortisation Test is satisfied on each Calculation Date following the service of a Notice to Pay on the LLP following an Issuer Event of Default (but prior to service on the Issuer and the LLP of an LLP Acceleration Notice) in accordance with the LLP Deed, as more fully described under "*Credit Structure - Amortisation Test*", below;
- (f) on each Business Day, determining whether the Pre-Maturity Test for each Series of Bullet Covered Bonds is satisfied, as more fully described under "*Credit Structure - Pre-Maturity Liquidity*" below;
- (g) maintaining records of all Authorised Investments and Substitution Assets, as applicable;

- (h) providing the FSA with information on the Authorised Investments and/or Substitution Assets comprised in the assets of the LLP and/ or any other information as the FSA may require in accordance with the RCB Regulations; and
- (i) preparation of Investor Reports for the Covered Bondholders, the Rating Agencies and the Bond Trustee.

In certain circumstances the LLP and 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 prior 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.

The Swap Agreements

In order to hedge certain interest rate, currency or other risks in respect of amounts received by the LLP under the Mortgage Loans and amounts payable by the LLP under the Intercompany Loan Agreement to The Co-operative Bank and/or amounts payable by the LLP under the Covered Bond Guarantee to Covered Bondholders in respect of the Covered Bonds in issue, the LLP will enter into the Basis Rate Swap and, on the issue of a Series of Covered Bonds, may enter into one or more Covered Bond Swaps.

Each such swap transaction (the "**Swaps**") will be between a swap provider (the "**Swap Provider**") and the LLP and will be governed by, and subject to, an ISDA Master Agreement and Schedule thereto, a credit support document in the form of the 1995 ISDA Credit Support Annex and the relevant swap confirmation(s) (together, the "**Swap Agreements**").

Basis Rate Swap

The Mortgage Loans pay at any time either a variable rate of interest linked to the Seller's Standard Variable Rate, a fixed rate of interest for a fixed period (after which the rate usually reverts to a variable rate of interest linked to the Seller's Standard Variable Rate) or a rate of interest that tracks the Bank of England's base rate at the relevant time. In order to provide a hedge against possible variations in the rates of interest payable on the Mortgage Loans and LIBOR for three month Sterling deposits, the LLP will enter into a hedging arrangement (the "**Basis Rate Swap**") with The Co-operative Bank as basis rate swap provider, pursuant to the terms of a 1992 ISDA Master Agreement (Multicurrency-Cross Border) as published by ISDA (together with the schedule and confirmation relating thereto, the "**Basis Rate Swap Agreement**").

Pursuant to the terms of the Basis Rate Swap, The Co-operative Bank (in its capacity as calculation agent) will calculate in respect of each LLP Payment Date (i) the Basis Rate Provider Swap Amount and (ii) the LLP Swap Amount for the corresponding Calculation Period.

The "**Basis Rate Provider Swap Amount**" is calculated by applying LIBOR for three month Sterling deposits (reset on the preceding Quarterly LLP Payment Date) plus a blended spread to the Notional Amount of the Basis Rate Swap.

The Notional Amount of the Basis Rate Swap in respect of any Calculation Period will be an amount equal to the sum of the Fixed Notional Amount, the SVR Notional Amount and the Tracker Notional Amount.

The "**Fixed Notional Amount**" means, for any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, an amount equal to the Current Balance of the Fixed Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.

The "**SVR Notional Amount**" means, for any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, an amount equal to the Current Balance of the Standard Variable Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.

The "**Tracker Notional Amount**" means, for any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, an amount equal to the Current Balance of the Tracker Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.

The "**LLP Swap Amount**" is calculated by applying a blended interest rate (the "**Blended Rate**") to the Notional Amount of the Basis Rate Swap. The Blended Rate, in respect of a Calculation Period, is a rate equal to the weighted average of the Fixed Notional Rate, the SVR Notional Rate and the Tracker Notional Rate.

The "**Fixed Notional Rate**" means, for any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, a rate equal to the weighted average (by outstanding Current Balance) of the fixed rates of interest payable on the Fixed Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.

The "**SVR Notional Rate**" means, for any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, a rate equal to the weighted average (by outstanding Current Balance) of the standard variable rates of interest payable on the Standard Variable Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.

The "**Tracker Notional Rate**" means, for any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, a rate equal to the weighted average (by outstanding Current Balance) of the rates of interest payable on the Tracker Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.

After the Basis Rate Provider Swap Amount and the LLP Swap Amount are calculated for an LLP Payment Date, the following payments will be made:

- (i) if the Basis Rate Provider Swap Amount is greater than the LLP Swap Amount, then the Basis Rate Swap Provider will pay the difference to LLP on the corresponding LLP Payment Date;
- (ii) if the LLP Swap Amount is greater than the Basis Rate Provider Swap Amount, then LLP will pay the difference to the Basis Rate Swap Provider on the corresponding LLP Payment Date; and
- (iii) if the Basis Rate Provider Swap Amount is equal to the LLP Swap Amount, neither party will make any payment to the other party.

The Basis Rate Swap will terminate when the balance of the Mortgage Loan Portfolio is reduced to zero.

Covered Bond Swaps

On any Issue Date, the LLP may enter into one or more swap transactions with Swap Providers (the "**Covered Bond Swap Providers**" and each one a "**Covered Bond Swap Provider**") with respect to one or more Series of Covered Bonds issued by the Issuer (the "**Covered Bond Swaps**" and each one a "**Covered Bond Swap**"). The LLP will only enter into a Covered Bond Swap in relation to any Series of Covered Bonds to the extent that there is a difference in interest rate or currency between the LLP's obligations under the related Term Advance or the Covered Bond Guarantee and the amounts due under the Mortgage Loans and the Basis Rate Swap.

Under the Covered Bonds Swaps with respect to a Series, the LLP will be scheduled to pay an amount in Sterling calculated by reference to a swap notional amount corresponding to the Principal Amount Outstanding of the relevant Covered Bonds (or its Sterling Equivalent) and three-month Sterling LIBOR. The three-month Sterling LIBOR rate will be reset on the same dates as under the Basis Rate Swap. Such payments will be made by the LLP to the Swap Provider monthly on each LLP Payment Date.

In return, the Covered Bond Swap Provider will be scheduled to pay an amount in the currency of the related Term Advance (or the Covered Bonds) calculated by reference to a swap notional amount corresponding to the Principal Amount Outstanding of the relevant Covered Bonds (or its Sterling equivalent) and a rate corresponding to the interest payable on the related Term Advance (or the Covered Bonds). Such payments will be made by the Covered Bond Swap Provider on the dates that interest is payable on the related Term Advance or the Covered Bonds.

In addition, if a Series of Covered Bonds is denominated in a currency other than Sterling then there will be one or more Covered Bond Swaps to provide for the exchange by the LLP of Sterling into the currency of the related Term Advance (or the Covered Bonds).

Each Covered Bond Swap will terminate on the relevant Final Maturity Date or Extended Due Date for Payment as the case may be.

Rating Downgrade Event

Under the terms of each Swap Agreement, in the event that the rating(s) of the Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant Swap Agreement (in accordance with the requirements of the Rating Agencies) for that Swap Provider, that Swap Provider will, in accordance with the relevant Swap Agreement, be required to take certain remedial measures which may include:

- (a) providing collateral for its obligations under the Swap Agreement, or
- (b) arranging for its obligations under the relevant Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency, or
- (c) 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 Swap Agreement, or
- (d) taking such other action or putting in place such alternative hedging as it may agree with the relevant Rating Agency (provided that the Rating Agencies confirm that this will not adversely affect the ratings of the then outstanding Series of Covered Bonds).

A failure to take such steps within the time periods specified in the Swap Agreement may allow the LLP to terminate the Swap Agreement.

Other Termination Events

A Swap Agreement may also be terminated early in certain other circumstances, including:

- (a) at the option of any party to the Swap Agreement, if there is a failure by the other party to pay any amounts due under such Swap Agreement (subject to the expiry of certain grace periods);
- (b) upon the occurrence of an insolvency event in relation to one of the parties, or a merger of one of the parties without an assumption of the obligations under the relevant Swap Agreement;
- (c) there is a change of law or change in application of the relevant law which results in the LLP or the Swap Provider (or both) being obliged to make a withholding or deduction on account of a tax on a payment to be made by such party to the other party under the Swap Agreement and the Swap Provider thereby being required under the terms of the Swap Agreement to gross up payments made to the LLP, or to receive net payments from the LLP;
- (d) there is a change in law which results in the illegality of the obligations to be performed by either party under the Swap Agreements;
- (e) an LLP Acceleration Notice is served on the LLP following an LLP Event of Default;
- (f) an amendment to any of the Programme Documents which has a material adverse effect on a Swap Provider; and
- (g) a Covered Bond Swap may be terminated if the corresponding Series of Covered Bonds are redeemed or cancelled.

Upon the termination of a Swap Agreement, the LLP or the Swap Provider may be liable to make a termination payment to the other party in accordance with the provisions of the relevant Swap Agreement. The amount of this termination payment will be calculated and made in Sterling.

Swap Agreement Credit Support Document

The LLP and the Swap Providers will also enter into a credit support document in the form of the ISDA 1995 Credit Support Annex (Transfer-English Law) to the ISDA Master Agreement (the "**Swap Agreement Credit Support Document**"). The Swap Agreement Credit Support Document will provide that, from time to time, if required to do so following its downgrade and subject to the conditions specified in the Swap Agreement Credit Support Document, the relevant Swap Provider will make transfers of collateral to the LLP in support of its obligations under the Swap Agreement (the "**Swap Collateral**") and the LLP will be obliged to return equivalent collateral in accordance with the terms of the Swap Agreement Credit Support Document. The Swap Agreement Credit Support Document will be governed by English law.

Swap Collateral required to be posted by the relevant Swap Provider pursuant to the terms of the Swap Agreement Credit Support Document may be delivered in the form of cash or securities. Cash amounts will be paid into an account designated a "**Swap Collateral Cash Account**" and securities will be transferred to an account designated a "**Swap Collateral Custody Account**". References to a Swap Collateral Cash Account or to a Swap Collateral Custody Account and to payments from such accounts are deemed to be a reference to payments from such accounts as and when opened by the LLP.

If a Swap Collateral Cash Account and/or a Swap Collateral Custody Account are opened, cash and securities (and all income in respect thereof) transferred as collateral will only be available to be applied in returning equivalent collateral (and income thereon) or in satisfaction of amounts owing by the relevant Swap Provider in accordance with the terms of the Swap Agreement Credit Support Document.

Any Swap Collateral Excluded Amounts will be paid to the relevant Swap Provider directly from the Swap Collateral Cash Account or the Swap Collateral Custody Account and not via the Priorities of Payments.

Withholding Tax

The Swap Providers will be obliged to make payments pursuant to the terms of the Swap Agreement without any withholding or deductions in respect of taxes unless required by law. If any such withholding or deduction is required by law, the relevant Swap Provider will, subject to certain conditions, be required to pay such additional amount as is necessary to ensure that the net amount actually received by the LLP will equal the full amount the LLP would have received had no such withholding or deduction been required. The LLP is similarly obliged to make payments pursuant to the terms of the relevant Swap Agreement without any withholding or deductions in respect of taxes unless required by law. However, if any such withholding or deduction is required by law, the LLP will not be required to pay any additional amounts as a result of that deduction or withholding.

Transfer of Obligations

A Swap Provider may, at its own discretion and at its own expense and subject to certain conditions, novate its rights and obligations under the relevant Swap Agreement to any third party with the appropriate ratings.

The Swap Agreements will be governed by English Law.

Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement to be entered into on or about the Programme Date between the LLP, the Account Bank, the Cash Manager and the Security Trustee, the LLP will maintain with the Account Bank the accounts described below, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge:

- (a) the GIC Account into which 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 Mortgage Loans in the Mortgage Loan Portfolio). On each LLP Payment Date as applicable, amounts required to meet the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred to the Transaction Accounts (to the extent maintained); and

- (b) the Transaction Accounts (if such account is maintained) into which, moneys standing to the credit of the GIC Account will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under "Cashflows".

If a Termination Event, as set out in clause 9 of the Bank Account Agreement, occurs in relation to the Account Bank, including if the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank cease to be rated at least F1 by Fitch, or P-1 by Moody's, then the Account Bank will obtain an unconditional and unlimited guarantee of its obligations under the Bank Account Agreement from a financial institution having a short-term, unsecured and unsubordinated debt obligation of at least F1 by Fitch or P-1 by Moody's, and upon failure to obtain such guarantee, the GIC Account and the Transaction Accounts (to the extent maintained) will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a financial institution having a short-term, unsecured and unsubordinated debt obligation of at least F1 by Fitch or P-1 by Moody's.

The Bank Account Agreement will be governed by English law.

Corporate Services Agreement

The Liquidation Member will enter into a Corporate Services Agreement with, *inter alios*, Structured Finance Management Limited (as Corporate Services Provider), on the Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the Liquidation Member.

The Corporate Services Agreement will be governed by English law.

Deed of Charge

Pursuant to the terms of the Deed of Charge to be 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 Programme Documents to which it is a party will be 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 Mortgage Loans and their Related Security and other related rights comprised in the Mortgage Loan Portfolio;
- (b) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of all Programme Documents to which it is a party (and, in respect of the Swap Agreements, after giving effect to all applicable netting provisions therein);
- (c) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including 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;
- (d) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts; and
- (e) a first floating charge over all the assets and undertaking of the LLP to the extent not effectively charged pursuant to (a) to (d) above.

Release of Security

In the event of any sale of Mortgage Loans (including Selected Mortgage Loans) and their Related Security by the LLP pursuant to and in accordance with the Programme Documents, the Security Trustee will if so required by the LLP in writing (at the sole cost and expense of the LLP) and without liability to any person for so doing, on the date of such sale, (subject to the written request of the LLP), release those Mortgage Loans from the Security created by and pursuant to the Deed of Charge (all as more particularly described in the Deed of Charge), only if:

- (a) the LLP provides a certificate to the Security Trustee that such sale of Mortgage Loans and their Related Security has been made in accordance with terms of the Programme Documents; and
- (b) in the case of the Sale of Selected Mortgage Loans or the sale of a Partial Portfolio, the LLP provides to the Security Trustee a certificate confirming that the Selected Mortgage Loans, or the Selected Mortgage Loans within such Partial Portfolio, being sold have been selected on a random basis.

In the event of the repurchase of a Mortgage Loan and its Related Security by the Seller pursuant to and in accordance with the Programme Documents, the Security Trustee will, on the date of the repurchase, release that Mortgage Loan from the Security created by and pursuant to the Deed of Charge.

Enforcement

If an LLP Acceleration Notice is served on the LLP and the Issuer, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Mortgage Loan Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured and/or prefunded 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 will be governed by English law.

Collection Account Declaration of Trust

Pursuant to the terms of the Collection Account Declaration of Trust to be entered into on or about the Programme Date by the Seller, the Seller will declare a trust in favour of the LLP over payments received by the Seller into the collection account in respect of the Mortgage Loans.

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured and 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 on the LLP and the Issuer 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 Mortgage Loan Revenue Receipts or Mortgage Loan Principal Receipts from the Mortgage Loan 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 Covered Bondholders, as follows:

- (a) the Covered Bond Guarantee provides credit support to the Issuer;
- (b) the Pre-Maturity Test is intended to provide liquidity to the LLP in relation to amounts of principal due on the Final Maturity Date of the Bullet Covered Bonds;
- (c) 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;
- (d) the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the outstanding 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;
- (e) a Reserve Fund will be established in the GIC Account to trap Available Revenue Receipts if The Co-operative Bank's short term unsecured, unsubordinated and unguaranteed debt obligations are rated less than F1+ by Fitch and P-1 by Moody's) at any time; and
- (f) under the terms of the Bank Account Agreement, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of 0.25 per cent. per annum below LIBOR for one-month Sterling deposits 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.

Covered Bond 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 Covered Bondholders and other Secured Creditors following the occurrence of an Issuer Event of Default and the service of a Notice to Pay on the LLP.

Pre-Maturity Liquidity

The Pre-Maturity Test is intended to provide liquidity for the Bullet Covered Bonds when the Issuer's credit ratings fall below a certain level. The Applicable Final Terms will set-out whether the relevant Series of Covered Bonds is a Series of Bullet Covered Bonds. On each Pre-Maturity Test Date prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Test has been breached, and if so, it shall immediately notify the Members and the Security Trustee thereof.

The Issuer will fail and be in breach of the Pre-Maturity Test on a Pre-Maturity Test Date in relation to a Series of Bullet Covered Bonds if:

- (a) the Issuer's (i) long-term credit rating from Moody's falls to A2 (or lower) and the Final Maturity Date of the Series of Bullet Covered Bonds will fall within 6 months following the relevant Pre-Maturity Test Date or (ii) short-term credit rating from Moody's falls to P-2 (or lower) and the Final Maturity Date of the Series of Bullet Covered Bonds will fall within 12 months following the relevant Pre-Maturity Test Date; or
- (b) the Issuer loses its (i) short-term credit rating from Fitch of F1+ and the Final Maturity Date of the Series of Bullet Covered Bonds will fall within 6 months following the relevant Pre-Maturity Test Date or (ii) short-term credit rating from Fitch of F1 and the Final Maturity Date of the Series of Bullet Covered Bonds will fall within 12 months following the relevant Pre-Maturity Test Date.

Following a breach of the Pre-Maturity Test in respect of a Series of Bullet Covered Bonds, the LLP shall offer to sell Selected Mortgage Loans and their Related Security to Purchasers or refinance Selected Mortgage Loans and their Related Security in accordance with the LLP Deed, subject to:

- (a) any Cash Capital Contribution made by the Members (other than the Liquidation Member) from time to time; and
- (b) any right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement,

provided that an Issuer Event of Default shall occur if the Pre-Maturity Test in respect of any Series of Bullet Covered Bonds is breached on a Pre-Maturity Test Date falling less than six months prior to the Final Maturity Date of that Series of Bullet Covered Bonds, and the Issuer and the LLP have not taken the required action (as described above) following the breach by the earliest to occur of (i) 10 Business Days from the date that the Seller and the Security Trustee are notified of the breach of the Pre-Maturity Test and (ii) the Final Maturity Date of that Series of Bullet Covered Bonds, such that by the end of such period, there shall be an amount contributed equal to the Required Redemption Amount required so that a pro rata allocation of such amount across all outstanding Series of Bullet Covered Bonds in proportion to the Principal Amount Outstanding of each Series, up to each Series' Required Redemption Amount, would allocate funds to the Series of Bullet Covered Bonds in respect of which the breach of the Pre-Maturity Test had occurred (the "**Breached Series**"), sufficient to ensure that such Breached Series' Pre-Maturity Liquidity Ledger contained not less than the Required Redemption Amount in respect of such Breached Series.

Under the Pre-Acceleration Revenue Priority of Payments, if the LLP is required to make a deposit to the Pre-Maturity Liquidity Ledger upon a breach of the Pre-Maturity Test by the Issuer, the LLP will credit to the Pre-Maturity Liquidity Ledger an amount equal to (A) the Required Redemption Amount for the relevant Series of Bullet Covered Bonds calculated as at the immediately preceding Calculation Date, less (B) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger as at the immediately preceding Calculation Date after having deducted the Required Redemption Amount of all other Series of Bullet Covered Bonds which mature prior to or on the same date as such relevant Series of Bullet Covered Bonds referred to in (A). Under the Pre-Acceleration Principal Priority of Payments, if the Pre-Maturity Test has been failed by the Issuer in respect of any Series of Bullet Covered Bonds, the LLP will credit all Mortgage Loan Principal Receipts pro rata to each such Series' Pre-Maturity Liquidity Ledger in an amount in respect of such Series' Pre-Maturity Liquidity Ledger up to but not exceeding the difference between (a) the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Bullet Covered Bonds; and (b) any amounts credited to each such Series Pre-Maturity Liquidity Ledger pursuant to item (vii) of the Pre-Acceleration Revenue Priority of Payments on such LLP Payment Date after having deducted the Required Redemption Amount of all other Series of Bullet Covered Bonds which mature prior to or on the same date as such relevant Series of Bullet Covered Bonds.

The Cash Manager shall ensure that any applicable Cash Capital Contributions made by the Members or the proceeds of any applicable sale of the Selected Mortgage Loans and their Related Security shall be recorded to the Credit of the Pre-Maturity Liquidity Ledger as required in accordance with clause 4.2.1(c) of the Cash Management Agreement and clause 12.6 of the LLP Deed.

Following service of a Notice to Pay on the LLP, the LLP shall apply funds standing to the Pre-Maturity Liquidity Ledger to repay the relevant Series of Bullet Covered Bonds on its Original Due for Payment Date.

If the Issuer fully repays the relevant Series of Bullet Covered Bonds on the Final Maturity Date thereof any amount of cash standing to the credit of the Pre-Maturity Liquidity Ledger on the GIC Account after such repayment shall be applied by the LLP in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

- (a) the Issuer is failing the Pre-Maturity Test in respect of any other Series of Bullet Covered Bonds, in which case the cash will be transferred to the relevant Series Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Bullet Covered Bonds; or
- (b) the Issuer is not failing the Pre-Maturity Test in respect of any other Series of Bullet Covered Bonds, but the LLP Management Committee elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Bullet Covered Bonds as described above may, except where the LLP Management Committee has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the corresponding Term Advance(s) and distribute any excess Available Principal Receipts back to the Members, subject to the LLP making payment of a provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments.

Asset Coverage Test

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and can pay any 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 prior to the service of a Notice to Pay on the LLP the Adjusted Aggregate Mortgage Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds, in each case as calculated on the relevant Calculation Date. If on any Calculation Date prior to the service of a Notice to Pay on the LLP the Asset Coverage Test is not satisfied and such failure is not remedied on or before the next following Calculation Date, then an Issuer Event of Default will occur. The Asset Coverage Test is a calculation which adjusts the Current Balance of each Mortgage Loan in the Mortgage Loan Portfolio and involves further adjustments to take account of set-off on a Borrower's current or deposit accounts held with the Seller and any failure by the Seller, in accordance with the terms of the Mortgage Sale Agreement, to repurchase Mortgage 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.

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 and the Issuer of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee and senior ranking expenses (which will include costs relating to the maintenance, administration and liquidation of the Asset Pool whilst the Covered Bonds are outstanding) fall to a level where Covered Bondholders may not be repaid, an LLP Event of Default will (subject to any applicable grace periods) 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 Mortgage 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 involves in its calculations a formula which adjusts the Current Balance of each Mortgage Loan in the Mortgage Loan

Portfolio and involves further adjustments to take account of Mortgage Loans in arrears. See further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*", above.

Reserve Fund

If at any time prior to the occurrence of an Issuer Event of Default, the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligation are not rated at least F1+ by Fitch or P-1 by Moodys, the LLP will be required to establish the Reserve Fund in the 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 Fund in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger on the GIC Account 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. The Seller may also direct the LLP to credit any Cash Capital Contributions it makes to the LLP to the Reserve Ledger. The balance on the Reserve Ledger in excess of the Reserve Fund Required Amount will form part of the Available Revenue Receipts and be applied accordingly.

CASHFLOWS

As described above under "*Credit Structure*", until a Notice to Pay or LLP Acceleration Notice is served on the LLP and the Issuer, 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) The allocation and distribution of Available Revenue Receipts and Available Principal Receipts prior to the service of a Notice to Pay or an LLP Acceleration Notice;
- (b) The allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay; and
- (c) The application of moneys received by the Security Trustee following the occurrence of an LLP Event of Default, service of a LLP Acceleration Notice, realisation of the security and/or the commencement of winding-up proceedings against the LLP and enforcement of Security,

all in accordance with the LLP Deed and the Deed of Charge, as applicable.

If the Transaction Accounts are 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.

Termination payments in respect of Swaps, premiums received in respect of replacement swaps

If the LLP receives any termination payment from a Swap Provider in respect of a Swap, 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 to enter into a replacement Swap with the LLP, unless a replacement Swap 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, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap, unless such termination payment has already been made on behalf of the LLP.

Any termination payments received by the LLP from a Swap Provider which are not applied to pay a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) will be credited to the Revenue Ledger of the LLP Accounts and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

The allocation and distribution of Available Revenue Receipts prior to the service of a Notice to Pay or a LLP Acceleration Notice

Prior to service of a Notice to Pay or the service of a LLP Acceleration Notice on the LLP and the Issuer and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP and the Issuer, 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 (a) the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date and (b) the Reserve Fund Required Amount (if applicable).

Pre-Acceleration Revenue Priority of Payments

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will apply Available Revenue Receipts from the GIC Account and the Transaction Accounts to make the payments described below.

Prior to service of a Notice to Pay or service of an LLP Acceleration Notice on the LLP, Available Revenue Receipts will be applied by or on behalf of the LLP on each LLP Payment Date (except for amounts due to the Bond Trustee and the Security Trustee or other third parties by the LLP under

paragraph (i) below, or Third Party Amounts, which in each case shall be paid when due and except for Swap Collateral Excluded Amounts due to the Swap Provider by the LLP under the relevant Swap Agreement which shall be paid directly to the relevant Swap Provider) 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 or provided for in full):

- (i) *first*, to the extent required to be paid by the LLP under the provisions of the Trust Deed and the Deed of Charge, in or towards *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (a) All amounts due and payable or to become due and payable to 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;
 - (b) All amounts due and payable or to become due and payable to the Security Trustee (including remuneration payable to it) under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon as provided therein;
- (ii) *second*, to the extent required to be paid by the LLP under the provisions of the Agency Agreement, in or towards satisfaction of any amounts (including costs and expenses) due and payable pursuant to the terms of the Agency Agreement (together with applicable amounts in respect of VAT or similar taxes) thereon as provided therein and to other third parties (for which payment has not been provided for elsewhere in this Pre Acceleration Revenue Priority of Payments) and incurred without breach by the LLP of the Programme Documents to which it is a party 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 including without limitation stamp duty and other similar taxes and duties;
- (iii) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (a) any remuneration then due and payable to the Administrator and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrator under the provisions of the Administration Agreement in the immediately succeeding LLP Payment Period, 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 in the immediately succeeding LLP Payment Period, 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 (including costs) pursuant to the terms of the Bank Account Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (d) amounts due and payable to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon as provided therein;
 - (e) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (x) below), together with applicable VAT (or other similar taxes) to the extent provided therein; and
 - (f) amounts (if any) due and payable to the FSA in respect of fees plus any applicable VAT or similar taxes owed to the FSA under the RCB Regulations (other than the initial registration fees);
- (iv) *fourth*, in or towards payment of any amounts due to the Basis Rate Swap Provider in respect of the Basis Rate Swap Agreement (including any termination payment due and payable by the LLP

under the Basis Rate Swap (but excluding, for the avoidance of doubt, any Excluded Swap Termination Amount)) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Basis Rate Swap Provider) pursuant to the terms of the Basis Rate Swap Agreement;

- (v) *fifth*, in or towards payment and/or, as applicable, provision towards any such payment, on the LLP Payment Date of any amounts due or to become due and payable (other than in respect of principal) on or prior to the next Loan Interest Payment Date to the Covered Bond Swap Provider in respect of any relevant Covered Bond Swaps (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap, 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 Providers) pursuant to the terms of the relevant Swap Agreement;
- (vi) *sixth*, in or towards payment of any amounts due or to become due and payable on the LLP Payment Date and/or, as applicable, provision towards any such payment (excluding principal amounts) on or prior to the next Loan Interest Payment Date, *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (vii) *seventh*, if the LLP is required to make a deposit to the Pre-Maturity Liquidity Ledger upon a breach of the Pre-Maturity Test, towards a credit to the Pre-Maturity Liquidity Ledger of an amount equal to (A) the Required Redemption Amount for the relevant Series of Bullet Covered Bonds calculated as at the immediately preceding Calculation Date, *less* (B) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger as at the immediately preceding Calculation Date after having deducted the Required Redemption Amount of all other Series of Bullet Covered Bonds which mature prior to or on the same date as such relevant Series of Bullet Covered Bonds referred to in (A);
- (viii) *eighth*, if an Administrator Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Administrator Event of Default is either remedied by the Administrator or waived by the Security Trustee or a replacement administrator is appointed to service the Mortgage Loan Portfolio (or the relevant part thereof);
- (ix) *ninth*, if the Issuer's short term unsecured, unsubordinated and unguaranteed debt obligations are rated less than F1+ by Fitch and P-1 by Moody's towards a credit to the Reserve Ledger of the GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
- (x) *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 under the Swap Agreements except to the extent that such amounts have been paid out of any premiums received from the relevant replacement swap provider;
- (xi) *eleventh*, 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;
- (xii) *twelfth*, in or towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) as their profit for their respective interests as Members in the LLP, and
- (xiii) *thirteenth*, in or towards payment of the Deferred Consideration.

provided that if an LLP Payment Date is not the same as an Interest Payment Date, Available Revenue Receipts will be applied initially on the Interest Payment Date in payment of any amount due to the Covered Bond Swap Providers under item (v) above but only to the extent that adequate provision is made for any payments of a higher priority to be made in full on the immediately succeeding LLP Payment Date.

Any amounts received by the LLP under the Basis 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 under the Covered Bond Swap Agreement or, as the case may be, 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.

Any amounts (other than 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 (other than principal) due and payable pro rata and pari passu 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 as the Cash Manager may reasonably determine.

Any amounts received under the Covered Bond Swap Agreement on the LLP Payment Date or on any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with item (v) above or the preceding sub-clauses, will be credited to the Mortgage Loan Revenue Ledger on the GIC Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

The Allocation and Distribution of Available Principal Receipts prior to service of a Notice to Pay or an LLP Acceleration Notice

Prior to service on the LLP of a Notice to Pay or the service of an LLP Acceleration Notice on the Issuer and the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, Mortgage Loan Principal Receipts will be allocated and distributed as described below.

On each Calculation Date, the LLP or the Cash Manager on its behalf will calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date prior to the service of a Notice to Pay and/or realisation of the Security and/or commencement of winding-up proceedings against the LLP, the LLP or the Cash Manager on its behalf will apply funds from the GIC Account and the Transaction Accounts, in an amount equal to the amount of all Available Principal Receipts standing to the credit of the GIC Account and the Transaction Account.

If an LLP Payment Date is the same as an Interest Payment Date or a Final Maturity Date, then the 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 on that Interest Payment Date or Final Maturity Date, as applicable.

Pre-Acceleration Principal Priority of Payments

Prior to service of a Notice to Pay on the LLP or an LLP Acceleration Notice on the LLP and the Issuer and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, all Available Principal Receipts (other than Swap Collateral Excluded Amounts due to the Swap Provider by the LLP under the relevant Swap Agreement which shall be paid directly to the relevant Swap Provider) 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 made in full):

- (i) *first*, if the Pre-Maturity Test has been failed by the Issuer in respect of any Series of Bullet Covered Bonds, to credit all Mortgage Loan Principal Receipts pro rata to each such Series' Pre-Maturity Liquidity Ledger in an amount in respect of such Series' Pre-Maturity Liquidity Ledger up to but not exceeding the difference between:
 - (a) the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Bullet Covered Bonds; and

- (b) any amounts credited to each such Series Pre-Maturity Liquidity Ledger pursuant to item (vii) of the Pre-Acceleration Revenue Priority of Payments on such LLP Payment Date after having deducted the Required Redemption Amount of all other Series of Bullet Covered Bonds which mature prior to or on the same date as such relevant Series of Bullet Covered Bonds;
- (ii) *second*, to acquire New Mortgage Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement and to acquire Substitution Assets 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*, to deposit the remaining available Mortgage Loan Principal Receipts in the GIC Account (with a corresponding credit to the Principal 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;
- (iv) *fourth*, in or towards repayment on the LLP Payment Date and/or, as applicable, provision towards any amount due or to become due and payable on or prior to the next Loan Interest Payment Date of the corresponding Term Advance related to such Series of Covered Bonds by making the following payments and/or, as applicable, provisions:
 - (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 (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreements (but excluding, for the avoidance of doubt, any Excluded Swap Termination Amounts) to the extent not paid out of the Pre-Acceleration Revenue Priority of Payments or out of any premiums received from the relevant replacement swap provider) in accordance with the terms of the relevant Swap Agreement; and
 - (b) (where appropriate, after taking into account any amounts in respect of principal receivable from a Swap Provider on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine) the 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;

provided that no amounts shall be applied to make a payment to the Issuer in respect of a Term Advance if the principal amounts outstanding under the related Series of Covered Bonds which have fallen due for payment have not been repaid in full by the Issuer;

- (v) *fifth*, subject to complying with the Asset Coverage Test on the immediately preceding Calculation Date, to make a Capital Distribution to The Co-operative Bank (in its capacity 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, (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), to make payments 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.

Any amounts of principal received under the 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 (iii) above or the paragraph immediately preceding this paragraph will be credited to the Mortgage Loan Principal Ledger on the GIC Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

The allocation and Distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay

At any time after service of a Notice to Pay on the LLP, but prior to enforcement and/or realisation of the Security and/or the commencement of winding-up proceedings against the LLP, all Available Revenue Receipts and Available Principal Receipts (other than, for the avoidance of doubt, Third Party Amounts and Swap Collateral Excluded Amounts) 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 apply Available Revenue Receipts and Available Principal Receipts from the GIC Account, in an amount equal to the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of the GIC Account.

The LLP will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (v) 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 Swaps in respect of the relevant Series of Covered Bonds on the scheduled repayment dates thereof.

Guarantee Priority of Payments

If a Notice to Pay is served on the LLP in connection with the Pre-Maturity Test (as set out in the LLP Deed), the LLP shall, on the relevant Final Maturity Date, apply all monies standing to the credit of the Pre-Maturity Liquidity Ledger to repay the relevant Series of Bullet Covered Bonds in accordance with the LLP Deed (as described in "*Credit Structure - Pre-Maturity Liquidity*" above). Subject thereto on each LLP Payment Date after the service of a Notice to Pay on the LLP (but prior to enforcement or realisation of the Security and/or the commencement of winding up proceedings against the LLP), the LLP or the Cash Manager on its behalf will apply Available Revenue Receipts and Available Principal Receipts (excluding, for the avoidance of doubt, Swap Collateral Excluded Amounts due to the Swap Provider by the LLP under the relevant Swap Agreement which shall be paid directly to the relevant Swap Provider) 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):

- (i) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (a) 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 as provided therein;
 - (b) 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 as provided therein;
- (ii) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (a) any remuneration then due and payable to the Agents under the provisions of the Agency Agreement together with applicable VAT (or other similar taxes) thereon as provided therein; and
 - (b) any amounts then due and payable by the LLP (i) to third parties and incurred without breach by the LLP of the Programme 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 (ii) to pay or discharge any liability of the LLP for taxes and stamp duty;

- (iii) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (a) any remuneration then due and payable to the Administrator and any costs, charges, liabilities and expenses then due or to become due and payable to the Administrator in the immediately succeeding LLP Payment Period under the provisions of the Administration 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 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;
 - (c) amounts (if any) due and payable to the Account Bank (including costs) pursuant to the terms of the Bank Account Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (d) amounts due and payable to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon as provided therein;
 - (e) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (x) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or other similar taxes) thereon as provided therein; and
 - (f) amounts (if any) due and payable to the FSA in respect of fees plus any applicable VAT (or other similar taxes) thereon owed to the FSA under the RCB Regulations (other than the initial registration fees);
- (iv) *fourth*, in or towards satisfaction of the amounts due or to become due and payable prior to the next LLP Payment Date to the Basis Rate Swap Provider (including any termination payment due and payable by the LLP under the Basis Rate 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 Basis Rate Swap Provider) in accordance with the terms of the Basis Rate Swap Agreement; and
- (v) *fifth*, in or towards satisfaction (or in provision thereof) of *pro rata* and *pari passu* according to the respective amounts thereof, of:
- (a) the amounts due or to become due and payable to the Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreements but excluding, for the avoidance of doubt, any Excluded Swap Termination Amount except to the extent that such amounts have been paid out of any premiums from the relevant replacement Swap Provider) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
 - (b) to the extent not covered by (a) above, to 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 Interest Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds.

provided that if the amount available for distribution under this paragraph (v) (excluding any amounts received from the Covered Bond Swap Provider under (a) above) 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 (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 Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (a) 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;

- (vi) *sixth*, in or towards satisfaction (or in provision therefor) of *pro rata* and *pari passu* according to the respective amounts thereof on the LLP Payment Date or to provide for payment prior to the next LLP Payment Date, of:
- (a) to pay the amounts due and payable to the Covered Bond Swap Provider (in respect of principal) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds in accordance with the terms of the relevant Covered Bond Swap Agreement; and
 - (b) (where appropriate after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider and available to make payments in respect thereof) amounts to the Principal Paying Agent, on behalf of the Covered Bondholders *pro rata* and *pari passu*, of Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding Interest Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (vi) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is or will be Due for Payment in respect of each Series of Covered Bonds under (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 Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (a) 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;

- (vii) *seventh*, to deposit the remaining moneys in the GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (i) to (vi) (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);
- (viii) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Basis Rate Swap Provider or, as applicable, Covered Bond Swap Providers);
- (ix) *ninth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement (for the avoidance of doubt, the amounts owed by the LLP to the Issuer under the Term Advances will be reduced *pro tanto* by the Sterling Equivalent amounts paid or provided for by the LLP under the terms of the Covered Bond Guarantee to repay the related Series of Covered Bonds);
- (x) *tenth*, in or towards satisfaction *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 certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (xi) *eleventh*, thereafter any remaining moneys will be applied in accordance with the LLP Deed.

Any 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 Covered Bond Guarantee *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds.

Any amounts received under any Covered Bond Swap Agreement 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 will be

credited to the Mortgage Loan Revenue Ledger or the Mortgage Loan Principal Ledger on the GIC Account (as appropriate) and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding LLP Payment Date.

The application of moneys received by the Security Trustee following the occurrence of an LLP Event of Default and the service of an LLP Acceleration Notice and enforcement of the Security, realisation of the Security and/or the commencement of winding-up proceedings against the LLP

Under the terms of the Deed of Charge, subject to Regulations 28 and 29 of the RCB Regulations, all moneys received or recovered by the Security Trustee (or a Receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any Third Party Amounts and excluding Swap Collateral Excluded Amounts due to the Swap Providers by the LLP under the relevant Swap Agreement which shall be paid directly to the relevant Swap Provider) will be applied following the enforcement of the Security in the following order of priority (the "**Post-Enforcement Priority of Payments**") (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (i) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (a) all amounts due and payable or to become due or payable to:
 - (1) the Bond Trustee under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein; and
 - (2) the Security Trustee 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;
 - (b) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein
 - (c) amounts in respect of:
 - (1) any remuneration then due and payable to the Administrator and any costs, charges, liabilities and expenses then due and payable to the Administrator under the provisions of the Administration Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (2) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then 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;
 - (3) amounts due to the Account Bank (including costs) pursuant to the terms of the Bank Account Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
 - (4) 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;
 - (d) amounts due and payable to the Basis Rate Swap Provider (including any termination payment due and payable by the LLP under the relevant Basis Rate Swap Agreement but excluding, for the avoidance of doubt, any Excluded Swap Termination Amount) in accordance with the terms of the relevant Swap Agreement; and
 - (e) all amounts due and payable:
 - (1) to each relevant Covered Bond Swap Provider (in respect of principal and interest) *pro rata* and *pari passu* in respect of each relevant Series of Covered

Bonds excluding, for the avoidance of doubt, any Excluded Swap Termination Amount in accordance with the terms of the relevant Swap Agreement; and

- (2) to the Covered Bondholders *pro rata* and *pari passu* as Scheduled Interest and Scheduled Principal that is Due for Payment under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) would be insufficient to pay the Sterling Equivalent of the amounts that are Due for Payment under the covered Bond Guarantee in respect of each Series of Covered Bonds under (2) 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 Swap Provider in respect of each relevant Series of Covered Bonds under (1) 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.

- (ii) *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 the relevant Swap Provider under the relevant Swap Agreement;
- (iii) *third*, after the Covered Bonds have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;
- (iv) *fourth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (v) *fifth*, thereafter any remaining moneys shall be applied in or towards payment to the Members pursuant to the LLP Deed,

provided that unless and until the Issuer has been admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, items (a) to (e) above shall not be applied *pari passu* but shall be applied in accordance with the order of priority set out in paragraph (i), with amounts being applied in respect of paragraph (i)(a) (with items (1) and (2) thereof being paid on a *pro rata* and *pari passu* basis), then (i)(b), then (i)(c) (with items (1) to (4) thereof being paid on a *pro rata* and *pari passu* basis), then (i)(d) and then (i)(e) (with items (1) and (2) thereof being paid on *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.

Following the admission of the Issuer to the register of issuers pursuant to Regulation 14 of the RCB Regulations, the above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 28 and 29 of the RCB Regulations. In particular, costs properly incurred by a receiver, liquidator, provisional liquidator or manager of the LLP in relation to:

- (i) persons providing services for the benefit of Covered Bondholders (which pursuant to the RCB Regulations (as amended) shall include the persons listed in paragraph (i) above);
- (ii) the Swap Providers in respect of amounts due to them under paragraph (i) above; and
- (iii) any 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 persons 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 amongst themselves in priority to all other expenses of such winding-up, administration, administrative receivership or receivership, as the case may be.

THE MORTGAGE LOAN PORTFOLIO

The Initial Mortgage Loan Portfolio and each New Mortgage Loan Portfolio acquired by the LLP (the "**New Mortgage Loan Portfolio**"), consists (or will consist) of the Mortgage 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 Mortgage Loan Portfolio**" means the portfolio of Mortgage Loans and their Related Security, particulars of which are set out in the Mortgage Sale Agreement (other than any Mortgage 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 and Capitalised Arrears) and other sums due or to become due in respect of such Mortgage Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Conditions;
- (b) the benefit of all securities for such principal, interest and other sums payable (including without limitation any interest of the Seller in any life policy), the benefit of all Deeds of Consent, Deeds of Postponement any Guarantee in respect of such Mortgage Loan or any other collateral security for the repayment of the relevant Mortgage Loans secured by the Related Security;
- (c) the right to exercise all the powers of the Seller in relation thereto subject to and in accordance with the relevant Mortgage Conditions;
- (d) all the estate, title and interest in the Mortgaged Properties in relation thereto vested in the Seller;
- (e) to the extent they are assignable or capable of being put into trust, each Certificate of Title and Valuation Report and any right of action of the Seller against any solicitor, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with any Mortgage Loan and its Related Security, or any part thereof affecting the decision of the Seller to make or offer to make the relevant Mortgage Loan or part thereof; and
- (f) the benefit of certain Insurance Contracts relating to the Mortgaged Properties, including the right to receive the proceeds of all claims made or to be made by or on behalf of the Seller or to which the Seller is or may become entitled.

"**New Mortgage Loan Portfolio**" means in each case the portfolio of New Mortgage Loans and their Related Security (other than any New Mortgage 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 (f) above.

See also the following risk factors under "*Risk Factors – Risk Factors relating to the LLP – Limited description of the Mortgage Loan Portfolio – Maintenance of Mortgage Loan Portfolio and – Changes to the Lending Criteria of the Seller*".

DESCRIPTION OF THE RCB REGULATIONS

This section is only a summary of the United Kingdom Covered Bond Regime. Prospective purchasers of Covered Bonds should carefully consider all the information contained in this Base Prospectus, including the information set out below, before making any investment decision.

The RCB Regulations and the corresponding implementation provisions, set out in the RCB Sourcebook, came into force in the United Kingdom on 6 March 2008. The RCB Regulations together with the RCB Sourcebook provide a detailed legislative framework for issuing regulated covered bonds, being a covered bond or programme for the issuance of covered bonds, which has been admitted to the register of regulated covered bonds maintained by the FSA under the RCB Regulations.

The RCB Regulations are intended to implement Article 22(4) of the UCITS Directive, which may allow covered bonds that comply with the RCB Regulations to be eligible to benefit from higher prudential investment limits under the UCITS Directive. The implementation of paragraph 68 of Annex VI of the Banking Consolidation Directive in the FSA's BIPRU Sourcebook also allows investors in Covered Bonds which are backed by collateral specified in paragraph 68 to benefit from preferential risk weighting under the Banking Consolidation Directive.

The RCB Regulations and the RCB Sourcebook include various requirements related to issuers, owners of the asset pool, eligible 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 composition of 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).

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. Furthermore, 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 intends to apply to the FSA for admission to the register of issuers and for the Programme to be admitted to the register of regulated covered bonds under RCB Regulations. As at the date of this Base Prospectus, neither the Issuer nor the Programme will be so registered or regulated. Pursuant to the RCB Regulations, the timetable for assessment by the FSA of an application should not be more than six months. However, if the FSA requires additional information from the Issuer within such time period, the six months will commence from the date of receipt of such additional information. Covered Bondholders will be notified promptly by the Issuer upon receipt from the FSA of its final decision on the application.

See also "Risk Factors – The RCB Regulations" and – "Expenses of insolvency officeholders".

DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

This section is only a summary of the laws in force in England and Wales with respect to limited liability partnerships. Prospective purchasers of Covered Bonds should carefully consider all the information contained in this Base Prospectus, including the information set out below, before making any investment decision.

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 and the Limited Liability Partnership (Amendment) Regulations 2007) 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, in certain circumstances, file annual returns every calendar year 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, the Security Trustee, the Agents 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**"). DTC has Standard & Poor's highest rating: AAA. 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 depositaries 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 Covered Bondholder. 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 Covered Bondholder 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.

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 may 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 in reliance on Rule 144A 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, interest coupons or talons attached (a "**Temporary Global Covered Bond**") which, will:

- (i) if the Bearer Global Covered Bonds are intended to be issued in new global covered bond ("**NGCB**") form, as stated in the Applicable Final Terms Document (the "**Applicable Final Terms Document**"), be delivered on or prior to the Issue Date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"); and
- (ii) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form, as stated in the Applicable Final Terms Document, be delivered on or prior to the issue date of the relevant Tranche to a common depository (the "**Common Depository**") for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system.

If the Applicable Final Terms indicates that the Bearer Global Covered Bond is a NGCB, the nominal amount of the Covered Bonds represented by such Bearer Global Covered Bond will be the aggregate from time to time entered in the records of both Euroclear and Clearstream, Luxembourg. The records of Euroclear and Clearstream, Luxembourg (which expression in such Bearer Global Covered Bond means the records that each of Euroclear and Clearstream, Luxembourg holds for its customers which reflect the amount of each such customer's interest in the Covered Bonds) will be conclusive evidence of the nominal amount of Covered Bonds represented by such Bearer Global Covered Bond and, for such purposes, a statement issued by Euroclear and/or Clearstream Luxembourg, as the case may be, stating that the nominal amount of Covered Bonds represented by such Bearer Global Covered Bond at any time will be conclusive evidence of the records of Euroclear and/or Clearstream at that time, as the case may be.

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 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**") 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 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 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) provided the Covered Bonds are denominated in the Minimum Specified Denomination, or integral multiples thereof, 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) upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (a) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (b) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Global Covered Bond (and any interests therein) exchanged for Bearer Definitive Covered Bonds. The Issuer will promptly give notice to 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 (b) 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 to "**Qualified Institutional Buyers**" within the meaning of Rule 144A under the Securities Act ("**QIBs**") who agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof.

The Registered Covered Bonds of each Tranche sold to QIBs will be represented by a global note 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, the Depository Trust Company ("**DTC**") for the accounts of Euroclear and Clearstream, Luxembourg 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. 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 Rule 144A Global 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 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

An interest in a Rule 144A Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in a Regulation S 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 "*Terms and 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 to do so within a reasonable period and the failure shall be continuing.

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 and each Definitive Covered Bond (each as defined below), 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 The Co-operative Bank plc (the "**Issuer**") constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") dated on or about 10 September 2008 (the "**Programme Date**") made between the Issuer, The Covered Bond LLP as guarantor (the "**LLP**") and Deutsche Trustee Company Limited as bond trustee (in such capacity, the "**Bond Trustee**", which expression shall include any successor as Bond Trustee) and as security trustee (in such capacity, the "**Security Trustee**", which expression shall include any successor as Security Trustee). Covered Bonds of such Series may be issued in bearer form ("**Bearer Covered Bonds**") or in registered form ("**Registered Covered Bonds**").

Save as provided for in Conditions 9 (*Events of Default and Enforcement*) and 14 (*Meetings of the 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 equal to 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 (or part exchange) for a Global Covered Bond in bearer form; and
- (iv) any Definitive Covered Bonds in registered form ("**Registered Definitive Covered Bonds**" and, together with the Bearer Definitive Covered Bonds, the "**Definitive Covered Bonds**") issued in exchange (or part 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 on or about the Programme Date and made between the Issuer, the LLP, the Bond Trustee and the Security Trustee, Deutsche Bank AG, London Branch as issuing and principal paying agent, calculation agent and agent bank (in such capacity, the "**Principal Paying Agent**", which expression shall include any successor principal paying agent or agent bank) 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) and Deutsche Bank Trust Company Americas as exchange agent (in such capacity, the "**Exchange Agent**", which expression shall include any successor exchange agent), and 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 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 supplements these Terms and Conditions (the "**Conditions**") and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Covered Bond. References to the "**Applicable 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 for the time being of the Covered Bonds (the "**Covered Bondholders**", which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), 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 (a) after service of a Notice to Pay on the LLP following the occurrence of an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice on the Issuer or (b) after service of an LLP Acceleration Notice on the LLP and the Issuer following the occurrence of an LLP Event of Default.

The security for the obligations of the LLP under the Covered Bond Guarantee and the other Programme 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 on or about 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 Schedule, the Agency Agreement and each of the other Programme Documents are available for inspection during normal business hours at the registered office for the time being of the Principal Paying Agent being at the Programme Date at Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the specified office of each of the other Paying Agents (if any). 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 Schedule, the Agency Agreement, each of the other Programme 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 schedule made between the parties to the Programme Documents on or about the Programme Date (the "**Master Definitions Schedule**"), 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 will be issued in a Minimum Specified Denomination or in integral multiples of a lesser amount in excess of such Specified Denomination provided that in the case of any Covered Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €50,000 (or its equivalent in alternate currencies) or integral multiples of a lesser amount in excess of such Specified Denomination.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond, an Index Linked Interest Covered Bond, a Dual Currency Interest Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown in the Applicable Final Terms, and, where this Covered Bond is a Zero Coupon Covered Bond, an Index Linked Interest Covered Bond, a Dual Currency Interest Covered Bond or any combination of the foregoing subject to the then current ratings of any outstanding Series of Covered Bonds not being 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, a Bullet Covered Bond or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the Applicable Final Terms and, 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 subject to the then current ratings of any outstanding Series of Covered Bonds not being adversely affected by the issuance of this Covered Bond.

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 Instalment Covered Bonds 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.

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, 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.

So long as the Notes are represented by a Global Covered Bond and the relevant clearing system(s) so permit, the Covered Bonds shall be tradeable only in principal amounts of at least €50,000 (or, where the Specified Currency is not Euro, its equivalent in the Specified Currency) and integral multiples of the Specified Denomination in excess thereof or in integral multiples of a lesser amount in excess of such Specified Denomination as specified in the relevant Final Terms.

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 transferable 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(e) (*Transfers of interests in Regulation S Global Covered Bonds*), 2(f) (*Transfers of interests in Rule 144A 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 and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 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 to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A and a QP; 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 Rule 144A Global Covered Bond or a Registered Covered Bond sold to QIBs in definitive form ("**Rule 144A Definitive Covered Bond**") and together with a Rule 144A Global Covered Bond, "**Rule 144A Covered Bond**"), such transferee may take delivery through a Rule 144A Global Covered Bond or a Rule 144A Definitive Covered Bond. 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 Rule 144A Covered Bonds***

Transfers of Rule 144A 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 Rule 144A Covered Bond where the transferee is a person whom the transferor reasonably believes is a QIB or QP in a transaction meeting the requirements of Rule 144A and a QP, without certification; 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.

Upon the transfer, exchange or replacement of legended covered bonds ("**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***

Holders of Registered Covered Bonds in definitive form 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:

"**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);

"**QIB**" means a "**Qualified Institutional Buyer**" as defined in Rule 144A;

"**QP**" means a qualified purchaser;

"**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 Covered Bond**" means either of a Rule 144A Definitive Covered Bond or a 144A Global Covered Bond;

"**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.

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

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 and the LLP 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 of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee are direct (and 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 Programme Documents (as defined in the Master Definitions Schedule) to which it is a party, the LLP has granted fixed and floating security over all of its assets under the Deed of Charge in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors).

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 for such Interest Payment Date in the relevant Final Terms (the "**Broken Amount**").

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 in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms Document, 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 if they are Partly Paid Notes, the aggregate amount paid up); or (ii) in the case of Fixed Rate Covered Bonds in definitive form, 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 comprises a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

- (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 (a) the later of the date which is the Scheduled Payment Date in respect of such Guaranteed Amount and the date which is two Business Days following the date of service of a Notice to Pay on the LLP in respect of such Guaranteed Amounts or (b) if the Final Terms for a Series of Covered Bonds specifies that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Scheduled 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 nominal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bonds in respect thereof on or prior to that day; and

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

In 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) 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 (TARGET) System or any successor thereto (the "**TARGET System**") is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds and Index Linked Interest Covered Bonds will be determined in the manner specified in the Applicable 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 specified 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 a basis 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 by applying the Rate of Interest to: (i) in the case of Floating Rate Covered Bonds or Index Linked Interest Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Covered Bonds represented by such Global Covered Bond (or, if they are Partly Paid Covered Bonds, the aggregate amount paid up); or (ii) in the case of Floating Rate Covered Bonds or Index Linked Interest Covered Bonds in definitive form, 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 Floating Rate Covered Bond or a Index Linked Interest Covered Bond in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period:

- (A) if "**Actual/365**" or "**Actual/Actual (ISDA)**" 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**", 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;
 - (F) if "**360/360**" or "**Bond Basis**" is specified in the Applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
 - (G) if "**30E/360**" or "**Eurobond Basis**" is specified in the Applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date (or, as the case may be, Extended Due for Payment Date) is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (v) *Notification of Rate of Interest and Interest Amounts*

The 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 Issuer and 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 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 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 (or an agent appointed by it) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the Applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Bond Trustee shall calculate (or appoint an agent to calculate) the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be. In making any such determination or calculation, the Bond Trustee may appoint and rely without liability to any person for so doing on a determination or calculation agent (which shall be an investment bank or other suitable entity of international repute).

(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 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 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 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 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.

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 (or, in the case of part payment of any sum due, endorsement) 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 (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. 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 unmatured 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 unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the 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 12 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, six 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 unmatured 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 unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Covered Bond" is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond. If the due date for redemption of any 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 Global Covered Bond is not intended to be issued in New Global Covered Bond ("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 Global Covered Bond which is not issued in NGCB form, a record of such payment made on such Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Global Covered Bond by the Principal 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 Principal 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 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 (being for this purpose 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 in the city where the specified office of the Registrar is located 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 in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for 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 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 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, Security 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, payments of principal and/or interest in U.S. Dollars 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 (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 and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open; 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(e) (*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) **Partial payment**

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

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:

- (i) an Extended Due for Payment Date is specified in the Applicable Final Terms for a Series of Covered Bonds; and
- (ii) the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the relevant Final Terms (or after the applicable grace period specified in Condition 9(a)(i)); and
- (iii) the Bond Trustee has served an Issuer Acceleration Notice on the Issuer and the LLP and has served a Notice to Pay on the LLP (but has not served an LLP Acceleration Notice on the LLP and the Issuer);

and the LLP or the Cash Manager on its behalf determines that the LLP will not have sufficient moneys available (after providing for liabilities ranking in priority thereto or *pari passu* therewith subject to and in accordance with the Guarantee Priority of Payments) to pay in full the Guaranteed Amount corresponding to the unpaid portion of the Final Redemption Amount in respect of the relevant Series of Covered Bonds (the amount of such shortfall being the "**Guaranteed Amount Shortfall**") on the date falling on the earlier of:

- (a) the later of (1) the date which falls two Business Days after service of the Notice to Pay on the LLP and (2) the Final Maturity Date; and
- (b) the Extension Determination Date,

then payment of the Guaranteed Amount Shortfall by the LLP under the Covered Bond Guarantee will not be due on the Final Maturity Date but shall instead be deferred until the first Interest Payment Date thereafter on which sufficient moneys are available (after providing for liabilities ranking in priority thereto or *pari passu* therewith subject to and in accordance with the Guarantee Priority of Payments) to fund the payment of such Guaranteed Amount Shortfall, or any part thereof.

Payment of the Guaranteed Amount Shortfall shall not be deferred beyond the Extended Due for Payment Date when such amount shall be due and payable.

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, the Swap Providers 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 Final Maturity Date that the LLP will not have sufficient moneys available (after providing for liabilities ranking in priority thereto or *pari passu* therewith subject to and in accordance with the Guarantee

Priority of Payments) to pay in full the Guaranteed Amount corresponding to the unpaid portion of the Final Redemption Amount in respect of the relevant Series of Covered Bonds.

In the circumstances outlined above, the LLP shall on the earlier of (a) the date falling two Business Days after service of a Notice to Pay or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9(b)(i) (*LLP Events of Default*)), and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the corresponding part of Scheduled Interest in respect of 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 but failure to pay on an Extended Due for Payment Date shall 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).

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 may (if an Extended Due for Payment Date is specified in the Applicable Final Terms) be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date;

"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 rules and priority of payments governing the application by the LLP, or the Cash Manager on its behalf, of the funds available to it on each LLP Payment Date following the service of a Notice to Pay on the LLP but prior to the realisation and/or enforcement of the Security and/or the commencement of winding-up proceedings as set out in the Deed of Charge.

"Rating Agency" means any one of Moody's Investors Service Limited and Fitch Ratings Limited (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 the relevant Covered Bond is not a Floating Rate Covered Bond, an Index Linked Interest Covered Bond or a Dual Currency Interest Covered Bond) or on any Interest Payment Date (if this Covered Bond is a Floating Rate Covered Bond, an Index Linked Interest Covered Bond or a Dual Currency Interest Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 13 (*Notices*), to the Covered Bondholders (which notice shall be irrevocable), if (i) the Issuer satisfies the Bond Trustee immediately before the giving of such notice that, on the occasion of the next Interest Payment Date, the Issuer is or will be required to pay additional amounts as provided in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then

due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Bond Trustee (a) a certificate signed by two directors of the Issuer stating that the obligation referred to in (j) above cannot be avoided by the Issuer taking reasonable measures available to it and the Bond Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on the Covered Bondholders, and (b) an opinion of independent legal advisors of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Bond Trustee shall be entitled to accept such opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) above in which event it shall be conclusive and binding on the Covered Bondholders. Covered Bonds redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in Condition 6(e) (*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 30 nor more than 60 days' notice to the Bond Trustee, the Security 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 a redemption of some only of the Covered Bonds, such redemption must be for an amount being not less than the Minimum Redemption Amount and not more than a Maximum Redemption Amount (if any) as specified in the applicable Final Terms. 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 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) 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 due to illegality***

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13 (*Notices*), all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP from the proceeds of 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. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Bond Trustee (a) a certificate signed by 2 directors of the Issuer stating that such illegality has occurred or will occur before the next Interest Payment Date and (b) an opinion of independent legal advisers of recognised standing to the effect that such illegality is as a result of such change or amendment and the Bond Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in this paragraph in which event such certificate and opinion shall be conclusive and binding on the Covered Bondholders.

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

(e) ***Early Redemption Amounts***

For the purpose of Conditions 6(b) (*Redemption for taxation reasons*) above, 6(d) (*Redemption due to illegality*), 6(f) (*Instalments*), 6(g) (*Partly-paid covered bonds*) and 6(j) (*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.

(f) ***Instalments***

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the Applicable Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6(e) (*Early Redemption Amounts*) above.

(g) **Partly-Paid Covered Bonds**

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

(h) **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 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).

(i) **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(h) (*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.

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

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 6(a) (*Final Redemption*), (b) (*Redemption for taxation reasons*) or (c) (*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(e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) the date on which the full amount of the moneys 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.

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 whatsoever 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 (but, for the avoidance of doubt, not the LLP) in respect of a payment made by it in respect of any present or future taxes, duties, assessments or governmental charges imposed or levied by or on behalf of the United Kingdom or any political sub-divisions thereof, 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) by or on behalf of a holder who 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
- (b) 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
- (c) 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
- (d) 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 moneys 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 moneys 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 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 10 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 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 (which for this purpose or the purpose of any Extraordinary Resolution (as defined in the Trust Deed) referred to in this Condition 9(a) 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 Swap Rate (as defined in the Master Definitions Schedule)) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured and/or prefunded 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 (but in the case of the happening of any of the events mentioned in sub-paragraph (ii) below, only if the Bond Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series and provided that (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) 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 considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee) (each an "**Issuer Event of Default**") shall occur:

- (i) the Issuer fails to pay any principal or interest due in respect of the Covered Bonds and the default is not remedied within 14 days (in the case of interest) or 7 days (in the case of principal); or
- (ii) if the Issuer fails to perform or observe any obligations under the Covered Bonds, Receipts or Coupons of any Series, the Trust Deed or any other Programme Document to which the Issuer is a party (other than the Programme Agreement and the Subscription Agreement) and such failure in the opinion of the Bond Trustee is not remedied within 30 days (or such longer period as the Bond Trustee may permit) of written notification by the Bond Trustee to the Issuer requiring such default to be remedied shall have been given to the Issuer by the Bond Trustee in accordance with the Trust Deed (except in circumstances wherein the Bond Trustee's opinion such failure is incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required); or
- (iii) an order is made or an effective resolution passed for the bankruptcy or liquidation or *winding-up of the Issuer (except a bankruptcy, liquidation or winding-up for the purpose of a reconstruction, union, transfer, merger, amalgamation or reorganisation following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution)*; or
- (iv) if the Issuer ceases to carry on its business or (in the opinion of the Bond Trustee) a substantial part of its business (except a bankruptcy, liquidation or winding-up for the purpose of a reconstruction, union, transfer, merger, amalgamation or reorganisation following the transfer of all or a substantial part of the assets of the Issuer, the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution); or
- (v) proceedings are initiated against the Issuer under any applicable liquidation, winding-up, insolvency, bankruptcy, reorganisation or other similar laws (except a bankruptcy, liquidation or winding-up for the purpose of a reconstruction, union, transfer, merger, amalgamation or reorganisation following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution) or a receiver, administrator, trustee or other similar official shall be appointed in relation to the Issuer or in relation to the whole or in the opinion of the Bond Trustee a substantial part (having an aggregate book value of in excess of £50,000,000) of its assets or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or in the opinion of the Bond Trustee a substantial part of its assets (having an aggregate book value of in excess of £50,000,000) and, in any of the foregoing cases, it shall not be discharged within 30 days; or if the Issuer shall initiate or consent to any applicable liquidation, winding-up, insolvency, bankruptcy, reorganisation or other similar laws (except in connection with a bankruptcy, liquidation or winding-up for the purpose of a reconstruction, union, transfer, merger, amalgamation or reorganisation following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution) or shall make a conveyance, assignment for the benefit of, or shall enter into any composition with, its creditors generally; or

- (vi) the Issuer shall be unable to pay its debts (other than any debts disputed in good faith) as they fall due (within the meaning of section 123(1)(b) to (e) and section 123(2) of the Insolvency Act 1986 as that section may be amended) or shall admit inability to pay its debts as they fall due or shall stop payment in respect of any debts that are due (save, in the case of stopping payments, in each case in respect of any obligation for the payment of principal, redemption amount or interest in respect of the Covered Bonds of any Series) or shall be adjudged or found bankrupt or insolvent);
- (vii) a failure to satisfy the Asset Coverage Test (as set out in the LLP Deed) on any Calculation Date which has not been cured by the LLP by the next following Calculation Date or
- (viii) if the Pre-Maturity Test in respect of any Series of Bullet Covered Bonds is breached on a Pre-Maturity Test Date falling less than six months prior to the Final Maturity Date of that Series of Bullet Covered Bonds, and the LLP has not cured the breach as described in the LLP Deed before the earlier to occur of (i) 10 London Business Days from the date that the Seller is notified of the breach of the Pre-Maturity Test and (ii) the Final Maturity Date of that Series of Bullet Covered Bonds.

Upon the Covered Bonds becoming immediately due and repayable against the Issuer pursuant to this Condition 9(a), 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 the first paragraph of Condition 9(c) (*Enforcement*).

The Trust Deed provides that all moneys received by the Bond Trustee on behalf of the Covered Bondholders (and excluding any amounts due to the Bond Trustee for its own account under the terms of the Trust Deed) 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 GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Deed of Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge *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 on the LLP) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

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

(b) **LLP Events of Default**

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9(b) 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 Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), 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 and the service of an Issuer Acceleration Notice on the Issuer), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (y) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (but in the case of the happening of any of the events described in paragraph (ii) below, only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, and provided that (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 Regulation) a breach of any obligation to provide notices to the FSA under the RCB Regulations and/or the RCB Sourcebook shall not in itself be considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee), (each an "LLP Event of Default") shall occur:

- (i) default is made by the LLP in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series and is not remedied within 7 days except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 6(a) (*Final Redemption*) 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 Programme Document to which the LLP is a party and such failure in the opinion of the Trustee is not remedied within 30 days (or such longer period as the Bond Trustee may permit) of written notification by the Bond Trustee to the LLP requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given to the LLP by the Bond Trustee in accordance with the Trust Deed (except where such default is or the effects of such default are, in the opinion of the Bond Trustee not capable of remedy in which case such continuation or notice as is hereunder mentioned will not be required); or
- (iii) an order is made or an effective resolution passed for the liquidation or winding-up of the LLP; or
- (iv) if 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 or assignation 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 Calculation Date following an Issuer Event of Default.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and the Issuer each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 9(c) (*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 under the Covered Bonds (except that no such additional amounts shall be payable as set out in 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 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 and the Coupons, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other Programme 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 Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured and/or prefunded 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 against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge 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 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 Swap Rate as aforesaid); and (ii) it shall have been indemnified and/or secured and/or prefunded 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 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 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 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 will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 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.

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) (*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) referred to in the preceding paragraphs 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, or 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 and Waiver

The Trust Deed contains provisions for convening meetings of the Covered Bondholders 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 Covered Bondholders whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that any meeting the business of which includes the modification of 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 Covered Bondholders of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*. If, in the opinion of the Bond Trustee, there is a conflict between the interests of the holders of one Series of Covered Bonds with the interests of the holders of any other Series of Covered Bonds, then separate meetings shall be convened in accordance with this Condition.

The Trust Deed provides that a resolution in writing signed by or on behalf of Covered Bondholders of not less than seventy five per cent. of the Principal Amount outstanding of the Covered Bonds of the

relevant Series then outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Covered Bondholders of the relevant Series duly convened and held.

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 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 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 Covered Bondholders 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 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 Programme Document provided that in the opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series; or
- (b) any modification of the Covered Bonds of any one or more Series, the related Receipts and/or Coupons or any Programme 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 provided in the Deed of Charge), any modification of the Covered Bonds of any one or more Series, the related Receipts and/or Coupons or any Programme Document only if so directed by (i) the Bond Trustee, so long as there are any Covered Bonds outstanding or (ii) all of the 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 Programme Documents and/or the Conditions of the Covered Bonds to enable the Covered Bonds issued under the Programme on or after the date hereof 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, without liability to any person for so doing, agree to such modifications without the consent or sanction of any of the Covered Bondholders, the Receiptholders or the Couponholders in respect of Covered Bonds issued under the Programme on or after the date hereof, 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 each of 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 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. 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 Programme Documents and/or the 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 the Programme Documents only if so directed to by (a) the Bond Trustee so long as there are any Covered Bonds outstanding or (b) all other Secured Creditors, if there are no Covered Bonds outstanding.

Prior to the Bond Trustee agreeing to any modification, waiver, authorisation, determination pursuant to this Condition 14 or substitution pursuant to Condition 15, the Issuer must send a certificate signed by his Authorised Signatories to the Bond Trustee (on which the Bond Trustee shall be entitled to rely without liability to any person) that such modification, waiver, authorisation, determination or substitution, as applicable, would not result in a breach of the RCB Regulations nor cause the Programme to cease to be registered under 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, determination or substitution would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or
- (b) if such modification, waiver, authorisation, determination or substitution 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 consented to such proposed modification, waiver, authorisation, determination or substitution.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation 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 Bondholders, 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 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.

In exercising or performing any of its discretions, rights, powers, trusts or duties under or in relation to these Conditions, the Trust Deed, the Deed of Charge or any Programme Document (including, without limitation, any consent, approval, modification, waiver, authorisation, opinion or determination referred

to in these Conditions), each of the Bond Trustee and the Security Trustee may rely on a number of factors including any Rating Agency Confirmation whether or not any such confirmation is addressed to, or provided that it may be relied on by, the Bond Trustee and/or the Security Trustee and irrespective of the method by which such confirmation is conveyed.

For the purposes of this Condition 14:

"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 other condition, could 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 other condition, could constitute an LLP Event of Default; and

"Series Reserved Matter" in relation to Covered Bonds of a Series means; (i) 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 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); (v) except in accordance with Condition 6(i) (*Cancellation*) or Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*), 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 the proviso to paragraph 5 (which, *inter alia*, sets out the required quorum in respect of a Series Reserved Matter) or paragraph 6 (which, *inter alia*, sets out the procedures and requirements for the adjournment of meetings) of Schedule 4 to the Trust Deed or the alteration of this definition.

15. **Substitution**

- (a) Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Covered Bondholders, may agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders, to the substitution of any successor in business of the Issuer or of a Subsidiary of the Issuer ("**Successor in Business**") or any such Successor in Business, in place of the Issuer (or of any previous substitute under this paragraph) 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) Any substitution pursuant to this Condition 15 shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified to the Covered Bondholders as soon as practicable thereafter in accordance with Condition 13 (*Notices*).

Notwithstanding the above, the Bond Trustee may only agree to a substitution of the existing Issuer with another entity if (a) the transfer of the Issuer's benefits and obligations in relation to the Covered Bonds complies with Regulation 19 of the RCB Regulations or (b) any successor for the Issuer is included in the

register of issuers pursuant to the RCB Regulations and that all other provisions (including Regulation 20 of the RCB Regulations) are satisfied prior to the substitution of the Issuer. Prior to the Bond Trustee agreeing to any substitution pursuant to this Condition 15 the Issuer must send written confirmation to the Bond Trustee (which the Bond Trustee shall be entitled to rely on without liability to any person) that such substitution will comply with the requirements set out in (a) and (b) above and the provisions of Clause 22 of the Trust Deed.

16. 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 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 representing at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured and/or prefunded 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 Mortgage 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 Programme Documents of their respective obligations under the Programme 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 Programme Documents under the Programme Documents; (iii) monitoring the Mortgage Loan Portfolio, including, without limitation, whether the Mortgage Loan Portfolio is in compliance with the Asset Coverage Test, the Pre-Maturity Test or the Amortisation Test, or (iv) monitoring whether Mortgage Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Programme Documents.

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 to be entered into by the LLP with, *inter alios*, Structured Finance Management Limited and the LLP on the Programme Date (the "**Corporate Services Agreement**"), the Covered Bonds, the Receipts, the Coupons and the other Programme Documents, certain documents to be granted pursuant to the Deed of Charge and the Corporate Services Agreement) and any non-contractual obligations arising out of or in connection with any of them will be governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary.

UNITED KINGDOM TAXATION

The comments below are of a general nature based on current United Kingdom law and HM Revenue & Customs practice. They relate only to the position of persons who are the absolute beneficial owners of their Covered Bonds and all payments made thereon. The following comments relate only to withholding tax and do not deal with any other aspect of the United Kingdom taxation treatment that may be applicable to Covered Bondholders (including, for instance, income tax, capital gains tax, corporation tax and stamp taxes).

Covered Bondholders 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, Covered Bondholders 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.

Any Covered Bondholders who are in doubt as to their tax position should consult their professional advisers.

Payment of Interest by the Issuer on the Covered Bonds

Interest on the Covered Bonds may be paid without withholding or deduction for or on account of United Kingdom income tax so long as 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. HM Revenue & Customs' guidance indicates that the London Stock Exchange has been designated as a recognised stock exchange. The Covered Bonds will be treated as "listed" on the London Stock Exchange if they are included in the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange.

The Issuer, provided that it is and continues to be a bank within the meaning of section 991 of the Income Tax Act 2007, and provided that the interest on the Covered Bonds is paid in the ordinary course of its business within the meaning of section 878 of the Income Tax Act 2007, will be entitled to make payments of interest on the Covered Bonds without withholding or deduction for or on account of United Kingdom income tax.

In all cases falling outside the exemptions described above, interest on the Covered Bonds may be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption that may apply.

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 withholding or deduction for or on account of United Kingdom income tax, whether or not the Covered Bonds are listed on a "recognised stock exchange" within the meaning of section 1005 of Income Tax Act 2007. If payments by the LLP are subject to any withholding or deduction for or on account of United Kingdom income tax, the LLP will not be required to pay any additional amounts.

Provision of Information

Covered Bondholders, should note that where any interest on Covered Bonds is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant Covered Bondholders (other than where collection is purely passive, for example, solely by clearing or arranging the clearing of a cheque) (a "collecting agent") then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue & Customs details of the payment and certain details relating to the relevant Covered Bondholder (including the Covered Bondholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and

whether or not the Covered Bondholder is resident in the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HM Revenue & Customs may be passed by HM Revenue & Customs to the tax authorities of certain other jurisdictions.

For the purposes of the above paragraph, "interest" should be taken, for practicable purposes, as including payments made by the LLP in respect of interest on the Notes.

With effect from 6 April 2009, the provisions referred to above may also apply in certain circumstances, to payments made on redemption of any Covered Bonds where the amount payable on redemption is greater than the issue price of 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 its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity 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%. 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 adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

Covered Bonds issued at a discount or premium

Covered Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Covered Bonds will not be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in "*Payments of Interest by the Issuer on the Covered Bonds*" above, but may be subject to reporting requirements as outlined in "*Provision of Information*" above.

Where Covered Bonds are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.

References to "interest"

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

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 on or about 5 September 2008 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. 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, and is also a QP or (b) 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 who is also a QP, (c) outside the United States in compliance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) and the exclusion provided by section 3(c)(7) of the Investment Company Act 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 (including the Investment Company Act);
- (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 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:

"THE COVERED BONDS REPRESENTED BY THIS CERTIFICATE HAVE 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 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, AND IS ALSO A "QUALIFIED PURCHASERS" (WITHIN THE MEANING OF SECTION 3(C)(7) OF U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED); (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 AND WHO IS ALSO A QUALIFIED PURCHASER, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) AND THE EXCLUSION PROVIDED BY SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT 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 (INCLUDING THE INVESTMENT COMPANY ACT); 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.

THE COVERED BONDS REPRESENTED BY THIS CERTIFICATE 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 of Regulation S under the Securities Act or (ii) to a QIB in compliance with Rule 144A who is also a QP 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:

"THE COVERED BONDS HAVE 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, AND, IN EACH CASE, PURSUANT TO AN EXCLUSION FROM REGISTRATION UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY 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 THE COVERED BONDS REPRESENTED BY THIS CERTIFICATE ARE A PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OF REGULATIONS UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT. WHO ARE ALSO QUALIFIED PURCHASERS (WITHIN THE MEANING OF THE INVESTMENT COMPANY 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.

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 and of the Investment Company 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.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver the 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 within the United States or to, or for the account or benefit of, U.S. Persons except to certain qualified institutional buyers in reliance on Rules 144A who are also qualified purchasers under the Investment Company Act (each a "QIB/QP"). 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 Global Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Global 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.

The Covered Bonds are being offered and sold outside the United States to non U.S. Persons in reliance on Regulation S. Dealers may arrange for the resale of Covered Bonds within the United States to QIBs/QPs 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. Any offer or sale of Covered Bonds in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act. After the Covered Bonds issued by the Issuer are released for sale, the offering price and other selling terms may from time to time be varied by the Dealer. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB/QP 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.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Covered Bonds outside the United States and for the resale of the Covered Bonds in the United States and to U.S. Persons. The Issuer and the Dealers reserve the right to reject any offer to purchase the Covered Bonds, in whole or part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. Person, other than any QIB/QP to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any non-U.S. Person outside the United States or by any QIB/QP in the United States to any U.S. Person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advised such non U.S. Person or QIB/QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. Person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. Person or QIB/QP, is prohibited.

Public Offer Selling Restrictions 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 of the Dealers has represented to and agreed with the Issuer 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 Covered Bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Covered Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public in that Relevant Member State at any time:

- (a) 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) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

- (c) 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 such offer; or
- (d) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each 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.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended). Accordingly, each Dealer has undertaken that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time.

For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

Each 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 Base 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, the Agents 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, base prospectus/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, the Agents 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 Base Prospectus as then amended or supplemented or, unless delivery of the Base 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 Base Prospectus in connection with the offer and sale of Covered Bonds to which the Base Prospectus relates.

This Base 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 11 June 2008 and the giving of the Covered Bond Guarantee has been duly authorised by a resolution of the LLP Management Committee dated 3 September 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 Regulated 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 or a Rule 144A Global Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds is expected to be granted on or about 10 September 2008.

Application will be made to the FSA for the Issuer and the Programme (and any Covered Bonds issued under the Programme prior to the date of admission) to be admitted to the register of issuers and the register of regulated covered bonds, as appropriate, under the RCB Regulations.

Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the "Transparency Directive") was published on 31 December 2004. If, as a result of the adoption of the Transparency Directive or any legislation implementing the Transparency Directive, The Co-operative Bank is required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, The Co-operative Bank may seek an alternative admission to listing, trading and/or quotation for any securities by such other listing authority, stock exchange and/or quotation system outside the European Union as it may decide or The Co-operative Bank may seek to delist or terminate the admission to trading of the securities in question.

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 Covered Bondholders for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at 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 13 January 2007 and 12 January 2008. 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 LLP will prepare audited 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 Base Prospectus;
- (vi) any future base 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 any Covered Bondholder to which such Final Terms relate) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(vii) each Programme Document.

Clearing and Settlement

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.

The Covered Bonds may be accepted for clearance through the Clearstream, Luxembourg and Euroclear systems and DTC (which are entities in charge of keeping the records). The common code and/or CINS or CUSIP number for each Series of Covered Bonds allocated by Clearstream, Luxembourg and Euroclear or DTC will be contained in the relevant Final Terms, along with the International Securities Identification Number for that Series. Transactions will normally be effected for settlement not earlier than three days after the date of the transaction. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Covered Bonds for clearance together with any further appropriate information.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of The Depository Trust Company is 55 Water Street, New York, NY10041-0099, USA. The address of any alternative clearing system will be specified in the Applicable Final Terms.

Significant or Material Change

There has been no material adverse change in the prospects of the Issuer (nor those of its consolidated subsidiaries) since 12 January 2008 or of the LLP since 4 July 2008, being the date of incorporation of the LLP. There has been no significant change in the Issuer's financial or trading position (nor that of its consolidated subsidiaries) since 12 January 2008 or of the LLP since 4 July 2008, being the date of incorporation of the LLP.

Material Contracts

The Co-operative Bank has not entered into any contracts outside the ordinary course of The Co-operative Bank's business which could materially affect The Co-operative Bank's obligations in respect of any notes or securities to be issued by The Co-operative Bank other than, with respect to any notes or securities, the contracts described in the relevant terms and conditions of such notes or securities, as applicable.

Litigation

Neither the Issuer nor its consolidated subsidiaries 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 (or, in the case of the LLP, since 4 July 2008, being the date of incorporation of the LLP) a significant effect on the financial position or profitability of the Issuer or the LLP nor, so far as the Issuer or the LLP is aware, are any such proceedings pending or threatened.

Auditors

The auditors of the Issuer are KPMG Audit Plc, chartered accountants and registered auditors (authorised and regulated by the FSA for designated investment business) who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 13 January 2007 and 12 January 2008.

The auditors of the LLP are KPMG Audit Plc, chartered accountants and registered auditors (authorised and regulated by the FSA for designated investment business). The LLP will be preparing financial

statements for the period ending 31 December 2008 and thereafter annually for periods ending on 31 December.

Reports

The Trust Deed provides that the Bond Trustee may rely on any certificate or report by the auditors of the Issuer or any other expert called for by or provided to the Bond Trustee (whether or not addressed to the Bond Trustee) in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Bond Trustee in connection therewith contains a monetary or other limit on the liability of the auditors of the Issuer or such other expert in respect thereof.

**APPENDIX A
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. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [*]
(to the Base Prospectus dated 5 September 2008)

**The Co-operative Bank plc
Issue of [Regulated] [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably
and unconditionally guaranteed as to payment of principal and interest by
The Covered Bond LLP
under the
€[*] billion Global Covered Bond Programme**

[The Programme has been registered and notice of the issue of these Covered Bonds [has been/ will be] made, under the RCB Regulations] [Application has been made for the Programme to be registered, and notice of the issue of these Covered Bonds will be made, under the RCB Regulations] In this respect, see also the paragraph "*The RCB Regulations*" in the section "*Risk Factors*" of the Base Prospectus.

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the "**Conditions**") set forth in the Base Prospectus dated 5 September 2008 [and the Supplemental Base Prospectus dated [*]] which [together] constitute(s) a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus. Full information on the Issuer, the Guarantor and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectuses [and the supplemental Base Prospectus] [is] [are] available for viewing [at {website}] [and] during normal business hours at {address} [and copies may be obtained from {address}].

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated {original date}. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated {current date} and the Supplemental Base Prospectus dated [*], which together constitute(s) a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated {original date} and are attached hereto. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated {original date} and {current date} [and the Supplemental Base Prospectus dated [*] and [*]]. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing [at {website}] [and] during normal business hours at {address} [and copies may be obtained from {address}].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]

[When adding any other final terms or information including final terms at items [10,11,17,18,19 or 30] of Part A or in relation to disclosure relating to the interests of natural and legal persons involved in the issue/offer in Part B consideration should be given as to whether such terms or information constitute "significant new facts" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

- | | | | |
|----|------|---|--|
| 1. | (i) | Issuer: | The Co-operative Bank plc |
| | (ii) | Guarantor: | The Covered Bond LLP |
| 2. | (i) | Series Number: | [•] |
| | (ii) | Tranche Number: | [•] |
| | | | <i>[If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible]</i> |
| 3. | | Specified Currency or Currencies: | [•] |
| 4. | | [Nominal Amount of Covered Bonds to be issued:] | [•] |
| 5. | | Aggregate Nominal Amount of the Covered Bonds Admitted to trading: | |
| | (i) | [Series: | [•] |
| | (ii) | Tranche: | [•] |
| 6. | (i) | Issue Price: | [•] |
| | (ii) | [Net proceeds: | [•] |
| | | <i>[(Required only for listed issues)]</i> | |
| 7. | (i) | Specified Denominations: | [•] |
| | | <i>[in the case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be made]¹</i> | <i>[N.B. where multiple denominations above €50,000 or equivalent are being used, the following sample wording should be used: €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. The minimum denomination of each Covered Bond admitted to trading on a regulated exchange in the European Economic Area 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 is €50,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount 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 relevant Specified Currency.]</i> |

¹ If Covered Bonds are offered or sold in The Netherlands with a denomination of less than €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 €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.

*If an issue of Covered Bonds is (i) NOT admitted to trading on a regulated exchange in the European Economic Area; and (ii) only offered to qualified investors and/or fewer than 100 natural or legal persons per Member State of the European Economic Area other than qualified investors or otherwise complies with the European Economic Area selling restrictions in the section entitled Subscription and Sale in the Offering Circular, then the minimum denomination of €50,000 does not apply].
Please see paragraph 13 below for tradeable amount]*

- (ii) Calculation Amount: [*]
[If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations.]
8. (i) Issue Date: [*]
(ii) Interest Commencement Date: [*]
9. Final Maturity Date: [Interest Payment Date falling in or nearest to {specify month}]

Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [Interest Payment Date falling in or nearest to {specify month}; in each case falling [one year] after the Final Maturity Date]/[N/A]
10. 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)
11. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
12. 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]*
13. Call Options: [Issuer Call]

[further particulars specified below]
14. (i) Status of the Covered Bonds: Senior
(ii) Status of the Guarantee: Senior
(iii) [Date [Board/Committee] approval for issuance of [*] [and [*], respectively]]
[N.B Only relevant where Board (or similar)

Covered Bonds obtained: *authorisation is required for the particular tranche of Covered Bonds or related Guarantee*

15. Listing: [London/specify other/None]

16. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE²

17. 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] 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 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 [*] in nominal amount

(vi) Initial Broken Amount(s): *[Insert particulars of any initial broken interest amounts which do not correspond with the Fixed Coupon Amount]*

(vii) Final Broken Amount: *[Insert particulars of any final broken interest amounts which do not correspond with the Fixed Coupon Amount]*

(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.

² This section relates to interest payable under the Covered Bonds and corresponding amounts of Scheduled Interest payable under the Covered Bond Guarantee

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]
18. **Floating Rate Covered Bond Provisions** [Applicable/Not Applicable]
[If not applicable, delete the remaining sub-paragraphs of this paragraph]
- (i) Interest Period [*]
- (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)
[NB: Specify the Specified Period(s)/Specified Interest Payment Date(s) up to and including the Extended Due for Payment Date, if applicable]
- (iii) First Payment Date [*]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
- (v) Additional Business Centre(s): [*]
- (vi) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (vii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [*]
- (viii) Screen Rate Determination:
- (1) Reference Rate: [*]
[Either LIBOR, EURIBOR or other, although additional information is required if other, including amendment to fallback provisions in the Agency Agreement]
- (2) 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 TARGET System is open prior to the start of each Interest Period if EURIBOR [or euro LIBOR]]
- [NB: Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date, if*

applicable]

- (3) Relevant Screen Page: [*]
[In the case of EURIBOR, if not Reuters page EURIBOR01 or, in the case of LIBOR, Reuters Page LIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately]
- (ix) ISDA Determination:
- (1) Floating Rate Option: [*]
- (2) Designated Maturity: [*]
- (3) Reset Date: [*]
- (x) Margin(s): [+/-] [*] per cent. per annum.
- (xi) Minimum Rate of Interest: [*] per cent. per annum
- (xii) Maximum Rate of Interest: [*] per cent. per annum
- (xiii) Day Count Fraction: [Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
(Other)]
[adjusted/not adjusted]
- (xiv) 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 Condition [*] of the Conditions: [*]
19. **Zero Coupon Covered Bond Provisions**³ [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

³ 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.

		Day Convention/[specify other]
(v)	Business Day(s):	[*]
	Additional Business Centre(s):	[*]
(vi)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	{Conditions [6(e)(iii) and (j)] apply/specify other} [Consider applicable day count fraction if not U.S. dollar denominated]
20.	Index Linked Interest Covered Bond⁴	[Applicable/Not Applicable] [If not applicable, delete the remaining sub- paragraphs of this paragraph]
(i)	Index/Formula/other variable:	[give or annex details]
(ii)	Calculation Agent responsible for calculating the principal and/or interest due:	[*] [Address to be inserted]
(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable	[*]
(iv)	Determination Date	[*]
(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[*]
(vi)	Specified Period(s):	[*]
(vii)	Specified Interest Payment Dates:	[*] (provided however that after the Extension Determination Date, the Specified Interest Payment Date shall be monthly)
(viii)	Business Day Convention:	{Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other}
(ix)	Additional Business Centre(s):	[*]
(x)	Minimum Rate of Interest:	[*] per cent. per annum

⁴ No Index Linked Covered Bonds will be issued except following an amendment of the Programme by way of supplementary prospectus.

- (xi) Maximum Rate of Interest: [*] per cent. per annum
- (xii) Day Count Fraction: [*]
21. 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) Calculation Agent, if any, responsible for calculating the principal and/or interest payable: [*]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:
- (iv) Person at whose option Specified Currency(ies) is/are payable: [*]
- (v) Business Day(s): [*]
Additional Business Centre(s): [*]

PROVISIONS RELATING TO REDEMPTION BY THE ISSUER

22. 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 of each Covered Bond and method, if any, of calculation of such amount(s): [*] per Covered Bond of [*] Specified Denomination
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [*] per Calculation Amount
- (b) Higher Redemption Amount: [*] per Calculation 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]

23. Final Redemption Amount of each Covered Bond [*] per Calculation Amount

In cases where the Final Redemption Amount is Index-linked or other variable-linked:

- (i) Index/Formula/variable: [give or annex details]
 - (ii) Party responsible for calculating the Final Redemption Amount (if not the [Agent]): [*]
 - (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [*]
 - (iv) Determination Date (s): [*]
 - (v) Provisions for determining Final Redemption Amount where calculation by reference to an Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [*]
 - (vi) Payment Date: [*]
 - (vii) Minimum Final Redemption Amount: [*] per Calculation Amount
 - (viii) Maximum Final Redemption Amount: [*] per Calculation Amount
24. Early Redemption Amount of each Covered Bond as per the Calculation Amount payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition 6(e) (*Early Redemption Amounts*)): [*]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

25. Form of Covered Bonds: [Bearer Covered Bonds:
- (i) [Form:] [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond (only after the Exchange Date) 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 and after an Exchange Event]

[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] (*specify nominal amounts*)

[NB: the exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 7 above 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 Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes]

- (ii) New global Covered Bond: [Yes]/[No]
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
[Note that this item relates to the place of payment and not Interest Period end dates to which items 18(iii) and 20(vi) relate]
27. 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*]
28. Details relating to Partly-Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: [Not Applicable/give details. *N.B. a new form of Temporary Global Covered Bond and/or Permanent Global Covered Bond may be required for Partly Paid issues*]
29. Details relating to Instalment Covered Bonds:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]

30. Redenomination: Redenomination [not] applicable
{If Redenomination is applicable, specify the terms of the redenomination in an annex to the Final Terms}
31. Other final terms: [Not Applicable/give details]
{When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive}

DISTRIBUTION

32. (i) If syndicated, names and addresses of Managers: [Not Applicable/give names, addresses and underwriting commitments]
- (ii) Stabilising Manager(s) (if any): [Not Applicable/give name]
33. If non-syndicated, name of Relevant Dealer(s): [*]
34. US Selling Restrictions [Reg S Compliance Category TEFRA D/TEFRA C/TEFRA rules not applicable]
35. Additional selling restrictions: [Not Applicable/give details]

LISTING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the £3 billion Global Covered Bond Programme of The Co-operative Bank plc on the Regulated Market of the London Stock Exchange.

RESPONSIBILITY

Each of the Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [[*] has been extracted from [*]]. The Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware [and able to ascertain from information published by [*]] no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By:.....

Duly authorised

Signed on behalf of the Guarantor:

By:.....

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) 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 regulated market] with effect from [•]]
[Not applicable]
- (ii) Estimate of total expenses relating to admission to trading: [•]/[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading [specify relevant regulated market with effect from [•]]

2. RATINGS

- (i) Ratings: The Covered Bonds to be issued have been rated:
[S & P: [•]]
[Moody's: [•]]
[[Other]: [•]]
- [The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating]*

3. COVERED BOND SWAP

- (i) Covered Bond Swap Provider: [insert name and address of Covered Bond Swap Provider]

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

- (i) [Reasons for the offer: [•]]
- [See ["Use of Proceeds"] wording in Prospectus - if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here)]*
- (ii) Estimated net proceeds: [•]
- [If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding]*
- (iii) Estimated total expenses: [•]

[Include breakdown of expenses]

If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above)

The [include name of competent authority in EEA home Member State] [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.

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

[Need to include a description of any interest including conflicting ones, that is material to the Issue/Offer, detailing the persons involved and the value of the interest. Maybe satisfied by the inclusion of the following statement:

Save as discussed in "Subscription and Sale and Transfer and Selling Restrictions", so far as the Issuer and the Guarantor 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 completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

6. **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]

7. **PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING** *[Index-Linked or other variable-linked Notes 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 need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning underlying required by Paragraph 4 of Annex XII of the Prospectus Directive Regulation]

[When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

8. **PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT** *[Dual Currency Notes 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 under Article 16 of the Prospectus Directive.]

9. **OPERATIONAL INFORMATION**

(i) ISIN Code: [*]

(ii) Common Code: [*]

(iii) CUSIP: [*]

- (iv) CINS: [*]
- (v) Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s), address, and number(s)]
- (vi) [Delivery:] Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): [*]
- (viii) 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 Euroclear or Clearstream, Luxembourg 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:
 By:
 Duly authorised

Signed on behalf of the Guarantor:
 By:
 Duly authorised

GLOSSARY

"\$", "U.S. Dollars" and "US\$"	The lawful currency for the time being of the United States of America;
"£", "Sterling" and "Pounds Sterling"	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;
"€", "Euro" 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;
"30/360"	As 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;
"30E/360"	As specified in the Applicable Final Terms the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date (or, as the case may be, Extended Due for Payment Date) is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);
"360/360"	The number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31 st day of a month but the first day of the Interest Period is a day other than the 30 th or 31 st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
"Account Bank"	The Co-operative Bank in its capacity as Account Bank pursuant to the Bank Account Agreement;
"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 Interest Payment Date;
"Accrual Yield"	In respect of a Zero Coupon Covered Bond, the meaning given in the Applicable Final Terms;
"Accrued Interest"	In respect of a Mortgage 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;
"Actual/360"	As specified in the Applicable Final Terms, the actual number of days in the Interest Period divided by 360;
"Actual/365 (Fixed)"	As specified in the Applicable Final Terms, the actual number of

	days in the Interest Period divided by 365;
"Actual/365 (Sterling) "	As 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;
"Actual/365" " or "Actual/Actual (ISDA)"	As 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);
"Additional Financial Centre"	As specified in the Applicable Final Terms;
"Additional Mortgage Loan Advance"	Any further advance that a Borrower may be entitled to reborrow or, as the case may be, borrow further amounts under the terms of the relevant Mortgage Loan in the following way: <ul style="list-style-type: none"> (a) by requesting the Seller to refund some or all of the Overpayments on Mortgage Loans previously made by such Borrower (as described above); (b) by taking a Payment Holiday; (c) by requesting the Seller to advance a Mortgage Loan Fee Advance; and/or (d) by requesting the Seller to make a Credit Reassessment Advance.
"Adjusted Current Balance"	The meaning given in " <i>Summary of the Principal Documents</i> " on page 68;
"Adjusted Aggregate Mortgage Loan Amount"	The meaning given in " <i>Summary of the Principal Documents</i> " on page 84;
"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 Swap Agreements by or to the LLP in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of (i) the Pre-Maturity Liquidity Ledger or (ii) the GIC Account and (iii) the Sterling Equivalent of the principal balance of any Authorised Investments (excluding all amounts to be applied on the 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);
"Administration Agreement"	The administration agreement entered into on the Programme Date, as supplemented, amended and/or restated from time to time between the LLP, the Administrator and the Security Trustee;
"Administration Procedures"	The administration, arrears and enforcement policies and procedures from time to time pursuant to which the Administrator administers and enforces Mortgage Loans and their Related Security which are beneficially owned by the Seller;
"Administrator"	The Co-operative Bank in its capacity as Administrator under the Administration Agreement together with any successor

Administrator appointed from time to time;

"Administrator Event of Default"	The meaning given in " <i>Summary of the Principal Documents</i> " on page 87;
"Administrator Termination Event"	The meaning given in " <i>Summary of the Principal Documents</i> " on page 87;
"Agency Agreement"	The agency agreement (as supplemented, amended and/or restated from time to time) to be dated on or about the Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agents;
"Agents"	The Paying Agents, the Registrar, the Exchange Agent and the Transfer Agent and each an "Agent";
"All Moneys Mortgage"	Means a Mortgage that purports to secure the repayment of Associated Debt in addition to the relevant Mortgage Loan;
"All Moneys Mortgage Trust"	Means, in respect of an All Moneys Mortgage, the trust to be established pursuant to the Mortgage Sale Agreement on the date that the All Moneys Mortgage is assigned by the Seller to the LLP;
"Amortisation Test"	The test as to whether the Amortisation Test Aggregate Mortgage 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 after the occurrence of an Issuer Event of Default;
"Amortisation Test Aggregate Mortgage Loan Amount"	The meaning given in " <i>Summary of the Principal Documents</i> " on page 88;
"Amortised Face Amount"	The meaning given in " <i>Terms and Conditions of Covered Bonds</i> " on page 144;
"Applicable Final Terms"	In relation to a Series of Covered Bonds, the Final Terms (or the relevant provisions thereof) attached to or endorsed on the Covered Bond;
"Arrangers"	ABN AMRO Bank N.V., London Branch, The Royal Bank of Scotland plc, UBS Limited and any other Arranger appointed from time to time;
"Arrears of Interest"	As at any date in respect of any Mortgage Loan, interest (other than Capitalised Interest or Accrued Interest) on that Mortgage Loan which is currently due and payable and unpaid on that date;
"Asset Coverage Test"	The test as to whether the Adjusted Aggregate Mortgage 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 Determination Date"	The last day of each calendar month;
"Asset Monitor"	KPMG Audit Plc whose registered office is at 8 Salisbury Square, London EC4Y 8BB;
"Asset Monitor Agreement"	The asset monitor agreement to be entered into on the Programme Date, as supplemented, amended and/or restated from time to time, between the Asset Monitor, the LLP, the Cash Manager, the Issuer,

	the Bond Trustee 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 "Summary of the Principal Documents" on page 87;
"Asset Pool"	<p>The pool of assets owned at any time by the LLP which back the payment of any claims attached to the Covered Bonds and may comprise the following items:</p> <ul style="list-style-type: none"> (a) sums derived from the issue of Covered Bonds; (b) eligible property in accordance with Regulation 2(1) of the RCB Regulations which is acquired by the LLP or transferred by the Issuer or a connected person to the Issuer or the LLP in accordance with the RCB Regulations; (c) contracts relating to the asset pool to any Covered Bonds; and (d) sums derived from any of the assets referred to in (b) or (c) above and sums lent to the LLP by persons other than the Issuer, in accordance with the RCB Regulations.
"Associated Debt "	Means the indebtedness that a Borrower owes to the Seller from time to time which (i) is not a Mortgage Loan or (ii) is not assignable to the LLP pursuant to the terms of the Mortgage Sale Agreement.
"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) (which may include deposits into any account which earns a rate of interest related to LIBOR) provided that in all cases such investments have a maturity date of 90 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 Institution) are rated at least equal to "F1+" by Fitch, "P 1" by Moody's or which are otherwise acceptable to the Rating Agencies (if they are notified in advance) to maintain the then current rating of the Covered Bonds provided that any such authorised investment satisfies the requirements for eligible assets that may collateralise covered bonds in accordance with paragraph 68 of Annex VI of the Banking Consolidation Directive;
"Authorised Institution"	An institution authorised to take deposits under the Financial Services and Markets Act 2000;
"Available Principal Receipts"	<p>On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):</p> <ul style="list-style-type: none"> (a) the amount of Mortgage Loan Principal Receipts received during the immediately preceding Calculation Period or, with respect to repurchases of any Mortgage Loans and their Related Security relating to the immediately

preceding Calculation Period and credited to the GIC Account (but, for the avoidance of doubt, excluding any Mortgage Loan Principal Receipts received in the Calculation Period beginning in the period in which the relevant Calculation Date falls unless they are applied towards the repurchase of the relevant Mortgage Loans and their Related Security relating to the immediately preceding Calculation Period);

- (b) any other amount standing to the credit of the Principal Ledger at the end of the immediately preceding Calculation Period including (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Mortgage Loan Portfolios, refinance an existing Term Advance or invest in Substitution Assets), (ii) any Cash Capital Contributions received from a Member and (iii) the proceeds from any sale of Selected Mortgage Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Swap Agreements; and
- (c) all amounts in respect of principal (if any) to be received by the LLP under the Swap Agreements on or before the immediately succeeding LLP Payment Date;

"Available Revenue Receipts"

On a relevant Calculation Date, an amount equal to the aggregate of:

- (a) the amount of Mortgage Loan Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on the GIC Account;
- (b) other net income of the LLP including all amounts of interest received on the LLP Accounts (other than the Swap Collateral), the Substitution Assets and Authorised Investments during the previous Calculation Period but excluding amounts received by the LLP under the Swap Agreements;
- (c) all amounts (other than in respect of principal) (if any) to be received by the LLP under the Swap Agreements on or before the immediately succeeding LLP Payment Date (other than Swap Collateral and termination payments which are applied in making payments to a replacement Swap Provider);
- (d) prior to the service on the LLP of a Notice to Pay amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund; and
- (f) any other revenue income of the LLP not referred to in paragraphs (a) to (e) (inclusive) above and which do not comprise Principal Receipts; and

less

- (a) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller;

"Bank Account Agreement"	The Bank Account Agreement to be entered into on the Programme Date, as supplemented, amended and/or restated from time to time, between the LLP, the Account Bank, the Cash Manager and the Security Trustee;
"Banking Consolidation Directive"	Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of business of credit institutions, as amended from time to time;
"Base Prospectus"	Means this base prospectus;
"Basel Committee"	Basel Committee on Banking Supervision;
"Basis Rate Swap Agreements"	Means the basis rate swap agreement between the Basis Rate Swap Provider and the LLP in relation to cashflows under the Mortgage Loan Portfolio.
"Basis Rate Swap Provider"	Means The Co-operative Bank or such other entity as may be appointed Basis Rate Swap Provider.
"Basis Rate Provider Swap Amount"	An amount calculated by applying LIBOR for three month Sterling deposits (reset on the preceding Quarterly LLP Payment Date) plus a blended spread to the Notional Amount of the Basis Rate Swap.
"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 this 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 C of Schedule 2 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 (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 120;
"Beneficial Owner"	Each actual purchaser of each DTC Covered Bond;
"Blended Rate"	In respect of a Calculation Period, a rate equal to the weighted average of the Fixed Notional Rate
"Bond Basis"	As specified in the Applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31 st day of a month but the first day of the Interest Period is a day other than the 30 th or 31 st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a

	30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
"Bond Trustee"	<i>Deutsche Trustee Company Limited</i> , in its capacity as bond trustee under the Trust Deed together with any successor bond trustee appointed from time to time;
"Borrower"	In relation to a Mortgage Loan, the individual or individuals specified as such in the relevant Mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Mortgage Loan or any part of it;
"Broken 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;
"Bullet Covered Bonds"	Covered Bonds scheduled to be redeemed in full on the Final Maturity Date for such Covered Bonds and without any provision for scheduled redemption other than on the Final Maturity Date;
"Business Day"	The meaning given in <i>"Terms and Conditions of the Covered Bonds"</i> on page 132;
"Buy-to-Let Mortgage Loan"	A Mortgage Loan which is secured by a property that is not owner-occupied;
"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 Amount"	The meaning given in the Applicable Final Terms;
"Calculation Date"	The day falling one Business Day prior to the LLP Payment Date;
"Calculation Period"	The period from, and including, the first day of each month to, and including, the last day of each month;
"Capital Account Ledger"	The monthly 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;
"Capitalised Arrears"	For any Mortgage Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Current Balance of that Loan in accordance with the Mortgage Conditions or interest that is capitalised by agreement from time to time with the relevant Borrower;
"Capital Contribution"	In relation to each Member, any amount of 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 in accordance with the LLP Deed;
"Capital Contribution Balance"	The balance of each Member's Capital Contributions as determined in accordance with the LLP Deed;
"Capital Contributions in Kind"	A contribution of Mortgage Loans and their Related Security to the LLP in an amount equal to (a) the aggregate of the outstanding Current Balance of those Mortgage Loans as at the relevant

	Transfer Date minus (b) any cash payment paid by the LLP for the Mortgage Loans and their Related Security on that Transfer Date;
"Capital Distribution"	Any return on a Member's Capital Contribution paid to that Member in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration);
"Capitalised Arrears"	For any Mortgage Loan at any date, interest or other amounts which is overdue in respect of that Loan and which as at that date has been added to the Current Balance of that Mortgage Loan in accordance with the Mortgage Conditions or interest or other amounts that are capitalised by agreement from time to time with the relevant Borrower;
"Capitalised Expenses"	In relation to a Mortgage Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added to the principal amount outstanding of that Mortgage Loan in accordance with the relevant terms and conditions of that Mortgage Loan;
"Capitalised Interest"	For any Mortgage Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Current Balance of that Mortgage Loan in accordance with the Mortgage Conditions or interest that is capitalised by agreement from time to time with the relevant Borrower;
"Cash Capital Contributions"	A Capital Contribution made in cash;
"Cash Management Agreement"	The cash management agreement entered into on the Programme Date, as supplemented, amended and/or restated from time to time, between the LLP, The Co-operative Bank in its capacity as the Cash Manager and the Security Trustee;
"Cash Manager"	The Co-operative Bank, 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;
"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;
"Charged Property"	The property charged by the LLP pursuant to Clauses 3.1 to 3.6 (inclusive) (<i>Security and Declaration of Trust</i>) of the Deed of Charge;
"Clearing Systems"	DTC, Euroclear and/or Clearstream, Luxembourg;
"Clearstream, Luxembourg"	Clearstream Banking, société anonyme;
"CML"	Council of Mortgage Lenders;
"CML Code"	Mortgage code issued by the CML;
"Common Depository"	The common depository for Euroclear and Clearstream, Luxembourg;
"Common Safekeeper"	If Bearer Global Covered Bonds are intended to be issued in NGCB form, as stated in the Applicable Final Terms Document, they are to be delivered on or prior to the issue date of the relevant

	Tranche to a common safekeeper;
"Conditions"	Terms and conditions of the Covered Bonds;
"Contingency Insurance Policy"	An insurance policy that insures the Seller against loss relating to mortgaged properties where borrowers have failed to make their own property insurance arrangements;
"Corporate Services Agreement"	The corporate services agreement entered into by the Liquidation Member, with, <i>inter alios</i> , the relevant Corporate Services Provider and the LLP dated the Programme Date, as supplemented, amended and/or restated from time to time;
"Corporate Services Provider"	Structured Finance Management Limited, a company incorporated in England and Wales in its capacity as corporate services provider 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 "Terms and Conditions of the Covered Bonds" on page 124;
"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 Bonds"	Covered bonds issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bonds 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 (<i>Replacement of Covered Bonds, Receipts, Coupons and Talons</i>) and each a "Covered Bond";
"Covered Bondholders"	The bearers of the relevant Global Covered Bond or the registered holders of the relevant Registered Global Covered Bond who shall be treated by the Issuer, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holders of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and each a "Covered Bondholder";
"Covered Bond Swap"	Each covered bond swap transaction entered into between the LLP and the relevant Covered Bond Swap Provider;
"Covered Bond Swap Provider"	Any party appointed as covered bond swap provider pursuant to and in accordance with the Covered Bond Swaps, together with any successor thereto;
"CPR"	the draft Consumer Protection from Unfair Trading Regulations 2008;
"Credit Reassessment Advance"	In relation to a Mortgage Loan, any advance of further money to the relevant Borrower following the making of the initial advance of moneys in respect of such Mortgage Loan (the "Initial Advance") which is secured by the same Mortgage as the Initial Advance but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance

after completion of the Mortgage;

"Current Balance"

In relation to any Mortgage Loan as at any given date, the principal balance of that Mortgage Loan to which the Seller applies the relevant interest rate to and at which interest on that Loan accrues interest, and is the aggregate (but avoiding double counting) of:

- (a) the original principal amount advanced to the relevant Borrower and any further amount advanced on or before any given date to the relevant Borrower under that Mortgage Loan secured or intended to be secured by the Related Security;
- (b) the amount of any Additional Mortgage Loan Advance secured or intended to be secured by the Related Security;
- (c) any interest, disbursement, legal expense, fee, charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent (including interest capitalised on any Additional Mortgage Loan Advance); and
- (d) any other amount (other than unpaid 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 Mortgage Loan and the Related Security, as at the end of the London 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 London Business Day immediately preceding that given date and excluding any retentions made but not released and any Credit Reassessment Advances committed to be made but not made by the end of the Business Day immediately preceding that given date;

"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 on Fixed Rate Covered Bonds*) in "*Terms and Conditions of the Covered Bonds*" on page 130 and in the case of a Floating Rate Covered Bond or an Index Linked Covered Bond, the meaning given in Condition 4(b) (*Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds*) in "*Terms and Conditions of the Covered Bonds*" on page 132;

"DBERR"

Department of Business Enterprise and Regulatory Reform;

"Dealer"

ABN AMRO Bank N.V., London Branch, The Royal Bank of Scotland plc and UBS Limited 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 Base 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, 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 Consent"	A deed 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;
"Deed of Postponement"	A deed or agreement whereby a mortgagee of a Property agrees with the Seller to postpone its mortgage over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;
"Defaulted Mortgage Loan"	Any Mortgage Loan in the Mortgage Loan Portfolio which is more than three months in arrears;
"Deferred Consideration"	The consideration payable to a Seller in respect of the Mortgage 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 Covered Bonds"	A Registered Definitive Covered Bonds and a Bearer Definitive Covered Bonds;
"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;
"Designated Account"	The meaning given in Condition 5(d) (<i>Payments in respect of Registered Covered Bonds</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 138;
"Designated Bank"	The meaning given in Condition 5(d) (<i>Payments in respect of Registered Covered Bonds</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 138;
"Designated Maturity"	The meaning given in the ISDA Definitions;
"Designated Member"	Each Member appointed and registered as such from time to time having those duties and obligations set out in sections 8 and 9 of the LLPA 2000 being, as at the Programme Date, The Co-operative Bank and the Liquidation Member (together, the " Designated Members ");
"Determination Date"	The meaning given to it in the Final Terms
"Determination Period"	The meaning given in Condition 4(a) (<i>Interest on Fixed Rate Covered Bonds</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 131;
"Direct Participants"	The meaning given in " <i>Book-Entry Clearance Systems</i> " on page 116;
"Directors"	Members of 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);
"DMD"	The Distance Marketing of Financial Services Directive;
"DTC"	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;
"Dual Currency Interest Covered Bond"	A Covered Bond in respect of which payments whether in respect of principal or interest are made in such different currencies, and based on such rates of exchange, as the Issuer and the Relevant Dealer may agree;
"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"	<p>The requirements by the LLP to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the LLP:</p> <ul style="list-style-type: none"> (a) prior to the occurrence of an LLP Event of Default, on the later of: <ul style="list-style-type: none"> (i) 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, as the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the LLP or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i)) 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; 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 GIC Account) 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 Applicable Final Terms;

"Early Repayment Charge"

Any charge or fee which a Borrower is required to pay in accordance with the Mortgage Conditions applicable to a Mortgage Loan in the event that Borrower repays all or part of the relevant Mortgage Loan before a specified date;

"Eligibility Criteria"

The meaning given on page 69;

"Enterprise Act"

Enterprise Act 2002;

"EU"

European Union;

"EURIBOR"

Euro-zone inter-bank offered rate;

"Eurobond Basis"

As specified in the Applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date (or, as the case may be, Extended Due for Payment Date) is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

"Euroclear"

Euroclear Bank S.A/N.V. as operator of the Euroclear System;

"Euro Transaction Account"

The Euro 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;

"Excess Proceeds"	Moneys 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"	Deutsche Bank Trust Company Americas in its capacity as exchange agent (which expression shall include any successor exchange agent);
"Exchange 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 " <i>Form of Covered Bonds</i> " on page 121 and in the case of Registered Covered Bonds, the meaning given in " <i>Form of Covered Bonds</i> " on page 122;
"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;
"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;
"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 in full at their Principal Amount Outstanding in accordance with the Conditions;
"Final Redemption Amount"	The meaning given in the relevant Final Terms;
"Final Terms"	Final terms which, with respect to a Series of Covered Bonds to be admitted to the Official List and admitted to trading by 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 Seller, subject to the fulfilment of certain conditions, agrees to sell and assign the Initial Mortgage Loan Portfolio to the LLP in accordance with the Mortgage Sale Agreement;
"First Issue Date"	The first Issue Date on which the Issuer will issue a Series of Covered Bonds under the Programme;
"Fitch"	Fitch Ratings Limited;
"Fixed Coupon Amount"	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;
"Fixed Interest Period"	The meaning given in Condition 4(a) (<i>Interest on Fixed Rate Covered Bonds</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 130;
"Fixed Notional Amount"	For any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, an amount equal to the Current Balance of the Fixed Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.
"Fixed Notional Rate"	For any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, a rate equal to the weighted average (by outstanding Current Balance) of the fixed rates of interest payable on the Fixed Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.
"Fixed Rate Covered Bonds"	Covered Bonds paying a fixed rate of interest on such date or dates as may be agreed between the Issuer and the Relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Relevant Dealer(s);
"Fixed Rate Mortgage Loan"	A Mortgage Loan which at such time accrues interest at a fixed specified rate.
"Floating Rate"	The meaning given in the ISDA Definitions;
"Floating Rate Convention"	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 132;
"Floating Rate Covered Bonds"	Covered Bonds which bear interest at a rate determined: <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional basis 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 " <i>Terms and Conditions of the Covered Bonds</i> " on page 132;
"Framework"	The text of the new capital accord published by the Basel Committee on Banking Supervision in June 2006, under the title " <i>Basel II: International Convergence on Capital Measurement and Capital Standards: a Revised Framework</i> ";
"FSA"	Financial Services Authority;
"FSMA"	Financial Services and Markets Act 2000, as amended;

"GIC Account"	The account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such additional or replacement account as may be for the time being in place with the prior consent of the Security Trustee;
"GIC Provider"	The Co-operative Bank, in its capacity as GIC provider under the Bank Account Agreement together with any successor GIC provider appointed from time to time;
"Global Covered Bond"	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require;
"Guarantee"	Each guarantee in support of the obligations of a Borrower under a Mortgage Loan;
"Guarantee Priority of Payments"	The meaning given in " <i>Cashflows</i> " on page 142;
"Guaranteed Amounts"	(a) 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 (b) 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;
"Halifax Price Indexed Valuation"	In relation to any Property at any date means the Latest Valuation of the property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Latest Valuation;
"Index Linked Covered Bonds"	Index Linked Redemption Covered Bonds and Index Linked Interest Covered Bonds;
"Index Linked Interest Covered Bonds"	Covered Bonds in respect of which payments of interest 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;
"Index Linked Redemption Covered Bonds"	Covered Bonds in respect of which payments of principal 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;
"Indexed Valuation"	At any date in relation to any Mortgage 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 Halifax Price Indexed Valuation as at that date, the Halifax Price Indexed Valuation; or (b) where the Latest Valuation of that Property is less than 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 Halifax Price Indexed Valuation;

"Indirect Participants"	The meaning given in " <i>Book-Entry Clearance Systems</i> " on page 116;
"Initial Advance"	In respect of any Mortgage Loan, the original principal amount advanced by the Seller to the relevant Borrower;
"Initial Mortgage Loan Portfolio"	The meaning given in " <i>The Mortgage Loan Portfolio</i> " on page 113;
"Insolvency Act"	The Insolvency Act 1986, as amended;
"Insolvency Event"	<p>In respect of the Seller, the Administrator or the Cash Manager (each, for the purposes of this definition, a "Relevant Entity") means:</p> <ul style="list-style-type: none"> (a) an order is made or petition presented or an effective resolution passed for the winding-up of the Relevant Entity (except, in any such case, a winding-up or dissolution for the purpose of a reconstruction or amalgamation the terms of which have been previously approved by the Security Trustee); (b) the Relevant Entity ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c), (d) or (e) of the Insolvency Act 1986 (as amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets is less than the amount of its liabilities (taking into account its contingent and prospective liabilities) or otherwise becomes insolvent; (c) proceedings are initiated against the Relevant Entity or any steps are taken in respect of a Relevant Entity under any applicable liquidation, administration, reorganisation (other than a reorganisation where the Relevant Entity is solvent), insolvency or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the Relevant Entity; or a distress, execution or diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the Relevant Entity and in any of the foregoing cases it is not discharged within 30 London business days; or if the Relevant Entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally;
"Instalment Amount"	In relation to Covered Bonds redeemable in instalments, the amount that can be redeemed on each Instalment Date in relation to the Covered Bonds;
"Instalment Covered Bonds"	Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the Applicable Final Terms;
"Instalment Date"	The date on which Covered Bonds redeemable in instalments can

	be redeemed;
"Insurance Contracts"	The Properties in Possession Policy, the Seller Arranged Insurance Contracts and the Contingency Insurance Policy;
"Intercompany Loan Agreement"	The term loan agreement dated on or about the Programme Date as supplemented, amended and/or restated from time to time between the Issuer, the LLP and the Security Trustee;
"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 in (<i>Terms and Conditions of the Covered Bonds</i>) on page 113;
"Interest Determination Date"	The meaning given to it in the Final Terms;
"Interest Payment Date"	In relation to any Series of Covered Bonds, the date or dates specified as the Specified Interest Payment Date(s) 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;
"Inverse Floating Rate Covered Bonds"	Covered Bonds that have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR;
"Investor Report"	The monthly 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. Investor Reports shall be posted on The Co-operative Bank website;
"Investment Company Act"	The U.S. Investment Company Act of 1940. as amended;
"ISDA"	International Swaps and Derivatives Association, Inc.;
"ISDA 1995 Credit Support Annex"	The ISDA 1995 Credit Support Annex as published by ISDA;
"ISDA Definitions"	The 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 " <i>Terms and Conditions of the Covered Bonds</i> " on page 133;
"Issue Date"	Each date on which the Issuer issues Covered Bonds to Covered Bondholders;
"Issuer"	The Co-operative Bank plc, a public limited company registered in England and Wales under company number 990937 having its registered office at 1 Balloon Street, Manchester M60 4EP;
"Issuer Acceleration Notice"	The meaning given in Condition 9(a) (Issuer Events of Default) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 146;
"Issuer Event of Default"	The meaning given in Condition 9(a) (Issuer Events of Default) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 147;

"Latest Valuation"	In relation to any Property, the value given to that Property by the most recent valuation undertaken or instructed by the Seller according to its policies;
"Ledger"	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger and the Capital Account Ledger;
"Legended Covered Bonds"	The meaning given in Condition 2 (<i>Transfers of Registered Covered Bonds</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 129;
"Lending Criteria"	The lending criteria of the Seller which may be amended from time to time (forming part of the Seller's Policy) which as at the Programme Date is set out in the Mortgage Sale Agreement and/or such other criteria as would be acceptable to a Prudent Mortgage Lender;
"LIBOR"	London inter-bank offered rate;
"Liquidation Member"	Becclefield Ltd, a private limited company registered in England and Wales under company number 6569572 having its registered office at 35 Great St. Helen's, London EC3A 6AP;
"Listed"	The Covered Bonds that have been admitted to trading on the Regulated Market of the London Stock Exchange and have been admitted to the Official List;
"Listing Rules"	The rules relating to the admission to the Official List, in accordance with the FSMA;
"LLP"	The Covered Bond LLP, a limited liability partnership incorporated in England and Wales (registered number OC338509), whose first members are The Co-operative Bank plc and the Liquidation Member;
"LLP Acceleration Notice"	A notice in writing given by the Bond Trustee to the Issuer and the LLP, that 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 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"	The GIC Account, the Transaction Accounts and the Swap Collateral Accounts (to the extent maintained) and any additional or replacement accounts opened in the name of the LLP;
"LLP Deed"	The limited liability partnership deed entered into on the Programme Date, as supplemented, amended and/or restated from time to time, between the LLP, The Co-operative Bank, the Liquidation Member, the Bond Trustee and the Security Trustee;
"LLP Event of Default"	The meaning given in Condition 9(b) (<i>LLP Events of Default</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 149;
"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"	The 15th day of each month or if not a Business Day the next following Business Day (save that the first LLP Payment Date shall fall on 15 October 2008 (the "First LLP Payment Date");
"LLP Payment Period"	The period from and including an LLP Payment Date to but excluding the next following LLP Payment Date (save that the first LLP Payment Period shall start on (and include) the First Issue Date and end on (but exclude) the next following LLP Payment Date);
"LLP Swap Amount"	An amount calculated by applying the Blended Rate to the Notional Amount of the Basis Rate Swap.
"LLPA 2000"	Limited Liability Partnerships Act 2000;
"Loan Interest Payment Date"	In respect of any Term Advance, each Interest Payment Date in respect of the corresponding Series or Tranche of Covered Bonds that funded such Term Advance;
"London Business Day"	A day (other than a Saturday or Sunday or public holiday) on which banks are generally open for business in London;
"London Stock Exchange"	The London Stock Exchange plc;
"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;
"Master Definitions Schedule"	The master definitions schedule made between the parties to the Programme Documents on or about the Programme Date;
"Maximum Redemption Amount"	The amount as specified in the relevant Final Terms;
"MCOB"	Mortgages Conduct of Business Sourcebook, implemented by the FSA in October 2004 as amended, revised or supplemented from time to time;
"MCOB Mortgage Regulations"	The MCOB Mortgage Regulations under FSMA.
"Member States"	The member states of the European Union;
"Member"	Each member of the LLP;
"Members"	As at the Programme Date, each of The Co-operative Bank and the Liquidation Member and together with any other members from time to time of the LLP;
"Minimum Redemption Amount"	The amount as specified in the relevant Final Terms;
"Minimum Specified Denomination"	The meaning given in the relevant Final Terms;
"Modified Following Business Day Convention"	The meaning given in Condition 4 (<i>Interest</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 132;

"Monthly Payment"	The required monthly payment due on each Monthly Payment Date;
"Monthly Payment Date"	In respect of a Mortgage Loan, the date in each month on which the relevant Borrower is required to make a payment of interest and, if applicable, principal, in respect of such Mortgage Loan, as required by the applicable Mortgage Conditions;
"Moody's"	Moody's Investors Service Limited;
"Mortgage"	A first ranking legal mortgage over a residential property in England or Wales;
"Mortgage Conditions"	All the terms and conditions applicable to a Mortgage Loan at any time. The Seller is entitled to change its Mortgage Loan terms and conditions, from time to time;
"Mortgage Cash Reserve"	The Mortgage Cash Reserve of a Mortgage Loan is the difference between: <ul style="list-style-type: none"> (a) the total amount actually drawn by the Borrower either at the time of the origination of the Mortgage Loan or at any subsequent time; and (b) the amount the Seller agreed that it was prepared to lend at the time of the origination of the Mortgage Loan.
"Mortgage Deed"	In respect of any Mortgage, the deed creating that Mortgage;
"Mortgage Loan Files"	The file or files relating to each Mortgage Loan (including files kept in microfiche format or similar electronic data retrieval system) containing <i>inter alia</i> correspondence between the Borrower and the Seller and including the mortgage documentation applicable to the Mortgage Loan, each letter of offer for that Mortgage Loan, the Valuation Report (if applicable) and, to the extent available, the solicitor's or licensed conveyancer's Certificate of Title;
"Mortgage Loan Fee Advance"	The terms of the Mortgage Loans allow Borrowers, in certain circumstances, to pay certain fees that may arise from time to time pursuant to the terms of the relevant mortgage loan agreements to be paid for by the Borrower by way of the relevant Borrower borrowing a further amount and therefore increasing the size of the Current Balance on their Mortgage Loan. This additional borrowing is referred to as a Mortgage Loan Fee Advance.
"Mortgage Loan Portfolio"	On any particular date, the Initial Mortgage Loan Portfolio and the New Mortgage Loan Portfolio;
"Mortgage Loan Principal Receipts"	Any payment in respect of principal received from time to time in respect of any Mortgage Loan in the Mortgage Loan Portfolio (including, without limitation whether as all or part of a Monthly Payment by a Borrower on the relevant Mortgage Loan, on redemption (in whole or in part), on enforcement or on disposal of such Mortgage Loan or otherwise (including pursuant to any insurance policy));
"Mortgage Loan Revenue Receipts"	Any payment received from time to time in respect of any Mortgage Loan which is not a Mortgage Loan Principal Receipt (including the Payment Holiday Mortgage Capitalised Interest Portion of any Payment Holiday Mortgage Loan, any Early Repayment Charges of any Mortgage Loan in the Mortgage Loan

	Portfolio and whether as all or part of a Monthly Payment by a Borrower on the relevant Mortgage Loan, on redemption (in whole or in part), on enforcement or on disposal of such Mortgage Loan or otherwise (including pursuant to any Insurance Policy);
"Mortgage Loans", each a "Mortgage Loan"	Any mortgage loan originated by the Seller;
"Mortgage Sale Agreement"	The mortgage sale agreement entered into on the Programme Date, as supplemented, amended and/or restated from time to time, between the Seller, the LLP and the Security Trustee;
"Mortgaged Property" collectively, "Mortgaged Properties"	in relation to any Mortgage Loan, the freehold or leasehold property in England and Wales subject to the relevant Mortgage securing repayment of the Mortgage Loan;
"Negative Carry Factor"	The meaning given on page 87;
"New Member"	Any new member admitted to the LLP after the Programme Date;
"New Mortgage Loan"	Mortgage Loans, which the Seller may assign or transfer to the LLP after the Programme Date on any transfer date pursuant to the Mortgage Sale Agreement;
"New Mortgage Loan Portfolio"	The meaning given in " <i>The Mortgage Loan Portfolio</i> " on page 113;
"New Mortgage Loan Portfolio Notice"	A notice in the form set out in Schedule 6 to the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement;
"New Product 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 Mortgage Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Product Type if it differs from the Mortgage 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, cash-backs and/or rate guarantees;
"NGCB"	New Global Covered Bond;
"Notice to Pay"	The meaning given in Condition 9(a) (<i>Issuer Events of Default</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 148;
"Official List"	Official list of the UK Listing Authority;
"OFT"	Office of Fair Trading;
"Ombudsman"	Financial Ombudsman Service under the FSMA;
"Optional Redemption Amount"	The meaning given in the Applicable Final Terms;
"Order"	The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI2001/544), as amended;
"Original Due for Payment Date"	The meaning given in paragraph (a)(i) of the definition of " <i>Due for Payment</i> ";
"Overpayments on Mortgage"	The terms of the Mortgage Loans generally allow the relevant Borrower to make larger repayments of principal than are

Loans"	scheduled on a given Monthly Payment Date (" Overpayments "). Such Overpayment may reduce the life of a Mortgage Loan.
"Partial Portfolio"	Part of any portfolio of Selected Mortgage Loans and their Related Security;
"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) (<i>Interest on Partly-Paid Covered Bonds</i>) 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 " <i>Terms and Conditions of the Covered Bonds</i> " on page 124;
"Payment Day"	The meaning given in Condition 5 (<i>Payments</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 140;
"Payment Holiday"	A payment holiday is permissible after a Borrower has made the initial six consecutive scheduled monthly payments on a Mortgage Loan. The Borrower may then apply for up to two payment holidays in each calendar year, whereby the Borrower is permitted to borrow a further amount (the " Payment Holiday Mortgage Loan Advance ") equal to the scheduled monthly payment of interest and, as the case may be principal due on the Mortgage Loan;
"Payment Holiday Mortgage Capitalised Interest Portion"	The amount of the Payment Holiday Mortgage Loan Advance which is to be utilised to pay the interest portion of the scheduled monthly payment.
"Payment Holiday Mortgage Loan Advance"	See definition of " <i>Payment Holiday</i> " above;
"Payment Holiday Mortgage Loan Principal Portion"	The amount of the Payment Holiday Mortgage Loan Advance which is to be utilised to pay the principal portion of the scheduled monthly payment;
"Permanent Global Covered Bond"	The meaning given in " <i>Form of the Covered Bonds</i> " on page 120;
"Post-Enforcement Priority of Payments"	The meaning given in " <i>Cashflows</i> " on page 111;
"Potential Issuer Event of Default"	The meaning given in Condition 14 (<i>Meetings of Covered Bondholders, Modification, Waiver and Substitution</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 155;
"Potential LLP Event of Default"	The meaning given in Condition 14 (<i>Meetings of Covered Bondholders, Modification, Waiver and Substitution</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 155;
"Pre-Acceleration Principal Priority of Payments"	The meaning given in " <i>Cashflows</i> " on page 106;
"Pre-Acceleration Revenue Priority of Payments"	The meaning given in " <i>Cashflows</i> " on page 104;
"Preceding Business Day Convention"	The meaning given in Condition 4(b) (<i>Interest on Floating Rate Covered Bonds and Index Linked Interest Covered Bonds</i>) in

	<i>"Terms and Conditions of the Covered Bonds"</i> on page 132;
"Pre-Approval Covered Bonds"	The meaning given in <i>"Risk Factors"</i> on page 26;
"Pre-Maturity Test"	On a Pre-Maturity Test Date if the Issuer fails or breaches the following conditions: <ul style="list-style-type: none"> (a) the Issuer's (i) long-term credit rating from Moody's falls to A2 (or lower) and the Final Maturity Date of the Series of Bullet Covered Bonds will fall within 6 months following the relevant Pre-Maturity Test Date or (ii) short-term credit rating from Moody's falls to P-2 (or lower) and the Final Maturity Date of the Series of Bullet Covered Bonds will fall within 12 months following the relevant Pre-Maturity Test Date; or (b) the Issuer's (i) short-term credit from Fitch falls to F1 (or lower) and the Final Maturity Date of the Series of Bullet Covered Bonds will fall within 6 months following the relevant Pre-Maturity Test Date or (ii) short-term credit rating from Fitch falls to F2 (or lower) and the Final Maturity Date of the Series of Bullet Covered Bonds will fall within 12 months following the relevant Pre-Maturity Test Date;
"Pre-Maturity Test Date"	Each Business Day prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default on which the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Test has been breached in respect of any Series of Bullet Covered Bonds, and if so, it shall immediately notify the Members and the Security Trustee thereof;
"Pre-Maturity Liquidity Ledger"	The monthly ledger maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available to repay any Series of Covered Bonds on the Final Maturity date thereof if the Pre-Maturity Test has been breached;
"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 Ledger"	The monthly ledger on the Transaction Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Mortgage Loan Principal Receipts in accordance with the terms of the LLP Deed;
"Principal Paying Agent"	The meaning given in <i>"Terms and Conditions of the Covered Bonds"</i> on page 107;
"Principal Receipts"	Any Mortgage Loan 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"	The meaning given in <i>"Product Switches and Credit Reassessment Loan Advances"</i> on page 76.
"Programme"	The £3 billion covered bond programme;

"Programme Agreement"	The meaning given in " <i>Subscription and Sale, and Transfer and Selling Restrictions</i> " on page 160;
"Programme Date"	On or about 10 September 2008;
"Programme Documents"	<ul style="list-style-type: none"> (a) Mortgage Sale Agreement; (b) Administration Agreement; (c) Asset Monitor Agreement; (d) Intercompany Loan Agreement; (e) LLP Deed; (f) Cash Management Agreement; (g) Swap Agreements; (h) Bank Account Agreement; (i) Corporate Services Agreement; (j) Deed of Charge; (k) Trust Deed; (l) Agency Agreement; (m) Programme Agreement; (n) Master Definitions Schedule; (o) Collection Account Declaration of Trust; (p) Master Execution Deed; (q) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement); and (r) the Final Terms relating to each Series of Covered Bonds.
"Programme Resolution"	Any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (<i>Events of Default and Enforcement</i>) or to direct the Bond Trustee or the Security Trustee to take any enforcement action;
"Property"	A freehold or leasehold property which is subject to a Mortgage;
"Properties in Possession Policy"	If the Seller takes possession of a Mortgaged Property from a Borrower in default, the Seller has coverage through a properties in possession policy from CIS Ltd;
"Prospectus Directive"	Prospectus Directive (Directive 2003/71/EC);
"Prospectus Rules"	The rules made by the UK Listing Authority under the FSMA as amended by the Prospectus Regulations 2005;
"Prudent Mortgage Lender"	A reasonable prudent residential mortgage lender lending to borrowers in England and/or Wales who generally satisfy the lending criteria of traditional sources of prime residential mortgage capital;

"Purchaser"	The Seller or any third party to whom the LLP offers to sell Selected Mortgage Loans;
"QIB" or "Qualified Institutional Buyer"	A "qualified institutional buyer" as defined in Rule 144A under the Securities Act;
"QP" or "Qualified Purchaser"	A "qualified purchaser" as defined in section 3(c)(7) of the Investment Company Act;
"QIB/QP"	A QIB who is also a QP;
"Quarterly Asset Determination Date"	The Asset Determination Date falling in November, February, May and August of each year.
"Quarterly LLP Payment Date"	An LLP Payment Date falling in December, March, June and September of each year.
"Rating Agencies"	Moody's and Fitch, each a "Rating Agency" ;
"Rating Agency Confirmation"	A confirmation in writing by each of the Rating Agencies 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;
"RCB Covered Bonds"	The meaning given in <i>"Risk Factors"</i> on page 25;
"RCB Register"	The meaning given in <i>"Risk Factors"</i> on page 25;
"RCB Regulations"	The Regulated Covered Bonds Regulations 2008 (Statutory Instrument 2008/346) as amended as of 22 July 2008 by The Regulated Covered Bonds (Amendment) Regulations 2008;
"RCB Sourcebook"	The FSA's Regulated Covered Bonds Sourcebook;
"Receiptholders"	The holders of the Receipts;
"Receipts"	The meaning given in <i>"Terms and Conditions of the Covered Bonds"</i> on page 124;
"Record Date"	The meaning given in Condition 5 (<i>Payments</i>) in <i>"Terms and Conditions of the Covered Bonds"</i> on page 138;
"Redeemed Covered Bonds"	The meaning given in Condition 6 (<i>Redemption and Purchase</i>) in <i>"Terms and Conditions of the Covered Bonds"</i> on page 143;
"Reference Price"	In relation to a Zero Coupon Covered Bond, the meaning given 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 9 of Schedule 2 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 meaning given in <i>"Terms and Conditions of the Covered Bonds"</i> on page 124;
"Regulated Market"	The regulated market of the London Stock Exchange;
"Regulated Market of the London Stock Exchange"	A regulated market for the purposes of the Markets in Financial Investments Directive 2004/39/EC of the London Stock Exchange;
"Regulated Mortgage Loans"	Mortgage Loans originated after 31 October 2004 regulated by FSMA and the MCOB Mortgage Regulations.
"Regulation S"	Regulation S under the Securities Act;
"Regulation S Global Covered Bond"	The meaning given in <i>"Form of Covered Bonds"</i> on page 121;
"Regulations"	The Financial Services (Distance Marketing) Regulations 2004;
"Related Security"	In relation to a Mortgage Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Mortgage Loan Portfolio;
"Relevant Date"	The meaning given in Condition 7 (<i>Taxation</i>) in <i>"Terms and Conditions of the Covered Bonds"</i> on page 146;
"Relevant Factor"	The meaning given in <i>"Risk Factors"</i> on page 22;
"Relevant Dealers"	In the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, all the Dealers agreeing to subscribe for such Covered Bonds;
"Relevant Implementation Date"	The date on which the Prospectus Directive is implemented in that Relevant Member State;
"Relevant Member State"	Each Member State of the European Economic Area which has implemented the Prospectus Directive;
"Representations and Warranties"	The representations and warranties set out in Schedule 1 (<i>Representations and Warranties</i>) of the Mortgage Sale Agreement;
"Repurchase Notice"	A notice from the Cash Manager to the Seller identifying a Mortgage Loan or its Related Security in the Mortgage Loan Portfolio which does not, as of the relevant Transfer Date, materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement;
"Required Current Balance Amount"	The meaning given in <i>"Summary of the Principal Documents"</i> on page 89;
"Required Redemption Amount"	Principal Amount \times (1 + Negative Carry Factor \times Outstanding of the relevant (number of days to maturity of

	series of Covered Bonds	the relevant series of Covered Bonds(365))
"Reserve Fund"	The reserve fund that the LLP will be required to establish in the 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 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 F-1+ by Fitch and P-1 by Moody's, nil or such other amount as The Co-operative Bank 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 (i) to (iii) of the Pre-Acceleration Revenue Priority of Payments plus £600,000;	
"Reserve Ledger"	The monthly ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Mortgage Loan Revenue Receipts 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 Ledger"	The monthly ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Mortgage Loan Revenue Receipts in accordance with the terms of the LLP Deed;	
"Revenue Receipts"	Any Mortgage Loan Revenue Receipts;	
"Rule 144A"	Rule 144A under the Securities Act;	
"Rule 144A Global Covered Bond"	A Global Covered Bond in registered form representing the Registered Covered Bonds of a Tranche sold to QIBs pursuant to Rule 144A;	
"Rules"	The rules, regulations and procedures creating and affecting DTC and its operations;	
"Sale Proceeds"	The cash proceeds realised from the sale of Selected Mortgage Loans and their Related Security;	
"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 (<i>Interest</i>) (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 (<i>Taxation</i>);
"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) (<i>Final Redemption</i>) and Condition 6(d) (<i>Redemption due to illegality</i>) (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"	The U.S. Securities and Exchange Commission;
"Secured Creditors"	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuer, the Seller, the Administrator, the Account Bank, the GIC Provider, the Standby Account Bank, the Standby GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge;
"Securities Act"	The U.S. Securities Act of 1933, as amended;
"Security"	The meaning given in " <i>Summary of the Principal Documents</i> " on page 97;
"Security Trustee"	Deutsche Trustee Company 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;
"Selected Mortgage Loan Offer Notice"	A notice from the LLP served on the Seller offering to sell Selected Mortgage Loans and their Related Security for an offer price equal to the greater of the then outstanding principal balance of the Selected Mortgage Loans and the Adjusted Required Redemption Amount;
"Selected Mortgage Loan Repurchase Notice"	A notice from the Seller served on the LLP accepting an offer set out in a Selected Mortgage Loan Offer Notice;
"Selected Mortgage Loans"	Mortgage Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required Current Balance Amount;
"Selection Date"	The meaning given in Condition 6 (<i>Redemption and Purchase</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 143;

"Seller"	The Co-operative Bank in its capacity as seller pursuant to the Mortgage Sale Agreement entered into on the Programme Date;
"Seller Arranged Insurance Policy"	A policy arranged by the Seller on behalf of and at the request of the Borrower in relation to buildings insurance cover required before the completion of a Mortgage Loan;
"Seller's Policy"	The originating, lending and underwriting, administration, arrears and enforcement policies and procedures which are applied from time to time by the Seller to Mortgage Loans and the Related Security for their repayment which are beneficially owned solely by the Seller and which may be amended by the Seller from time to time;
"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"	<p>In relation to Covered Bonds of a Series:</p> <ul style="list-style-type: none"> (a) 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 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 Covered Bondholders of any Series); (e) except in accordance with Condition 6(i) (<i>Cancellation</i>) or Condition 14 (<i>Meetings of Covered Bondholders, Modification, Waiver and Substitution</i>), 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

	(f) alteration of the proviso to paragraph 5 (which, <i>inter alia</i> , sets out the required quorum in respect of a Series Reserved Matter) or paragraph 6 (which sets out the procedures and requirements for adjournment of meetings) of Schedule 4 to the Trust Deed;
"Share Trust"	The trust pursuant to which the Share Trustee is appointed;
"Share Trustee"	SFM Corporate Services Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP;
"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 Variable Rate"	The Co-operative Bank's Standard Variable Rate and/or the Standard Variable Rate applicable to Mortgage Loans within the Mortgage Loan Portfolio as applicable;
"Standard Variable Rate Mortgage Loan"	A Mortgage Loan which at such time accrues interest at a rate linked to the Standard Variable Rate;
"Sterling Equivalent"	In relation to an amount which is denominated in (a) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Swap Rate and (b) Sterling, the applicable amount in Sterling;
"Sterling Transaction Account"	The Sterling account designated as the Transaction Account in the name of the LLP, held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge;
"Subsidiary"	In relation to any person (the " First Person ") at any particular time, any other person (the " Second Person "): <ul style="list-style-type: none"> (a) whose affairs and policies the First Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the Second Person or otherwise; or (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the First Person;
"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 three other internationally recognised rating agencies;

- (c) Sterling denominated government and public securities, as defined from time to time by the FSA, **provided that** such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's and AAA by Fitch or their equivalents by three other internationally recognised rating agencies; and
- (d) Sterling denominated residential mortgage backed securities **provided that** such investments have a remaining period to maturity of one year or less, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's and AAA by Fitch or their equivalents by three other internationally recognised rating agencies,

provided that such substitution asset satisfies the requirements for eligible assets that may collateralise covered bonds in accordance with Regulation 2 (*Eligible Property*) 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*) of the "Terms and Conditions of the Covered Bonds" on page 155;

"SVR Notional Amount"

For any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, an amount equal to the Current Balance of the Standard Variable Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.

"SVR Notional Rate"

For any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, a rate equal to the weighted average (by outstanding Current Balance) of the standard variable rates of interest payable on the Standard Variable Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.

"Swap Agreements"

Each agreement between the LLP and a Swap Provider governing Swaps entered into with such Swap Provider in the form of an ISDA Master Agreement, including a schedule, any relevant Swap Agreement Credit Support Document and confirmations and each a "Swap Agreement";

"Swap Agreement Credit Support Document"	Each credit support document entered into between the LLP and a Swap Provider in the form of the ISDA 1995 Credit Support Annex (Transfer - English law);
"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 (and references to Swap Collateral shall be deemed to include, where relevant; a reference to assets equivalent to the collateral delivered by the Swap Provider which equivalent assets the LLP is obliged to return to the Swap Provider under the relevant Swap Agreement Credit Support Document);
"Swap Collateral Accounts"	The Swap Collateral Cash Account together with the Swap Collateral Custody Account;
"Swap Collateral Cash Account"	The account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement into which cash is deposited by a Swap Provider as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement;
"Swap Collateral Custody Account"	The account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement into which securities are deposited by a Swap Provider as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement;
"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 (as defined in each of the Swap Agreements) where the relevant Swap Provider is the Defaulting Party (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 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 Providers"	The Basis Rate Swap Provider and the Covered Bond Swap Providers, and each a "Swap Provider" ;
"Swap Rate"	In relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Swap Agreement has terminated, the applicable spot rate;
"Swaps"	The Basis Rate Swap together with the Covered Bond Swaps;
"Talons"	The meaning given in <i>"Terms and Conditions of the Covered</i>

	<i>Bonds</i> " on page 124;
"TARGET System"	Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System;
"Temporary Global Covered Bond"	The meaning given in " <i>Form of Covered Bonds</i> " on page 120;
"Term Advance"	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;
"The Co-operative Bank"	The Co-operative Bank plc, a public limited company registered in England and Wales under company number 990937 having its registered office at 1 Balloon Street, Manchester, M60 4EP;
"The Co-operative Financial Services Group"	Has the meaning given to it in the " <i>Issuer</i> " section of this Prospectus;
"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 Insurance 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 Additional Mortgage Loan 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) payments by the Borrower of any fees (including Early Repayment Charges (as per definition)) and other charges which are due to the Seller; and (d) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the LLP; (e) any amounts due or arising from any overpayment by any person or arising from any reimbursement by any person of any such overpayment (including, for the avoidance of doubt, where arising from the failure of a direct debit); (f) (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 an Additional Mortgage Loan Advance); and (g) any amounts owed to the Seller pursuant to Clause 7 (<i>Trust of Monies</i>) of the Mortgage Sale Agreement, <p>which amounts may be paid daily from moneys on deposit in the Transaction Account;</p>
"Title Deeds"	In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents, whether

	stored in paper or electronic format, which make up 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;
"Tracker Notional Amount"	For any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, an amount equal to the Current Balance of the Tracker Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.
"Tracker Notional Rate"	For any LLP Payment Date and the Calculation Period ending immediately before that LLP Payment Date, a rate equal to the weighted average (by outstanding Current Balance) of the rates of interest payable on the Tracker Rate Mortgage Loans in the Mortgage Loan Portfolio on the Quarterly Asset Determination Date preceding the start of that Calculation Period.
"Tracker Rate Mortgage Loan"	A Mortgage Loan which at such time accrues interest at a rate linked to the then Bank of England's base rate;
"Tranche"	Covered Bonds shall be construed to belong to the same tranche if they are identical in all respects (including as to listing).
"Transaction Accounts"	The Sterling Transaction Account, Euro Transaction Account and such other accounts as may for the time being be in place with the prior consent of the Security Trustee and designated as such and "Transaction Account" shall denote any of the Transaction Accounts;
"Transfer Agent"	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 124;
"Transfer Certificate"	The meaning given in Condition 2(e) (<i>Transfers of interests in Regulation S Global Covered Bonds</i>) in " <i>Terms and Conditions of the Covered Bonds</i> " on page 128;
"Transfer Date"	The date on which the sale of any New Mortgage Loan Portfolio to the LLP, the Seller, subject to the fulfilment of certain conditions, agrees to sell and assign a New Mortgage Loan Portfolio to the LLP in accordance with the Mortgage Sale Agreement;
"Trust Deed"	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 124;
"UCITS Directive"	Directive 85/11/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended;
"UK Listing Authority"	Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the UK Listing Authority);
"Unfair Practices Directives"	A directive on unfair business to consumer commercial practices adopted by the European Parliament and the Council adopted in May 2005;
"United Kingdom" and "UK"	Abbreviated references to the United Kingdom of Great Britain and Northern Ireland;
"United States", "U.S.", and "US"	Abbreviated references to the United States of America;

"U.S. Internal Revenue Code"	The U.S. Internal Revenue Code of 1986, as amended;
"U.S. Persons"	As defined in Regulation S of the Securities Act;
"UTCCR"	Unfair Terms in Consumer Contracts Regulations 1999 and the Unfair Terms in Consumer Contracts Regulations 1994 as amended;
"Valuation Report"	The valuation report or reports for mortgage purposes, in the form of a valuation report provided or obtained by the Seller or from an independent firm of professional valuers selected from a panel of approved valuers by the Seller or, in the alternative and as applicable in accordance with the Seller's Lending Criteria in the form of an automated valuation report obtained by the Seller;
"WAFF"	Weighted average foreclosure frequency in respect of the Mortgage Loan Portfolio determined in accordance with the methodologies prescribed by the Rating Agencies;
"WALS"	Weighted average loss severity in respect of the Mortgage Loan Portfolio determined in accordance with the methodologies prescribed by the Rating Agencies;
"Yield Shortfall Test"	After an Issuer Event of Default, the test as to whether the aggregate amount of interest on the Mortgage Loans and amounts under the Basis Rate Swap Agreement to be received by the LLP during the Relevant LLP Payment Period would give a yield on the Mortgage Loans of at least LIBOR plus 0.40 per cent.; and
"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.

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