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ALLIANCE & LEICESTER plc
(incorporated with limited liability in England and Wales with registered number 03263713)

€10 billion
Global Covered Bond Programme
unconditionally and irrevocably guaranteed as to payments of interest and principal by
ALLIANCE & LEICESTER COVERED BONDS LLP
(a limited liability partnership incorporated in England and Wales with registered number OC332032)

Under this €10 billion global covered bond programme (the **Programme**), Alliance & Leicester 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).

Alliance & Leicester Covered Bonds LLP (the **LLP**) will guarantee payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Portfolio (as defined below) and the LLP's other assets (the **Covered Bond Guarantee**). Recourse against the LLP under the Covered Bond Guarantee is limited to the Portfolio and such assets.

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

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

Application has been made to the Financial Services Authority (the **FSA** or the **U.K. Listing Authority**, as applicable) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the U.K. Listing Authority (the **Official List**) and to London Stock Exchange plc (the **London Stock Exchange**) for such Covered Bonds to be admitted to trading on the London Stock Exchange's regulated market.

References in this Prospectus to Covered Bonds being listed (and all related references) shall mean that such Covered Bonds have been admitted to trading on the London Stock Exchange's regulated market and admitted to the Official List.

The price and nominal amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions. 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 (each, a **Final Terms Document**) which, with respect to Covered Bonds to be listed on the London Stock Exchange, will be delivered to the U.K. 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.

Application is to be made to the FSA for the Issuer, the Programme and any Covered Bonds issued under the Programme to be admitted to the register of issuers and the register of regulated Covered Bonds, as appropriate, under the Regulated Covered Bonds Regulation 2008 SI (2008/346) (the **RCB Regulations**).

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

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

The Issuer and the LLP may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds described herein, in which event 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 Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**S&P**), an "AAA" rating by Fitch Ratings Ltd. (**Fitch**) and an "Aaa" rating by Moody's Investors Service Limited (**Moody's**). 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

BNP PARIBAS

DEUTSCHE BANK

HSBC

Dealers

BNP PARIBAS

BARCLAYS CAPITAL

CREDIT SUISSE

DEUTSCHE BANK

HSBC

LEHMAN BROTHERS

THE ROYAL BANK OF SCOTLAND

The date of this Prospectus is 9 April 2008.

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

The Issuer and the LLP (the **Responsible Persons**) each accept responsibility for all information contained in this prospectus (the **Prospectus**). To the best of the knowledge and belief of each of the Issuer and the LLP (each having taken all reasonable care to ensure that such is the case) all information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

On or prior to 30 April 2008, the Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and any Covered Bonds issued under the Programme to be admitted to the register of Regulated Covered Bonds under the Regulated Covered Bonds Regulations 2008 (SI2008/346). As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme will be so registered or regulated. The timetable for recognition by the FSA is expected to take not more than six months. Covered Bondholders will be notified promptly by the Issuer upon receipt from the FSA of its final decision on the application.

Copies of each Final Terms Document (in the case of Covered Bonds to be admitted to the Official List) will be available from the registered office of the Issuer and from the specified office of each of the Paying Agents (as defined below). Final Terms Documents relating to the Covered Bonds which are admitted to trading on the London Stock Exchange's regulated market will be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews/.

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

The information contained in this Prospectus was obtained from the Issuer, the LLP and other sources. No assurance can be given by the Arrangers, the Dealers, the Bond Trustee or the Security Trustee (as defined below) 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 Arrangers, the Dealers, the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer or the LLP in connection with the Programme. Neither the Arrangers, the Dealers nor the Bond Trustee nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information supplied by the Issuer and the LLP in connection with the Programme.

Subject as provided in the applicable Final Terms Document, the only persons authorised to use this Prospectus in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms Document as the relevant Dealer(s).

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

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

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and/or the LLP and/or the Seller is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers, the Dealers, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the LLP 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 Prospectus when deciding whether or not to purchase any Covered Bonds.

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer, delivery or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Seller, the LLP, the Arrangers, the Dealers, the Bond Trustee and the Security Trustee do not represent that this Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Seller, the LLP, the Arrangers, the Dealers, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer, delivery or sale of Covered Bonds in the United States, the European Economic Area (including the United Kingdom, The Netherlands, the Republic of Italy, Germany, the Republic of France and Spain) and Japan : see *Subscription and Sale and Transfer and Selling Restrictions*. This Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in a Relevant Member State of Covered Bonds which are the subject of an offering contemplated in this Prospectus as completed by a Final Terms Document in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

This Prospectus has not been submitted for clearance to the *Autorité des marchés financiers* in France.

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) disclosed as the stabilising manager(s) in the applicable Final Terms Document or any person acting for it or them may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. 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 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 person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In making an investment decision, investors must rely on their own examination of the Issuer, the Seller and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved.

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

U.S. INFORMATION

The Covered Bonds have not been approved or disapproved by the United States Securities and Exchange Commission (the **SEC**) or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230 (**CIRCULAR 230**), COVERED BONDHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS DOCUMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS IN COVERED BONDS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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

The Prospectus may be distributed on a confidential basis in the United States to a limited number of QIBs (as defined under *Form of the Covered Bonds*) for informational use solely in connection with the consideration of the purchase of the Covered Bonds being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally distributed.

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

Each purchaser or holder of Covered Bonds represented by a Rule 144A Global Covered Bond, or any Covered Bond issued in registered form in exchange or substitution therefor, will be deemed by its acceptance or purchase of any such Covered Bond to have made certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds as set out in *Subscription and Sale and Transfer and Selling Restrictions*. Unless otherwise stated, terms used in this paragraph have the meanings given to them in *Form of the Covered Bonds*.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, each of the Issuer and the LLP has undertaken in the Trust Deed to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer and/or the LLP, as applicable, is neither subject to reporting under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a public limited company organised under the laws of England and Wales and the LLP is a limited liability partnership registered in England and Wales. All of their directors reside outside the United States and all or a substantial portion of the assets of the Issuer and the LLP are located outside 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 the LLP as applicable, or such directors, or to enforce judgments against them obtained in the United States predicated upon civil liabilities of the Issuer or the LLP, as applicable, or such directors under laws other than those of England and Wales, including any judgment predicated upon United States federal securities laws. The Issuer and the LLP have been advised by Allen & Overy LLP, their English solicitors, that there is doubt as to the enforceability in England and Wales in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

FORWARD-LOOKING STATEMENTS

This Prospectus and the documents incorporated by reference herein include forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) expectations of drivers of net interest income, total income, profit, earnings per share, capital expenditures, dividends, capital structure or other financial items or ratios; (ii) statements of plans, objectives or goals of the Issuer or its management for future operations, including those related to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends", "aims", "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

The Issuer and the LLP have based any forward-looking statements herein on current expectations and projections about uncertain future events. Forward-looking statements are subject to risks, uncertainties and assumptions about the Issuer and the LLP. Although the Issuer and the LLP believe that the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements are reasonable, the Issuer and the LLP caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rates, exchange rates, and market and monetary fluctuations;
- the effects of, and changes in, laws, regulations and government policy;
- the effects of competition in the geographic and business areas in which the Issuer and the LLP conduct operations;
- changes in consumer spending, saving and borrowing habits in the U.K. and in regions in which the Issuer and the LLP conduct operations;
- changes in the U.K. housing market, in the U.K. residential mortgage market and the U.K. retail deposit market;
- the effects of changes in taxation or accounting standards or practices;
- the ability to increase market share and control expenses;
- the timely development of and acceptance of new products and services of the Issuer and the perceived overall value of these products and services by users;
- acquisitions, disposals and any other strategic transactions;
- liquidity problems including the continued ability of the Issuer to access wholesale funding sources and to further securities loans;
- technological changes including those affecting European Economic and Monetary Union compliance; and

- the Issuer's success at managing the risks of the foregoing.

The Issuer and the LLP caution that the foregoing list of important factors is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus and the documents incorporated by reference herein may not occur.

The Issuer and the LLP do not assume any obligation to update these forward-looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements.

Please consider carefully the risk factors set out in the sections herein entitled Risk Factors.

PRESENTATION OF FINANCIAL INFORMATION

The consolidated annual financial statements of the Issuer for the years ended 31 December 2007 and 31 December 2006 were prepared in accordance with International Financial Reporting Standards (**IFRS**).

In this Prospectus, all references to "billions" are references to one thousand millions. Due to rounding, the numbers presented throughout this Prospectus may not add up precisely, and percentages may not precisely reflect absolute figures.

All references in this document to "**U.S. dollars**", "**U.S.\$**" and "**\$**" are to the currency of the United States of America, to "**Sterling**" and "**£**" are to the currency of the United Kingdom and to "**euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

| | |
|---|---|
| Issuer: | Alliance & Leicester plc |
| Guarantor: | Alliance & Leicester Covered Bonds LLP |
| Regulated Covered Bonds: | The Issuer will on or before 30 April 2008 apply for the Issuer and the Programme and any Covered Bonds issued under the Programme to be registered under the RCB Regulations |
| Nature of eligible property: | Residential mortgage loans and Substitution Assets up to the prescribed limit and Authorised Investments |
| Compliant with the Banking Consolidation Directive (Directive 2006/48/EC): | Yes |
| Location of eligible residential property underlying Mortgage Loans: | England, Wales, Scotland or Northern Ireland |
| Maximum Current Balance to Indexed Valuation ratio given credit under the Asset Coverage Test: | 75.0 per cent. |
| Maximum Asset Percentage: | 91.0 per cent. |
| Asset Coverage Test: | See page 117 for details |
| Amortisation Test: | See page 118 for details |
| Extended Maturities: | Available |
| Hard Bullet Option: | Available |
| Asset Monitor: | Deloitte & Touche LLP |
| Asset Segregation: | Yes |
| Namenschuldverschreibungen option: | No |
| Reserve Fund: | Yes, if the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are not rated at least A-1+ by S&P or F1+ by Fitch or P-1 by Moody's |

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and have been filed with the FSA, shall be deemed to be incorporated in, and to form part of, this Prospectus and approved by the FSA for the purpose of the Prospectus Directive:

1. the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2007, which appear on pages 42 to 104 of the Issuer's Annual Report and Accounts for the year ended 31 December 2007; and
2. the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2006, which appear on pages 46 to 93 of the Issuer's Annual Report and Accounts for the year ended 31 December 2006.

In addition, the following documents published or issued prior to the date hereof or published or issued from time to time after the date hereof, except to the extent included in paragraphs 1 and 2 above, shall be deemed to be incorporated in, and form part of, this Prospectus provided that such documents shall not form part of the Prospectus approved by the FSA for the purpose of the Prospectus Directive:

3. the most recently published Annual Report and Accounts containing audited consolidated and non-consolidated annual financial statements of the Issuer.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a subsequent statement which is deemed to be incorporated by reference herein or contained herein modifies or supersedes such earlier statement (where expressly, by implication or otherwise), (provided, however, that such statement shall only form part of the Prospectus to the extent that it is contained in a document all or the relevant portion of which is incorporated by reference by way of a supplement proposed in accordance with Article 16 of the Prospectus Directive). Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Prospectus.

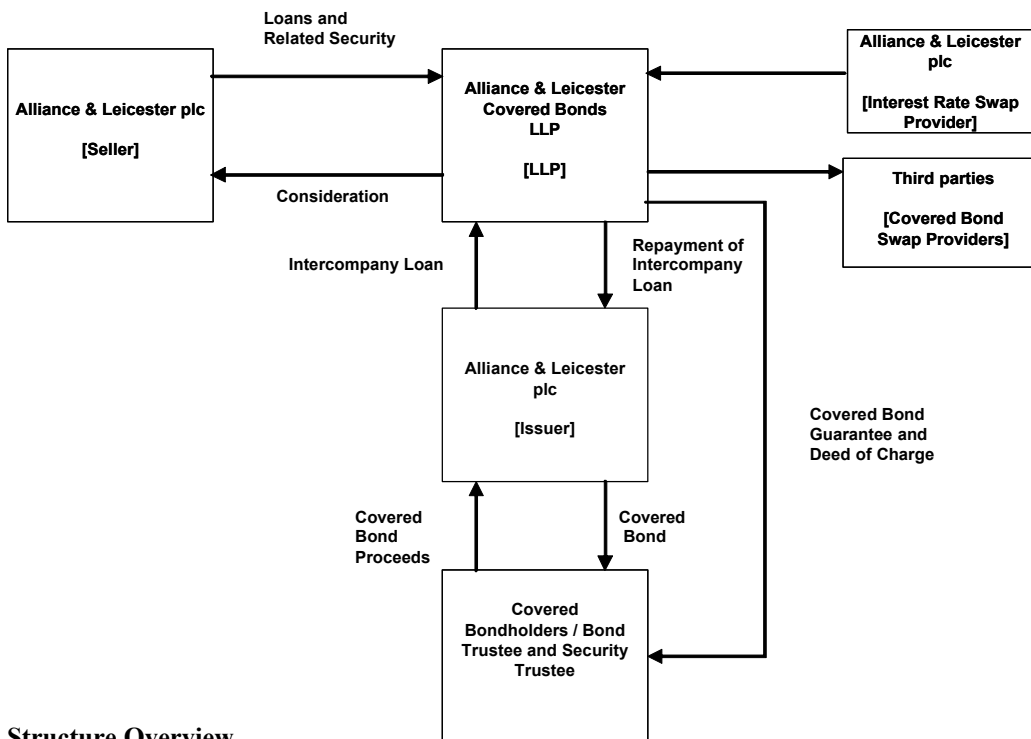
Copies of documents incorporated by reference in this Prospectus can be obtained from the Issuer's website at www.alliance-leicester-group.co.uk and from the specified office of the Principal Paying Agent in London and will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews/. Please note that websites and urls referred to herein do not form part of this Prospectus. To the extent that any document incorporated by reference in this Prospectus incorporates further information by reference, such further information does not form part of this Prospectus.

The Issuer and the LLP will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Prospectus for use in connection with any subsequent issue of Covered Bonds. The Issuer and the LLP have each undertaken to the Dealers in the Programme Agreement (as defined in *Subscription and Sale and Transfer and Selling Restrictions*) that they will comply with Section 87G of the FSMA.

STRUCTURE OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in any Covered Bonds should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to either Responsible Person in such Member State solely on the basis of this overview, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the claimant may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated. Words and expressions defined elsewhere in this 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 Prospectus.

Structure Diagram



Structure Overview

- *Programme:* Under the terms of the Programme, the Issuer will issue Covered Bonds to Covered Bondholders on each Issue Date. The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.
- *Intercompany Loan Agreement:* Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to the gross proceeds of each Series or, as applicable, Tranche of Covered Bonds. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP to the Issuer under the Intercompany Loan Agreement will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee.
- *Covered Bond Guarantee:* Under the terms of the Trust Deed, the LLP has provided to the Bond Trustee a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following service of a Notice to Pay or an LLP Acceleration Notice) unconditional obligations of the LLP, secured as provided in the Deed of Charge. The Bond Trustee will be required to serve a Notice to Pay on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice pursuant to which as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable. An LLP Acceleration Notice may be served by the Bond Trustee on the LLP following the occurrence of an LLP Event of Default.

If an LLP Acceleration Notice is served, the Covered Bonds will (if an Issuer Acceleration Notice has not been served) become immediately due and payable as against the Issuer and the LLP's obligations under the Covered Bond Guarantee will be accelerated. Payments made by the LLP under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee will be limited to the assets of the LLP from time to time.

- *The proceeds of Term Advances:* The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, upon exchange into Sterling under the applicable Covered Bond Swap):
 - (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
 - (b) to invest in Substitution Assets in an amount not exceeding the Prescribed Limit 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 may be applied by the LLP:
 - (i) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
 - (ii) to invest in Substitution Assets in an amount not exceeding the Prescribed Limit; and/or
 - (iii) (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).
- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the LLP on any Assignment Date will be a combination of:
 - (a) a cash payment made by the LLP to the Seller;
 - (b) the Seller being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the aggregate Current Balance of the Loans sold by the Seller as at the relevant Assignment Date and the cash payment (if any) made by the LLP); and/or
 - (c) Deferred Consideration (including any Postponed Deferred Consideration).
- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the portfolio of Loans and their Related Security, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and any Authorised Investments it holds) 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 on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:
 - apply Available Revenue Receipts to pay interest due on the Term Advances to the Issuer and to pay Deferred Consideration (including any Postponed Deferred Consideration) to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including certain expenses and amounts due to the Interest Rate Swap Provider). For further details of the Pre-Acceleration Revenue Priority of Payments, see *Cashflows* below; and
 - apply Available Principal Receipts towards making Capital Distributions to the Members but only after, *inter alia*, acquiring New Loans and their Related Security offered by the Seller to the LLP and repaying principal due in relation to any Term Advance to the Issuer. For further details of the Pre-Acceleration Principal Priority of Payments, see *Cashflows* below.

Following service of a Notice to Pay on the LLP (but prior to 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 use all monies (other than Third Party Amounts) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the LLP in the Guarantee Priority of Payments. In such circumstances, the Members 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 service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the Covered Bonds will become immediately due and payable (if not already due and payable following service of an Issuer Acceleration Notice) 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 under Condition 7 and the security created by the LLP over the Charged Property will become enforceable. Any monies received or recovered by the Security Trustee, following realisation of such Security and/or the commencement of winding-up proceedings against the LLP following enforcement of the Security created by the LLP in accordance with the Deed of Charge, will be distributed according to the Post-Enforcement Priority of Payments, as to which see "Cashflows" below.

- *Asset Coverage:* The Programme provides that the assets of the LLP are subject to an asset coverage test in respect of the Covered Bonds. Accordingly, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that, on each Calculation Date, the Adjusted Aggregate Loan Amount will be at least equal to 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 will constitute an Issuer Event of Default to the extent that the same has not been cured on or before the next Calculation Date which will entitle the Bond Trustee to serve an Issuer Acceleration Notice on the Issuer pursuant to which as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and payable. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.
- *Amortisation Test:* Following the service of a Notice to Pay (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each following Calculation Date, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Amortisation Test will be carried out by the Cash Manager on each Calculation Date following service of a Notice to Pay. A breach of the Amortisation Test will constitute an LLP Event of Default. Following the occurrence of an LLP Event of Default, the Bond Trustee may by service of an LLP Acceleration Notice accelerate the obligations of the Issuer under the Covered Bonds and require all amounts under the Covered Bond Guarantee to become immediately due and payable. Thereafter, the Security Trustee may 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 Document. 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 (in each case subject to the applicable grace period), a Notice to Pay is served and 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 service of a Notice to Pay, the LLP has insufficient monies available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds), then payment of the unpaid portion of the Final Redemption 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). The unpaid portion of the Final Redemption Amount shall be due and payable one year later on the Extended Due for Payment Date (subject to the applicable grace period and provided that the LLP shall to the extent it has the funds available to it, pay such unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date). The LLP will pay the Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and on the Extended Due for Payment Date.
- *Servicing:* In its capacity as Servicer, Alliance & Leicester plc has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which it has agreed to provide administrative services to the LLP in respect of the Loans and their Related Security including any New Loans sold by the Seller to the LLP and any New Loans.
- *Risk Factors:* The Issuer's business activities depend on the level of banking, finance and financial services that its respective customers require. Customer demand can fluctuate based on prevailing economic, interest rate and other conditions. In part, the Issuer funds its business activities through access to the institutional debt, securitisation and covered bond markets in the U.S., Europe and Asia. The Issuer's continued ability to fund its business in this manner depends on a number of factors, including many outside of its control, such as general

market conditions and the general level of liquidity in the market. The LLP relies on a third-party servicer to provide calculation and other servicing functions in relation to its loan portfolio. Failure of the servicer to perform these functions could affect payment on the Covered Bonds. Further, the LLP relies on swap providers to hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (including any New Loans) and to hedge against interest rate and currency risks in respect of amounts received by the LLP on the Loans in the Portfolio and amounts payable by the LLP under the Covered Bond Guarantee. The performance of the swap providers and the LLP under their mutual swap agreements can affect both rating of and payment on the Covered Bonds.

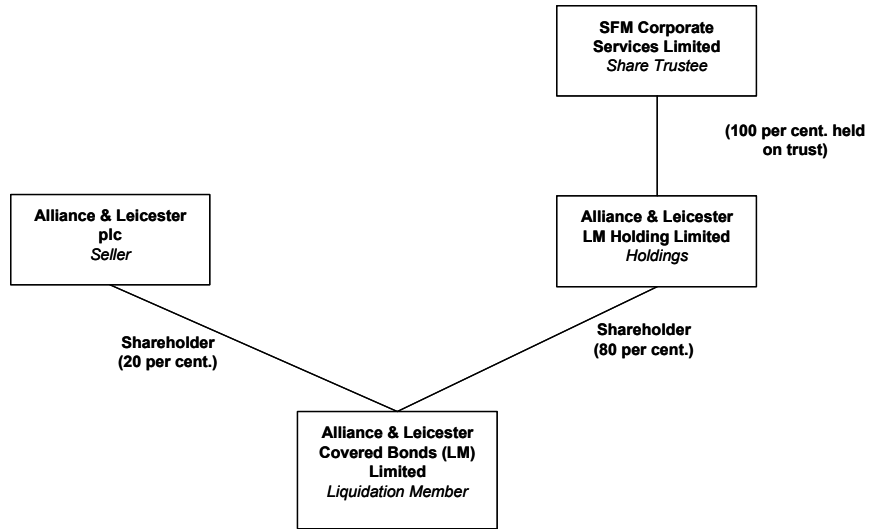
- *The Regulated Covered Bonds Regulations 2008:* On or prior to 30 April 2008, the Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and any Covered Bonds issued under the Programme to be admitted to the register of Regulated Covered Bonds under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme will be so registered or so regulated. The timetable for recognition by the FSA is expected to take not more than six months. Covered Bondholders will be notified promptly 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 Prospectus, *Risk Factors, Overview of the Programme, Terms and Conditions of the Covered Bonds, Summary of the Principal Documents, Credit Structure, Cashflows and The Portfolio* below.

Ownership Structure of Alliance & Leicester Covered Bonds LLP

- As at the Programme Date, the Members of the LLP are Alliance & Leicester plc and the Liquidation Member.
- Any New Seller that wishes to sell New Seller Loans and their Related Security to the LLP (as described under *Summary of the Principal Documents – Mortgage Sale Agreement* below) will, amongst other things, be required to become a Member of the LLP and to accede to, *inter alia*, the LLP Deed.
- Other than in respect of those decisions reserved to the Members, the LLP Management Board (comprising of, as at the Programme Date, directors and/or employees of Alliance & Leicester plc) 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.
- In the event of a liquidation or administration of Alliance & Leicester plc or a disposal of Alliance & Leicester plc's interest in the Liquidation Member such that Alliance & Leicester plc holds less than 20 per cent. of the share capital of the Liquidation Member (without the consent of the LLP and the Security Trustee), Alliance & Leicester plc will automatically cease to be a Member of the LLP, the balance of any Capital Contributions outstanding of Alliance & Leicester plc as at the date it ceases to be a Member in the LLP will be converted into a subordinated debt obligation owed by the LLP to Alliance & Leicester plc under the LLP Deed and the Liquidation Member will appoint a new Member of the LLP (which is a wholly-owned subsidiary of the Liquidation Member) pursuant to the terms of the LLP Deed. See further *Summary of the Principal Documents – LLP Deed* below.

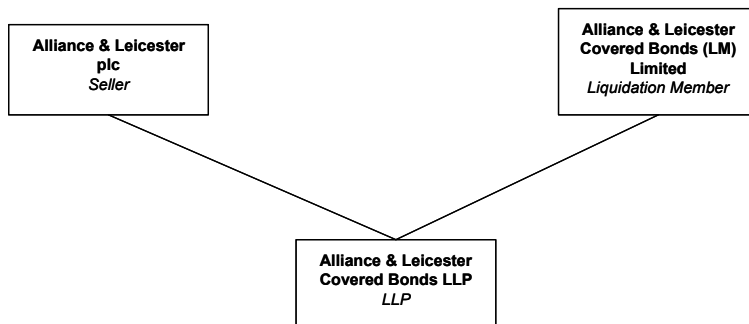
Ownership Structure of the Liquidation Member

- As at the Programme Date, the issued share capital of the Liquidation Member is held 20 per cent. by Alliance & Leicester plc and 80 per cent. by Holdings.
- The issued capital of Holdings is held 100 per cent. by SFM Corporate Services Limited as Share Trustee on trust for charitable purposes.



Ownership Structure of the LLP

- As at the Programme Date, the Members of the LLP are the Seller and the Liquidation Member.
- Other than in respect of those decisions reserved to the Members, the Management Board (comprised of, as at the Programme Date, directors and/or employees of the Seller) 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.



OVERVIEW OF THE PROGRAMME

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

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| Issuer: | <p>Alliance & Leicester plc, a public limited company incorporated in England and Wales (registered no. 03263713).</p> <p>For a more detailed description of the Issuer, see <i>Alliance & Leicester plc and the Alliance & Leicester Group</i> below.</p> |
| LLP: | <p>Alliance & Leicester Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC332032). The LLP is a subsidiary of the Seller, and its Members on the Programme Date are the Seller and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, <i>inter alia</i>, 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 Portfolio and the Charged Property in accordance with the terms of the Transaction Documents.</p> <p>The LLP has provided a guarantee in favour of the Bond Trustee (on behalf of the Covered Bondholders) covering all Guaranteed Amounts when the same shall become Due for Payment, but only following service of a Notice to Pay or an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee and the other Transaction Documents to which it is a party are secured by the assets from time to time of the LLP and recourse against the LLP is limited to such assets.</p> <p>For a more detailed description of the LLP, see <i>Alliance & Leicester Covered Bonds LLP</i> below.</p> |
| Seller: | <p>Alliance & Leicester plc, which is in the business of originating residential mortgage loans and carrying out banking activities.</p> <p>For a more detailed description of the Seller, see <i>Alliance & Leicester plc and the Alliance & Leicester Group</i> below.</p> |
| Servicer: | <p>Alliance & Leicester plc has been appointed to service, on behalf of the LLP, the Loans and Related Security of the Portfolio pursuant to the terms of the Servicing Agreement.</p> |
| Cash Manager: | <p>Alliance & Leicester plc has also been appointed, <i>inter alia</i>, to provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test and the Amortisation Test pursuant to the Cash Management Agreement.</p> |
| Principal Paying Agent: | <p>HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ, has been appointed pursuant to the Agency Agreement as principal paying agent and agent bank.</p> |
| Registrar: | <p>HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ, has been appointed pursuant to the Agency Agreement as registrar.</p> |
| Bond Trustee: | <p>HSBC Corporate Trustee Company (UK) Limited, acting through its office at 8 Canada Square, London E14 5HQ, has been appointed to act as bond trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i>, the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the Trust Deed.</p> |
| Security Trustee: | <p>HSBC Corporate Trustee Company (UK) Limited, acting through its office at 8 Canada Square, London E14 5HQ, has been appointed to act as security trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself, the Covered Bondholders and the other Secured Creditors) pursuant to the Deed of Charge.</p> |
| Asset Monitor: | <p>A reputable institution acceptable to the Rating Agencies appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in</p> |

respect of the Asset Coverage Test and the Amortisation Test when required. The initial Asset Monitor is Deloitte & Touche LLP.

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| Covered Bond Swap Provider: | Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement or, if a Notice to Pay has been served, under the Covered Bond Guarantee by entering into Covered Bond Swaps with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to obtain a guarantee of its obligations from an appropriately rated guarantor or put in place other appropriate credit support arrangements. Alliance & Leicester plc may act as Covered Bond Swap Provider. |
| Interest Rate Swap Provider: | Alliance & Leicester plc has agreed to act as interest rate swap provider to the LLP to hedge possible variances between the rates of interest payable on the Loans sold by the Seller to the LLP and LIBOR for periodic Sterling deposits by entering into an Interest Rate Swap with the LLP and the Security Trustee under the Interest Rate Swap Agreement. The Interest Rate Swap Provider will be required to obtain a guarantee of its obligations from an appropriately rated guarantor or put in place other appropriate credit support arrangements in the event that its ratings fall below a specified ratings level. For a more detailed description of the Interest Rate Swap Provider, see <i>Alliance & Leicester plc and the Alliance & Leicester Group</i> below. |
| Account Bank: | Alliance & Leicester plc, acting through its office at Carlton Park, Narborough, Leicester LE19 0AL has agreed to act as an Account Bank to the LLP pursuant to the Bank Account Agreement. |
| Stand-by Account Bank: | HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ. |
| Liquidation Member: | Alliance & Leicester Covered Bonds (LM) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6386071). The Liquidation Member is 80 per cent. owned by Holdings and 20 per cent. owned by Alliance & Leicester plc. |
| Holdings: | Alliance & Leicester LM Holding Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6378148). All of the shares of Holdings are held by the Share Trustee on trust for the benefit of one or more discretionary objects. Neither Alliance & Leicester plc nor any company connected with Alliance & Leicester plc can direct the Share Trustee and none of such companies has any control, direct or indirect, over Holdings. |
| Share Trustee: | SFM Corporate Services Limited, acting through its office at 35 Great St Helen's, London EC3A 6AP, holds all of the shares of Holdings on trust for the benefit of one or more discretionary objects. |
| Corporate Services Provider: | Structured Finance Management Limited, acting through its office at 35 Great St Helen's, London EC3A 6AP has been appointed to provide certain corporate services to the Liquidation Member and Holdings, respectively, pursuant to the Corporate Services Agreement. |
| Secretarial Services Provider: | Alliance & Leicester plc, acting through its office at Carlton Park, Narborough, Leicester LE19 0AL has agreed to provide Company Secretarial Services to the LLP pursuant to the Secretarial Services Agreement. |
| Programme description: | Global Covered Bond Programme. |
| Arrangers: | BNP Paribas, London Branch, Deutsche Bank AG, London Branch and HSBC Bank plc. |
| Dealers: | To be selected from time to time in accordance with the terms of the Programme Agreement. As at the date of this Prospectus, the Dealers are BNP Paribas, London Branch, Barclays Bank PLC, Credit Suisse (Europe) Limited, |

Deutsche Bank Aktiengesellschaft, HSBC Bank plc, Lehman Brothers International (Europe) and The Royal Bank of Scotland plc.

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| 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. There are restrictions on the offer, sale and transfer of Covered Bonds in the United States, the European Economic Area (including the United Kingdom, The Netherlands, the Republic of Italy, Germany, the Republic of France and Spain) and Japan. Other restrictions may apply in connection with the offering and sale of a particular Series of Covered Bonds. See <i>Subscription and Sale and Transfer and Selling Restrictions</i> below. |
| Programme size: | Up to €10 billion (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time as described herein. The Issuer and the LLP may increase the amount of the Programme in accordance with the terms of the Programme Agreement. |
| Distribution: | Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in <i>Subscription and Sale and Transfer and Selling Restrictions</i> below. |
| Specified Currency: | Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms Document). |
| Redenomination: | The applicable Final Terms Document may provide that certain Covered Bonds may be redenominated in euro. |
| Maturities: | The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and indicated in the applicable Final Terms Document, subject to such minimum or maximum maturities as may be allowed or required from time to time by any relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. |
| Issue Price: | Covered Bonds may be issued at par or at a premium or discount to par on a fully-paid or partly-paid basis. |
| Form of Covered Bonds: | The Covered Bonds will be issued in bearer or registered form as described in <i>Form of the Covered Bonds</i> . Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and <i>vice versa</i> . |
| Fixed Rate Covered Bonds: | Fixed Rate Covered Bonds will bear interest at a fixed rate specified in the relevant Final Terms, which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms Document). |
| Floating Rate Covered Bonds: | Floating Rate Covered Bonds will bear interest at a rate determined: <ul style="list-style-type: none">(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or(c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms Document. 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 Document. |

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| Index Linked Interest Covered Bonds: | Payments 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 Document. |
| Other provisions in relation to Floating Rate Covered Bonds and Index Linked Covered Bonds: | Floating Rate Covered Bonds and Index Linked Covered Bonds may also indicated in the applicable Final Terms Document). Interest on Floating Rate Covered Bonds and Index Linked 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, in each case as may be agreed between the Issuer and the relevant Dealer(s). |
| Dual Currency Interest Covered Bonds: | Payments of interest, whether at maturity or otherwise, in respect of Dual Currency Interest 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 Document). |
| Variable Interest Covered Bonds: | Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Dual Currency Interest Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable are referred to as Variable Interest Covered Bonds . |
| Zero Coupon Covered Bonds: | Zero Coupon Covered Bonds, bearing no interest, may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms Document. |
| 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) and set out in the applicable Final Terms Document. |
| Redemption: | <p>The applicable Final Terms Document relating to each Tranche of Covered Bonds will indicate either that such Covered Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, for taxation reasons, if it becomes unlawful for any Term Advance to remain outstanding or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer and/or the Covered Bondholders upon giving not more than 60 nor less than 30 days' irrevocable notice (or such other period of notice (if any) as is indicated in the applicable Final Terms Document) to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of the Registered Covered Bonds) and the Covered Bondholders or to the Issuer (as the case may be), on one or more specified dates prior to their 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 Document).</p> <p>The applicable Final Terms Document 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 Document.</p> <p>The applicable Final Terms Document may provide for the calculation of the Final Redemption Amount by reference to a formula or other variable that may result in the redemption of the relevant Covered Bonds at less than 100 per cent. of their nominal amount.</p> |
| Extendable obligations under the Covered Bond Guarantee: | The applicable Final Terms Document may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts equal to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date 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 (in each case subject to the applicable grace period), a Notice to Pay has been served and |

the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Extension Determination Date (for example, because the LLP has insufficient monies to pay in full the Guaranteed Amounts equal 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 by the time specified in Condition 6.1 and has sufficient monies under the Guarantee Priority of Payments to pay in part the Final Redemption Amount, partial payment of the Final Redemption Amount shall be made as described in Condition 6.1. The LLP shall to the extent it has the funds available to it make payments in respect of the unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up to and including the Extended Due for Payment Date. Interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount up to the Extended Due for Payment Date in accordance with Condition 4 and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date.

Denomination of Covered Bonds:

The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Final Terms Document save that, except in certain limited circumstances, the minimum denomination of each Covered Bond will be €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 is required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

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

Taxation:

All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of United Kingdom taxes, save as provided in Condition 7. If any such deduction or withholding is made, the Issuer will, save as provided in Condition 7, 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. Further, if any payments made by the LLP under the Covered Bond Guarantee are or become subject to any withholding or deduction, the LLP will not be obliged to pay any additional amount in respect of the amount so deducted or withheld.

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 then 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 obligations required to be preferred by law) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

Covered Bond Guarantee:

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

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| Ratings: | Covered Bonds to be issued under the Programme have, unless otherwise specified in the applicable Final Terms Document, been rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's. |
| The Regulated Covered Bonds Regulations 2008: | On or prior to 30 April 2008, the Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and any Covered Bonds previously under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme will be so registered or so regulated. The timetable for recognition by the FSA is expected to take not more than six months. Covered Bondholders will be notified promptly by the Issuer upon receipt from the FSA of its final decision on the application. |
| Listing and admission to trading: | <p>Application has been made to the U.K. Listing Authority for Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the Official List and to the London Stock Exchange for such Covered Bonds to be admitted to trading on the London Stock Exchange's regulated market.</p> <p>Covered Bonds may be unlisted or 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 and the relevant Dealer(s) in relation to each issue. The Final Terms Document 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.</p> |
| Governing law: | The Covered Bonds will be governed by, and construed in accordance with, English law. |

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 issued under the Programme and the Covered Bond Guarantee. Most of these factors are contingencies which may or may not occur, and neither of the Issuer nor the LLP are in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the Covered Bonds are also described below.

The Issuer and the LLP believe that the factors described below represent the principal risks inherent in investing in the Covered Bonds issued under the Programme, but the inability of the Issuer or the LLP to pay interest, principal or other amounts on or in connection with any 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 any Covered Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in the “Terms and Conditions of the Covered Bonds” below or elsewhere in this Prospectus have the same meanings in this section.

RISK FACTORS RELATING TO THE ISSUER INCLUDING THE ABILITY OF THE ISSUER TO FULFIL ITS OBLIGATIONS UNDER THE COVERED BONDS

Issuer is liable to make payments when due on the Covered Bonds

The Issuer is liable to make payments when due on the Covered Bonds. The obligations of the Issuer under the Covered Bonds are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with their respective other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations required to be preferred by law).

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until service of a Notice to Pay (following service of an Issuer Acceleration Notice) or an LLP Acceleration Notice (following the occurrence of an LLP Event of Default).

The occurrence of an Issuer Event of Default does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute an LLP Event of Default, subject to the applicable grace periods.

Following the occurrence of an LLP Event of Default, the Bond Trustee may accelerate the obligations of the LLP under the Covered Bond Guarantee by serving an LLP Acceleration Notice on the LLP. Service of an LLP Acceleration Notice on the LLP will also accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable following service of an Issuer Acceleration Notice). The Security Trustee would then become entitled to enforce the Security.

Economic Activity in the U.K.

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

U.K. Housing Market

One of the Issuer’s principal activities is mortgage lending in the U.K. with loans secured against residential property. A downturn in the U.K. economy could have an adverse effect on the housing market particularly if this results in an increased level of unemployment or higher interest rates. Property prices may fall and could result in losses being incurred by lenders on loans that have defaulted. This could have consequences for the Issuer’s funding costs and credit ratings if there was deemed to be a material deterioration in the quality of the mortgage portfolio.

Personal Financial Services Market

The U.K. housing and savings markets are competitive. Developments in these markets and increased competition could have an adverse effect on the Issuer’s financial position.

Risks Related to the Issuer's Business

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 and liquidity risk. Failure to control these risks could result in adverse effects on the Issuer's financial performance and reputation.

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 Issuer's businesses. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in the U.K., US or global economic conditions, or arising from systemic risks in the financial markets, could affect the recoverability and value of its assets and require an increase in the Issuer's provision for bad and doubtful debts and other provisions.

Market Risk

The most significant market risks the Issuer faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates, 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 methods to mitigate and control these and other market risks to which the Issuer is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

Over the past two years and as a result of, among other things, increases in the Bank of England Base Rate, there has been a pattern of rising mortgage interest rates, resulting 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 a 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.

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

Further deterioration in wholesale funding markets may have an adverse effect on Alliance & Leicester

Alliance & Leicester, as sponsor of the transaction, depends upon access to wholesale funding sources (including accessing the international debt capital markets) for around 50 per cent. of its funding requirements. Since the beginning of August 2007, these wholesale funding markets have experienced disruption. Such disruptions have resulted in an increase in the cost of Alliance & Leicester's funding. However, during this period, Alliance & Leicester has continued to manage its funding requirements successfully through a combination of raising new funds or rolling over existing funding as it matures. As at 31 December 2007, 56 per cent. of its loans and advances were funded by customer deposits.

In recognition of the current market conditions, Alliance & Leicester have put in place additional funding facilities, a significant proportion of which are backed by Alliance & Leicester residential mortgage assets. As a result, maturing medium term funding, commercial paper and certificates of deposits have been pre-funded into the first quarter of 2009. In 2008, Alliance & Leicester will target higher customer deposit balances to reduce the proportion of customer loans and advances funded from wholesale funding and focus lending on maintaining strong asset quality and maximising revenues.

If wholesale funding markets deteriorate further, it may have an adverse effect on Alliance & Leicester (acting in its capacities as Issuer, Seller, Servicer, Cash Manager, Interest Rate Swap Provider, Account Bank, and the Secretarial Services Provider). Additionally, Alliance & Leicester, as Seller of the mortgage loans to the LLP, is obliged under certain limited circumstances to repurchase mortgage loans from the LLP that are in breach of the warranties made by the Seller in the Mortgage Sale Agreement. If Alliance & Leicester is unable to repurchase mortgage loans or perform its ongoing obligations under the transaction, the performance of the Covered Bonds may be adversely affected. There can be no assurance that the wholesale funding markets will not deteriorate further.

Operational Risk

The Issuer's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of the Issuer's suppliers or counterparties. Although the Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks noted above. Notwithstanding the above, the Issuer believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

Liquidity Risk

The inability of a bank, including the Issuer, to anticipate and provide for unforeseen decreases or changes in funding sources could have adverse consequences on such bank's ability to meet its obligations when they fall due.

UK Banking (Special Provisions) Act 2008

Under the Banking (Special Provisions) Act 2008 (the **Act**), until 21 February 2009, the UK Treasury has wide powers to make certain orders in respect of a UK authorised deposit-taking institution (such as the Issuer, the Seller, the Servicer, the Account Bank and the Interest Rate Swap Provider) and, in certain circumstances, certain corporate related corporate undertakings (such as the LLP). The orders which may be made under the Act in respect of relevant deposit-taking institutions (and/or, in certain circumstances, certain related corporate undertakings) relate to (amongst other things) (i) transfers of securities issued by relevant entities (such as the Covered Bonds) (and/or securing that rights of holders of securities cease to be exercisable by such holders, discontinuing the listing of securities and/or varying or nullifying the terms of securities), (ii) transfers of property, rights and liabilities of relevant entities notwithstanding any restrictions, requirements or interest (and/or modifying related interests, rights or liabilities of third parties), (iii) the disapplication or modification of laws, (iv) the imposition of a moratorium on the commencement or continuation of any legal process in relation to any body or property and/or (v) the dissolution of any relevant entity. Significantly, orders may have retrospective effect (as from not earlier than three months before 21 February 2008) and may make provision for nullifying the effect of transactions or events taking place after the time in question.

While certain orders under the Act may be made by the UK Treasury only in certain circumstances for the purposes of maintaining the stability of the UK financial system and/or protecting the public interest where financial assistance has been provided by the Treasury to the deposit-taking institution, such purpose conditions may not apply in respect of all orders which may be made under the Act. The Act includes provisions related to compensation in respect of any transfer orders made.

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

Impact of Regulatory Changes

The Issuer is subject to financial services laws, regulations, administrative actions and policies in the U.K. and each other jurisdiction in which the Issuer operates. Changes in supervision and regulation, in particular in the U.K., could materially affect the Issuer's business, 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.

The resolution of a number of issues, including regulatory investigations and reviews, affecting the U.K. financial services industry, including the Alliance & Leicester Group, could have a negative impact on the Alliance & Leicester Group's results on operations or on its relations with some of its customers and potential customers.

Lack of Liquidity in the Secondary Market

The secondary mortgage markets are currently experiencing severe disruptions resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. As a result, the secondary market for mortgage-backed securities is experiencing extremely limited liquidity. These conditions may continue or worsen in the future.

Limited liquidity in the secondary market for mortgage-backed securities has had a severe adverse effect on the market value of mortgage backed securities. Limited liquidity in the secondary market may continue to have a severe adverse effect on the market value of mortgage backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the investment requirements of limited categories of investors. Consequently, investors may not be able to sell their Covered Bonds readily, The market values of the Covered Bonds are likely to fluctuate. Any of these fluctuations may be significant and could result in significant loss to the investor.

It is not known for how long these market conditions will continue or whether they will worsen.

RISK FACTORS RELATING TO THE LLP, INCLUDING THE ABILITY OF THE LLP TO FULFIL ITS OBLIGATIONS IN RELATION TO THE COVERED BOND GUARANTEE

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

Following service of a Notice to Pay (but prior to service of an LLP Acceleration Notice) the LLP will be obliged under the terms of the Covered Bond Guarantee 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. However, the LLP may (but is not obliged to) make payments in respect of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date.

Payments by the LLP under the Covered Bond Guarantee will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. Prior to service on the LLP of an LLP Acceleration Notice, the LLP will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or interest on interest which may accrue on or in respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 7.

Subject to the applicable grace period in the Terms and Conditions, if (after service of a Notice to Pay) 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), although in such circumstances the LLP will not be obliged to gross up in respect of any withholding or deduction 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 on an accelerated basis.

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

The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on: (i) the realisable value of Selected Loans and their Related Security in the Portfolio; (ii) the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof; (iii) amounts received from, and payable to, the Swap Providers and (iv) the receipt by it of credit balances and interest on credit balances on the GIC Account and, if applicable, the Stand-by GIC Account and the other LLP Accounts. The LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

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

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

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate 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 being a shortfall (although there is no assurance of this) (see *Summary of the Principal Documents – LLP Deed – Asset Coverage Test*). The Asset Coverage Test, the Amortisation Test and the Yield Shortfall Test have in the aggregate been structured to ensure that the Asset Pool is sufficient to pay amounts due on the Covered Bonds and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst

the Covered Bonds are outstanding. However no assurance can be given that the Asset Pool will yield sufficient amounts for such purpose.

Maintenance of Portfolio

Asset Coverage Test: The Asset Coverage Test is met if the Adjusted Aggregate Loan Amount is equal to or exceeds the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds from time to time. Pursuant to the terms of the LLP Deed, the Seller will agree to use all reasonable endeavours to transfer Loans and their Related Security to the LLP or make a Cash Capital Contribution in order to ensure that the Portfolio is in compliance with the Asset Coverage Test. In consideration of the transfer of Loans and their Related Security, the Seller will receive a combination of: (a) a cash payment made by the LLP; (b) being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the Current Balance of the Loans sold by the Seller to the LLP as at the relevant Assignment Date and the cash payment (if any) made by the LLP for such Loans); and/or (c) Deferred Consideration (including any Postponed Deferred Consideration).

Alternatively, Alliance & Leicester plc (in its capacity as Member of the LLP) may make a Cash Capital Contribution to the LLP pursuant to the LLP Deed in order to ensure that the LLP is in compliance with the Asset Coverage Test. If a breach of the Asset Coverage Test occurs which is not cured on the next Calculation Date this would constitute an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP. There is no specific recourse by the LLP to the Seller in respect of the failure to transfer Loans and their Related Security or Substitution Assets to the LLP nor is there any specific recourse to Alliance & Leicester plc if it does not make Cash Capital Contributions to the LLP.

Amortisation Test: Pursuant to the LLP Deed, the LLP and Alliance & Leicester plc (in its capacity as a Member of the LLP) must ensure, on each Calculation Date following service of a Notice to Pay but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, that the Amortisation Test Aggregate Loan Amount is in an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding under the Covered Bonds. The Amortisation Test is intended to ensure that the assets of the LLP do not fall below a certain threshold so that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee and senior expenses that rank in priority to or *pari passu* with amounts due on the Covered Bonds.

If the collateral value of the Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test and, if applicable, the Amortisation Test, then that may affect the realisable value of the Portfolio or any part thereof (both before and after the occurrence of an LLP Event of Default) and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

Prior to service of a Notice to Pay or an LLP Acceleration Notice, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year on the Calculation Date immediately prior to each anniversary of the Programme Date and more frequently in certain circumstances. Following service of a Notice to Pay (but prior to service of an LLP Acceleration Notice), 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 or the Amortisation Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

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

The realisable value of Selected Loans and their Related Security comprised in the Portfolio may be reduced (which may affect the ability of the LLP to make payments under the Covered Bond Guarantee) by:

- no representations or warranties being given by the LLP (unless otherwise agreed with the Seller);
- default by Borrowers in payment of amounts due on their Loans;
- the Loans of New Sellers being included in the Portfolio;
- changes to the lending criteria of the Seller or any New Seller;
- the LLP not having legal title to the Loans in the Portfolio;
- set-off risks in relation to some types of Loans in the Portfolio;
- limited recourse to the Seller or any New Seller;
- possible regulatory changes by the Office of Fair Trading (the **OFT**), the FSA and other regulatory authorities;

- regulations in the U.K. that could lead to some of the Loans or their Related Security being unenforceable, cancellable or subject to set-off, or some of their terms being unenforceable; and
- the impact of the Pensions Act 2004.

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

Default by Borrowers in paying amounts due on their Loans

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

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

Risks Relating to Buy-To-Let Properties in the Portfolio

Buy-to-let loans may be assigned to the LLP in the future. Buy-to-let loans are loans where the relevant mortgaged Properties are not owner-occupied and may be let by the relevant Borrower to tenants. The Borrower's ability to service payment obligations in respect of such Loan is likely to depend on the Borrower's ability to lease the relevant mortgaged Properties on appropriate terms. However, there can be no guarantee that each such mortgaged Property will be the subject of an existing tenancy when the relevant Loan is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Loan and/or that the rental income achievable from such tenancy will be sufficient (or that there will not be any default of payment in rent) to provide the Borrower with sufficient income to meet the Borrower's interest obligations in respect of the Loan. This dependency on leasing income may increase the likelihood during difficult market conditions that the rate of delinquencies and losses on buy-to let mortgages will be higher than for owner-occupied mortgages.

Upon enforcement of a Mortgage in respect of a mortgaged Property which is the subject of an existing tenancy, the relevant Administrator may not be able to obtain vacant possession of the mortgaged Property in which case the relevant Administrator will only be able to sell the mortgaged Property as an investment property with one or more sitting tenants. This may affect the amount which the relevant Administrator could realise upon enforcement of the Mortgage and a sale of the mortgaged Property.

However, enforcement procedures in relation to such Mortgages (excluding any Scottish Mortgage) include appointing a receiver of rent in which case such a receiver must collect any rents payable in respect of the mortgaged Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage. Under Scots law, a receiver cannot be appointed under a fixed charge (such as a Scottish Mortgage) and accordingly all enforcement procedures, including collection of rents, must be undertaken by the mortgagee (termed under Scots law the "heritable creditor") in its own name and thereafter (as in England and Wales) applied in payment of sums due under the relevant Scottish Mortgage.

The Loans of New Sellers may be included in the Portfolio

New Sellers may in the future accede to the Programme and sell Loans and their Related Security to the LLP. However, this would only be permitted if the conditions precedent relating to New Sellers acceding to the relevant Transaction Documents (more fully described under *Summary of the Principal Documents – Mortgage Sale Agreement – New Sellers* below) are met. Provided that those conditions are met, the consent of Covered Bondholders to the accession of any New Seller to the relevant Transaction Documents will not need to be obtained.

Any loans originated by a New Seller will have been originated in accordance with the lending criteria of the New Seller, which may differ from the Lending Criteria for Loans originated by the Seller. If the lending criteria differ in a

way that affects the creditworthiness of the Loans in the Portfolio, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

Changes to the Lending Criteria of the Seller

Each of the Loans originated by the Seller will have been originated in accordance with its Lending Criteria at the time of origination. It is expected that the Seller's Lending Criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicant and credit history. In the event of the sale and assignment of any Loans and their Related Security to the LLP, the Seller will warrant only that such Loans and Related Security were originated in accordance with its Lending Criteria applicable at the time of origination. The Seller retains the right to revise its Lending Criteria from time to time but would do so only to the extent that such a change would be acceptable to a Reasonable, Prudent Mortgage Lender. If the Lending Criteria change in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

The LLP does not have legal title to the Loans in the Portfolio on the relevant Assignment Date

The sale by the Seller to the LLP of English Loans and their Related Security and Northern Irish Loans and their Related Security will take effect by way of an equitable assignment. The sale by the Seller to the LLP of Scottish Loans and their Related Security will be given effect by way of Scottish Declarations of Trust under which the beneficial interest in the Scottish Loans and their Related Security will be transferred to the LLP. As a result, legal title to English Loans, Northern Irish Loans and Scottish Loans, together with, in each case, their Related Security will remain with the Seller. The LLP, however, will have the right to demand that the Seller give it legal title to the Loans and the Related Security in the circumstances described in *Summary of the Principal Documents – Mortgage Sale Agreement – Transfer of title to the Loans to the LLP* and until such right arises the LLP will not give notice of the sale of the Loans and their Related Security to any Borrower or apply to the Land Registry or the Central Land Charges Registry (in relation to the English Loans) or the Land Registry of Northern Ireland or the Registry of Deeds (in relation to the Northern Irish Loans) to register or record its equitable interest in the English Loans and the Northern Irish Loans and their Related Security or take any steps to perfect its title to the Scottish Loans and their Related Security.

Since the LLP has not obtained legal title to the Loans or their Related Security and has not perfected its interest in the Loans and their Related Security by registration at the Land Registry, the Land Registry of Northern Ireland, the Registry of Deeds or the Registers of Scotland (as applicable) or otherwise perfected its legal title to the Loans or their Related Security, the following risks exist:

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

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

Once notice has been given to the Borrowers of the sale and assignment of the Loans and their Related Security to the LLP, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims, including analogous rights in Scotland and Northern Ireland, arising out of a transaction connected with the Loan) will not be affected by that notice and will continue to exist. In relation to potential transaction set-off in respect of the Loans, see the following risk factor.

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, if reasonably required to do so by the LLP or the Security Trustee, participate or join in any legal proceedings to the extent necessary to protect, preserve and enforce the Seller's, the LLP's or the Security Trustee's title to or interest in any Loan or its Related Security, and take such other steps as may be reasonably required by the LLP or the Security Trustee in relation to any legal proceedings in respect of the Loans and their Related Security.

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

As described in the immediately preceding risk factor, the sale by the Seller to the LLP of English Loans and Northern Irish Loans will be given effect by an equitable assignment, with each sale of Scottish Loans being given effect by a Scottish Declaration of Trust. As a result, legal title to the English Loans, the Northern Irish Loans and the Scottish Loans and their Related Security sold by the Seller to the LLP will remain with the Seller. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the Seller, including rights of set-off existing prior to notification to the Borrowers of the sale and assignment of the Loans. Some of the Loans in the Portfolio may have increased risks of set-off, because the Seller is required to make payments under them to the Borrowers. For instance, set-off rights (including analogous rights in Scotland and Northern Ireland) may occur if, for example, the Seller fails to advance to a Borrower a Flexible Loan Drawing when the Borrower is entitled to draw additional amounts under a Flexible Loan.

New products offered by the Seller in the future may have similar characteristics involving payments due from the Seller to the Borrower.

If the Seller fails to advance a Flexible Loan Drawing in accordance with the relevant Loan then the relevant Borrower may set off any damages claim (or analogous rights in Scotland and Northern Ireland) arising from the Seller's breach of contract against the Seller's (and, as equitable assignee of or holder of the beneficial interest in the Loans and the Mortgages in the Portfolio, the LLP's) claim for payment of principal and/or interest under the relevant Loan as and when it becomes due. These set-off claims will constitute transaction set-off as described in the immediately preceding risk factor.

The amount of any such claim in respect of a Flexible Loan Drawing will, in many cases, be the cost to the Borrower of finding an alternative source of funds (although, in the case of a Flexible Loan Drawing in respect of a Scottish Loan, it is possible, though regarded as unlikely, that the Borrower's rights of set-off could extend to the full amount of the additional drawing). The Borrower may obtain a mortgage loan elsewhere, in which case the damages awarded could be equal to any difference in the borrowing costs together with any direct losses arising from the Seller's breach of contract, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other indirect 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 or which otherwise were reasonably foreseeable.

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

Further, there may be circumstances in which:

- a Borrower may seek to argue that amounts comprised in the current balance of Loans as a consequence of Flexible Loan Drawings or other Further Advances are unenforceable by virtue of non-compliance with the Consumer Credit Act 1974 (as amended, the CCA); or
- certain Flexible Loan Drawings or Further Advances may rank behind security created by a Borrower after the date upon which the Borrower entered into its Mortgage with the Seller.

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

Sale of Selected Loans and their Related Security following service on the LLP of a Notice to Pay

If a Notice to Pay is served on the LLP, the LLP will be obliged to sell Selected Loans and their Related Security (selected on a random basis) in order to remedy a breach of the Asset Coverage Test or to make payments to the LLP's creditors, including payments under the Covered Bond Guarantee, as appropriate (see *Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security following service of a Notice to Pay*).

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

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

Following service of a Notice to Pay (but prior to the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption in favour of the Seller pursuant to the terms of the LLP Deed (see *Summary of the Principal Documents – LLP Deed – Method of Sale of Selected Loans and their Related Security*). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give representations and warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee). There is no assurance that the Seller would give any representations and warranties or indemnities in respect of the Selected Loans and their Related Security. Any Representations and Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties or indemnities which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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. The Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other monies from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the corresponding Covered Bonds, Receipts and Coupons to which the Excess Proceeds relate (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the Bond Trustee or the LLP). However, the obligations of the LLP under the Covered Bond Guarantee are (subject only to service of a Notice to Pay or 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 the Covered Bonds, each of the Covered Bondholders will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

Limited recourse to the Seller

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

If any Loan sold by the Seller does not materially comply with any of the Representations and Warranties made by the Seller as at the Assignment Date of that Loan, then the Seller will be required to remedy the breach within 20 London Business Days (or such longer period as the Security Trustee may direct) of receipt by it of a notice from the LLP requiring the Seller to remedy the breach.

If the Seller fails to remedy the breach of a Representation and Warranty within such 20 London Business Day period (or any longer period permitted), then the Seller will be required to repurchase on or before the next following Calculation Date (or such other date that may be agreed between the LLP and the Seller) the relevant Loan and its Related Security and any other Loan secured or intended to be secured by that Related Security or any part of it at their Current Balance and all Arrears of Interest, Accrued Interest and amounts deducted from amounts outstanding under such Loan or Loans in accordance with the terms of the Mortgage Sale Agreement as of the date of repurchase.

There can be no assurance that the Seller will have the financial resources to repurchase a Loan or Loans and its or their Related Security. However, if the Seller does not repurchase those Loans and their Related Security which are in breach

of the Representations and Warranties, then the Current Balance of those 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.

Reliance of the LLP on third parties

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

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

The Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. The Servicer will not be required to seek the consent or approval of the Covered Bondholders before taking any action under the Servicing Agreement.

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

Reliance on Swap Providers

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

If the LLP fails to make timely payments of amounts due under any Swap Agreement, then it will have defaulted under that Swap Agreement. A Swap Provider is only obliged to make payments to the LLP as long as the LLP complies with its payment obligations under the relevant Swap Agreement. If the Swap Provider is not obliged to make payments or if it defaults on its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on the due date for payment under the relevant Swap Agreement, the LLP will be exposed to changes in the relevant currency exchange rates to Sterling and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the outstanding Term Advances and, following service of a Notice to Pay on the LLP, under the 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 enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by the Rating Agencies.

If the LLP is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank ahead of amounts due on the Covered Bonds (in respect of the Interest Rate Swaps) and *pari passu* with amounts due on the Covered Bonds (in respect of the Covered Bond Swaps), except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate. The obligation on the LLP to make 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 each of the Covered Bond Swaps, the LLP will, on each LLP Payment Date, pay or provide for payment of an amount to each corresponding Covered Bond Swap Provider based on LIBOR for Sterling deposits for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap until amounts are due and payable by the LLP under the Intercompany Loan Agreement or Due for Payment under the Covered Bond Guarantee. If a Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap Agreement or such Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP under the Covered Bond Swap Agreement, the LLP may have a larger shortfall in funds with which to make payments under the Intercompany Loan Agreement or 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 Providers under the Covered Bond Swaps may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

Change of counterparties

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

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

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

Limited Liability Partnerships

The LLP is a limited liability partnership. Limited liability partnerships, created by statute pursuant to the Limited Liability Partnership Act 2000 (the **LLPA**), are bodies corporate and have unlimited capacity. A general description of limited liability partnerships is set out below under *Description of Limited Liability Partnerships* below. This area of the law in the U.K. 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 or relating to limited liability partnerships could adversely affect the ability of the LLP to perform its obligations under the Transaction Documents which could, in turn, adversely affect the interests of the Covered Bondholders.

RISK FACTORS RELATING TO THE COVERED BONDS

Extendable obligations under the Covered Bond Guarantee

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (in each case subject to the applicable grace period) and if, following service of a Notice to Pay on the LLP (by no later than the date which falls one Business Day prior to the Extension Determination Date), payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds is not made in full by the Extension Determination Date, then the payment of such Guaranteed Amounts may be automatically deferred. This will occur (subject to no LLP Acceleration Notice having been served) if the Final Terms Document for a relevant Series of Covered Bonds (the **relevant Series of Covered Bonds**) provides that such Covered Bonds are subject to an Extended Due for Payment Date.

To the extent that the LLP has received a Notice to Pay by the time specified above and has sufficient monies available under the Guarantee Priority of Payments to pay in part the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds, the LLP shall make partial payment of the Final Redemption

Amount in accordance with the Guarantee Priority of Payments as described in Condition 6.1. Payment of the unpaid portion of the Final Redemption Amount shall be deferred automatically until the applicable Extended Due for Payment Date. The Extended Due for Payment Date will fall one year after the Final Maturity Date. The LLP shall be entitled to make payments in respect of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date. Interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount in accordance with Condition 4 and the LLP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date. In these circumstances, except where the LLP has failed to apply any amount in accordance with the Guarantee Priority of Payments, failure by the LLP to make payment in respect of the Final Redemption Amount on the Final Maturity Date (subject to the 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 or to pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date (in each case subject to the applicable grace period) shall constitute an LLP Event of Default.

Limited description of the Portfolio

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

- the Seller selling New Loans and their Related Security (or New Loan Types and their Related Security) to the LLP;
- the Seller repurchasing Loans and their Related Security from the LLP in accordance with the Mortgage Sale Agreement and the LLP Deed; and
- New Sellers acceding to the Transaction Documents and selling and/or repurchasing New Seller Loans and their Related Security (or New Loan Types and their Related Security) to or from the LLP.

There is no assurance that the characteristics of the New Loans or New Seller Loans assigned to the LLP on any Assignment Date will be the same as those Loans in the Portfolio as at that Assignment Date. However, each Loan will be required to meet the Eligibility Criteria and the Representations and Warranties set out in the Mortgage Sale Agreement – see *Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security* (although the Eligibility Criteria and Representations and Warranties may change in certain circumstances – see *The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent* below). In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding (although there is no assurance that it will do so) and the Cash Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

Ratings of the Covered Bonds

The ratings assigned to the Covered Bonds address:

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

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

Rating Agency Confirmation in respect of Covered Bonds

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

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

Any such Rating Agency Confirmation may or may not be 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.

Covered Bonds issued under the Programme

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the security granted by the LLP under the Deed of Charge.

Following the occurrence of an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice, the Covered Bonds of all outstanding Series will accelerate 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).

Following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice, the Covered Bonds of all Series outstanding will accelerate against the Issuer (if not already accelerated following service of an Issuer Acceleration Notice) and the obligations of the LLP under the Covered Bond Guarantee will accelerate.

Further Issues

In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect existing Covered Bondholders:

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds (or the Sterling Equivalent thereof) to invest in Substitution Assets in an amount not exceeding 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 may be applied by the LLP:
 - (a) to acquire Loans and their Related Security from the Seller;
 - (b) to acquire Substitution Assets up to the Prescribed Limit;
 - (c) (subject to compliance with the Asset Coverage Test) to make a Capital Distribution to a Member;
 - (d) 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 Advances corresponding to the Covered Bonds being refinanced; and/or
 - (e) to make a deposit in the GIC Account;
- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Rating Agencies that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

Obligations under the Covered Bonds

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

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, save in relation to a proposed modification to, or waiver or authorisation of any breach or proposed breach of, any provisions of the Covered Bonds of any Series or any of the Transaction Documents where it shall only have regard to the interests of the Covered Bondholders and, except for a Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Alliance & Leicester Group, the Covered Bond Swap Providers and the Interest Rate Swap Provider.

Where the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for a Covered Bond Swap Provider or the Interest Rate Swap Provider (as the case may be) who is a member of the Alliance & Leicester Group it shall give written notice to such Covered Bond Swap Provider or the Interest Rate Swap Provider, setting out the relevant details and requesting its consent thereto. Any such Covered Bond Swap Provider or the Interest Rate Swap Provider shall, within ten London Business Days of receipt of such notice (the **Relevant Period**), notify in writing the Security Trustee of (a) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or authorisation; or (b) subject to paragraph (a), its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonable in the circumstances). Any failure by the relevant Covered Bond Swap Provider or the Interest Rate Swap Provider to notify the Security Trustee as aforesaid within the Relevant Period shall be deemed to be a consent by the relevant Covered Bond Swap Provider or the Interest Rate Swap Provider to such proposed modification, waiver or authorisation, provided that the Security Trustee shall only agree to such modification, waiver or authorisation if it is satisfied that the exercise of its powers, trusts, authorities and discretions in respect of such modification, waiver or authorisation will not be materially prejudicial to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions, the Security Trustee may not act on behalf of the Seller.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Security Trustee is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series would be materially prejudiced thereby, the Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 25 per cent. of the Sterling Equivalent of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

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

Subject as described below, 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 modification to, or waive or authorise any breach or proposed breach in respect of, the Transaction Documents and the Terms and Conditions of the Covered Bonds:

- provided that: (a) the Bond Trustee is of the opinion that such modification, waiver or authorisation will not be materially prejudicial to the interests of any of the Covered Bondholders of any Series; and (b) the Security Trustee is of the opinion that such modification, waiver or authorisation is not materially prejudicial to the interests of any of the Covered Bondholders of any Series or the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for a relevant Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Alliance & Leicester Group (where, if the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, the provisions referred to above under *Security Trustee's powers may affect the interests of the Covered Bondholders* shall apply); or
- which is in the opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law, provided that, in respect of any proposed modification, waiver or authorisation on or after the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, prior to the Bond Trustee agreeing to any such modification, waiver or authorisation, the Issuer must send written confirmation to the Bond Trustee:

- (i) that such modification, waiver or authorisation, as applicable, would not result in a breach of the RCB Regulations or result in the Issuer, the Programme and/or any Covered Bonds issued under the Programme ceasing to be registered under the RCB Regulations; and
- (ii) that either: (a) such modification, waiver or authorisation would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or (b) 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.

Notwithstanding the above, the Issuer, the LLP and the Principal Paying Agent may, without the consent or sanction of the Bond Trustee, the Security Trustee, the Covered Bondholders, Receiptholders or Couponholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modification to the provisions of any Final Terms Document which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.

Notwithstanding the above, pursuant to the terms of the Trust Deed and the Deed of Charge, the Bond Trustee and the Security Trustee will agree to consent to any modifications to the Transaction Documents and the Terms and Conditions of the Covered Bonds, without the consent or sanction of any of the Covered Bondholders in respect of Covered Bonds issued under the Programme on or after the date hereof or any of the other Secured Creditors which are required to be made to enable Covered Bonds issued under the Programme on or after the date hereof to qualify as Regulated Covered Bonds under the RCB Regulations or such other replacement or amended regulations which may be enacted to implement a recognition regime for covered bonds issued in the United Kingdom, 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 certifying to each of the Bond Trustee and the Security Trustee 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 new legislation.

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.

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

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

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

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

Absence of secondary market

No assurance is provided that there is an active and liquid secondary market for the Covered Bonds, and no assurance is provided that a secondary market for the Covered Bonds will develop. None of the Covered Bonds or the Covered Bond Guarantee has been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under *Subscription and Sale and Transfer and Selling Restrictions*. To the extent that a secondary market exists or develops, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield.

Covered Bonds not in physical form

Unless the Bearer Global Covered Bonds or the Registered Global Covered Bonds are exchanged for Bearer Definitive Covered Bonds or Registered Definitive Covered Bonds, respectively, which exchange will only occur in the limited

circumstances set out under *Form of the Covered Bonds – Bearer Covered Bonds* and *Form of the Covered Bonds – Registered Covered Bonds* below, the beneficial ownership of the Covered Bonds will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg and/or DTC. The fact that the Covered Bonds are not represented in physical form could, among other things:

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg or DTC instead of directly to Covered Bondholders;
- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and
- hinder the ability of Covered Bondholders to resell the Covered Bonds because some investors may be unwilling to buy Covered Bonds that are not in physical form.

General legal investment considerations

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

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

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

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

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

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

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

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

Covered Bonds subject to Optional Redemption by the Issuer

An optional redemption feature of Covered Bonds is likely to limit the market value of such Covered Bonds. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will

not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

Fixed Rate Covered Bonds

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

Index Linked Interest Covered Bonds and Dual Currency Interest Covered Bonds

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

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

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

Partly-paid Covered Bonds

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

Variable Interest Covered Bonds with a multiplier or other leverage factor

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

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

Fixed/Floating Rate Covered Bonds

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

Covered Bonds issued at a substantial discount or premium

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

GENERAL RISK FACTORS

Fixed charges may take effect under English law or Northern Irish 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 English Loans and Northern Irish 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 and in Northern Ireland relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the LLP (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the Charged Property. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets. In particular, the expenses of any winding-up or administration and the claims of any preferential creditors, would rank ahead of the claims of the Security Trustee in this regard. The Enterprise Act 2002 (and in Northern Ireland, the Insolvency (Northern Ireland) Order 2005) abolished the preferential status of certain Crown debts (including the claims of the U.K. tax authorities). However, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the LLP has agreed in the Transaction Documents not to have any employees.

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

Liquidation Expenses

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Re Leyland Daf* [2004] UKHL 9. Accordingly, it is now the case that the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency Rules 1986.

It is not clear whether the provisions referred to above currently apply in respect of limited liability partnerships in general and/or to owners under the RCB Regulations. If such provisions do apply, or were subsequently to be applied to, the LLP and the RCB Regulations did not apply to the LLP, then as a result of the changes described above, upon the enforcement of the floating charge security granted by the LLP, floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be reduced by at least a significant proportion of any liquidation expenses. There can be no assurance that the Covered bondholders will not be adversely affected by such a reduction in floating charge realisations.

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

In the U.K., regulation of residential mortgage business by the FSA under the Financial Services and Markets Act 2000 (the **FSMA**) came into force on 31 October 2004, the date known as **N(M)**. Entering into, arranging or advising in respect of, and administering Regulated Mortgage Contracts, and agreeing to do any of these things, are (subject to applicable exemptions, as to which, see below) regulated activities under the FSMA.

A credit agreement is a **Regulated Mortgage Contract** under the FSMA if, at the time it is entered into on or after N(M): (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage or, in Scotland, a first ranking standard security on land (other than timeshare accommodation) in the U.K.; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a "related person" (broadly, the person's spouse, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse).

The main effects are that, on or after N(M), unless an exclusion or exemption applies: (a) each entity carrying on a regulated mortgage activity by way of business has to hold authorisation and permission from the FSA to carry on that activity; and (b) each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation from the FSA. It should be noted that the definition of a "qualifying credit" is broader than that of "regulated mortgage contract" and may include mortgage loans that are regulated by the CCA or treated as such or unregulated. If requirements as to authorisation and permission of lenders and brokers or as to the issue and approval of financial promotions are not complied with, a Regulated Mortgage Contract will be unenforceable against the borrower except with the approval of the court. An unauthorised person who administers a Regulated Mortgage Contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

Any credit agreement intended to be a Regulated Mortgage Contract under the FSMA might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such or unregulated might instead be a Regulated Mortgage Contract under the FSMA, because of technical rules on: (a) determining whether the credit agreement or any part of it falls within the definition of Regulated Mortgage Contract; and (b) changes to credit agreements.

The Seller is required to hold, and holds, authorisation and permission to enter into and to administer and, where applicable, to advise in respect of Regulated Mortgage Contracts. Brokers will, in certain circumstances, be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts.

The LLP is not and does not propose to be an authorised person under the FSMA with respect to Regulated Mortgage Contracts and related activities. The LLP does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The LLP does not carry on the regulated activity of administering in relation to Regulated Mortgage Contracts by having them administered pursuant to an administration agreement by an entity having the required FSA authorisation and permission. If such administration agreement terminates, however, the LLP will have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement servicer having the required FSA authorisation and permission. In addition, on and after N(M) no variation has been or will be made to the Loans and no Flexible Loan Drawing, Further Advance or Product Switch has been or will be made in relation to a Loan, where it would result in the LLP arranging or advising in respect of, administering or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the LLP would be required to be authorised under the FSMA to do so.

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

A borrower who is a private individual is entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such set-off in respect of the Loans may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

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

As some of the Loans to be included in the Portfolio were offered on or after N(M), the FSMA regime as set out above would apply to such Loans (except all or most buy-to-let loans). Also, although other Loans to be included in the Portfolio were offered prior to N(M), as subsequent Further Advances and Product Switches relating to such Loans were documented as variations to the existing agreements, it is possible that a court could hold that such variations create a Regulated Mortgage Contract. Thus the Seller has given, or as applicable, will give warranties to the LLP in the

Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default is not cured, then the Seller will, upon receipt of notice from the LLP, be required to repurchase the Loan and its Related Security and any other Loan secured or intended to be secured by that Related Security or any part of it.

In the U.K., the Office of Fair Trading (the **OFT**) is responsible for the issue of licences under, and the superintendence of the working and enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take action when necessary with regard to the mortgage market in the U.K.. If the OFT feels that a licence-holder is no longer fit to hold its licence, the OFT may commence formal proceedings for the revocation of the licence. In the event that a consumer credit licence is revoked, the former licence-holder will no longer be able to carry on activities licensable under the CCA.

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

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

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

The Seller will provide no representation and warranty under the Mortgage Sale Agreement as to the enforceability in relation to any Loan which relates to any Flexible Loan Drawing and any other Further Advance made pursuant to an agreement regulated by the CCA which is not enforceable by virtue of the CCA. However, the Asset Coverage Test will be calculated to take into account an amount referable to the aggregate current balance of all Flexible Loan Drawings, and all Further Advances under the Loans, that are regulated by the CCA, to mitigate the risks relating to such Flexible Loan Drawings and other Further Advances being unenforceable by virtue of the CCA against the Borrower without an OFT or court order or being totally unenforceable under the CCA.

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

Under Section 75 of the CCA in certain circumstances: (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier; and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such set-off in respect of the Loans may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

In December 2003, the U.K. Department for Business, Enterprise and Regulatory Reform (the **DBERR**), formerly known as the Department of Trade and Industry, published a White Paper proposing amendments to the CCA and to secondary legislation made under it. The Consumer Credit Act 2006 (the **CCA 2006**) was enacted on 30 March 2006. As and when implemented, the CCA 2006 updates and augments the CCA.

The "extortionate credit" regime has been replaced by an "unfair relationship" test. The new test initially applied to credit agreements made on or after 6 April 2007, but now applies retrospectively to existing credit agreements made before that date. The new test explicitly imposes liability to repay the borrower on both the originator and any assignee, such as the LLP. In applying the new unfair relationship test, the courts will be able to consider a wider range of

circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair", as the intention is for the test to be flexible and subject to judicial discretion. However the word "unfair" is not an unfamiliar term in U.K. legislation due to the Unfair Contract Terms Act 1977, the Unfair Terms in Consumer Contracts Regulations 1994 and the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA principles for businesses may also be relevant, and apply to the way contract terms are used in practice and not just the way they are drafted. Once the debtor alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary.

An alternative dispute resolution scheme for consumer credit matters is run by the Ombudsman (as described below). From 6 April 2007, the scheme is mandatory for all businesses licensed under the CCA. The CCA 2006 also introduces an independent Consumer Credit Appeals Tribunal.

The financial limit for CCA regulation is removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements, and except for buy-to-let loans made before 1 October 2008 and satisfying prescribed conditions. The prescribed conditions currently include that less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. By July 2008, the DBERR aims to make an order by which buy-to-let loans will be exempt agreements under the CCA where the credit agreement is made on or after 1 October 2008, satisfies prescribed conditions, and includes a prescribed declaration. A court order under Section 126 of the CCA will, however, be necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a buy-to-let loan to the extent that the loan would, apart from this exemption, be regulated by the CCA or be treated as such.

The OFT is given far broader powers under the CCA 2006 from 6 April 2008. For instance, it is able to apply civil penalties, has far greater powers of investigation and is able to issue indefinite standard licences. The CCA 2006 obliges creditors to comply with more stringent information requirements. Regulations have been made so that, from 1 October 2008, lenders will be obliged to give customers clearer and more regular information on their credit accounts.

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

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

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

No assurance can be given that additional regulatory changes by the OFT, the FSA or any other regulatory authority will not arise with regard to the mortgage market in the U.K. generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments or compliance costs may have a material adverse effect on the Issuer, the LLP, the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Covered Bonds when due and/or the LLP's ability to make payment in full under the Covered Bond Guarantee when due.

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

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on consumer credit. In its original form, the proposal applied to certain mortgage products. This proposal, and an amended proposal published in October 2004, were met with significant opposition. In October 2005, the European Commission published a further amended form of the proposed directive, which provides that (subject to certain exceptions) loans not exceeding Euro 50,000 will be regulated, but that loans secured by a land mortgage will be

excluded from the proposed directive. The proposed directive completed its second reading in the European Parliament in January 2008, with the financial limit amended to Euro 75,000. The proposed directive was adopted on 7 April 2008, Member States will have a further two years in which to bring national implementing legislation into force. The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010 and its view is that it is too early to decide on whether a mortgage directive would be appropriate.

Until the final text of the directive and of any initiatives resulting from the any White Paper process are decided and the details of the U.K. legislation implementing the second directive on consumer credits and any other initiatives are published, it is not certain what effect the adoption and implementation of the directive or initiatives would have on the Issuer, the LLP, the Servicer, the Security Trustee and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Covered Bonds when due and/or on the ability of the LLP to make payments in full on the Covered Bond Guarantee when due.

Distance Marketing

The Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the lender and the borrower). A Regulated Mortgage Contract under the FSMA, if originated by a U.K. lender from an establishment in the U.K., will not be cancellable under these regulations. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive prescribed information at the prescribed time. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the fourteenth day after the day on which the cancellable agreement is made, where all the prescribed information has been received, or, if later, the borrower receives the last of the prescribed information.

If the borrower cancels the credit agreement under these regulations then:

- the borrower is liable to repay the principal, and any other sums paid by the lender to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the lender receiving notice of cancellation;
- the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- any security provided in relation to the contract is to be treated as never having had effect.

Non-Status Lending Guidelines 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 loans in the initial portfolio has been made to non-status borrowers but, in any event, the Seller currently complies with these guidelines.

The actions of the lender and of any broker or other intermediary involved in marketing the lender's products can jeopardise the 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.

Charges payable on any early repayment (in whole or in part) are also restricted under these 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 then current formula prescribed by the CCA (which continues to apply until 31 May 2007 or 31 May 2010 for certain credit agreements) is unfair and oppressive, and that lenders must discontinue its use at the earliest opportunity.

No assurance can be given that additional regulations from the OFT, the FSA or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or

specifically in relation to the Seller. Any such action or developments or compliance costs may have a material adverse effect on the Loans, the Seller, the LLP and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Covered Bonds when due.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

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

- a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer; and
- the OFT and any "qualifying body" within the 1999 Regulations (such as the FSA) may seek to enjoin (or in Scotland interdict) a business from relying on unfair terms.

The UTCCR will not generally affect "core terms" which define the main subject matter of the contract, such as the borrower's obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to be core terms, such as the lender's power to vary the interest rate.

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

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

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

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers, a firm may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit card default charges, the OFT on 5 April 2006 publicly announced that the principles the OFT considers should be applied in assessing the fairness of credit card default charges shall apply (or are likely to apply) also to analogous default charges in other agreements, including those for mortgages. In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the costs of the administration services that the lender provides when a borrower exits the mortgage. In August 2007, the FSA's Unfair Contract Terms Regulatory Guide came into force. This guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the U.K.'s Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair terms, was published in February 2005. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that: (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer; and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, would affect the Loans.

No assurance can be given that changes in the 1999 Regulations, if enacted, or changes to guidance on interest variation terms, if adopted, will not have a material adverse effect on Issuer, the LLP, the Servicer, the Security Trustee and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio, or any part thereof, in a timely manner or the realisable value of the Portfolio, or any part thereof, and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

Unfair Commercial Practices Directive 2005

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

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

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

No assurance can be given that the U.K. implementation of the directive, including full harmonisation in the fields to which it applies, will not have a material adverse effect on the Loans or on the manner in which they are serviced.

Financial Ombudsman Service

Under the FSMA, the Ombudsman is required to make decisions on, among other things, 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, among other things, law and guidance. Transitional provisions exist by which certain complaints relating to breach of the CML Code occurring before N(M) may be dealt with by the Ombudsman. 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.

As the Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to the borrower, it is not possible to predict how any future decision of the Ombudsman would affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State of the European Union is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-European Union countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

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

European Monetary Union

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

It is possible that the U.K. may become a participating Member State in the European Monetary Union and that the euro may become the lawful currency of the U.K.. In that event, (a) all amounts payable in respect of any Covered Bonds denominated in Sterling may become payable in euro; (b) applicable provisions of law may allow or require such 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 U.K. may result in the disappearance of published or displayed rates for deposits in Sterling used to determine the rates of interest on such Covered Bonds or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the U.K. would have on investors in the Covered Bonds.

Changes of law

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law and, in relation to the Scottish Loans and the Northern Irish Loans, Scots law and Northern Irish law, respectively, in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, Scots law or Northern Irish law or administrative practice in the U.K. after the date of this Prospectus.

U.K. regulated covered bond regime

The Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and any Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme will be so registered or 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. While the Issuer considers that its application for admission should be accepted by the FSA, the FSA holds significant discretion in this regard and certain aspects of the new regime are unclear. As such, there is a risk that the FSA may reject the Issuer's application.

Moreover, while the new legislative framework for U.K. covered bonds contemplated by the RCB Regulations is intended to meet the requirements set out in the UCITS Directive, it has not yet been officially confirmed that the RCB Regulations meet such requirements. Accordingly, there is no guarantee that admission of the Programme to the register of regulated covered bonds maintained by the FSA will confer on Covered Bondholders any of the benefits associated with UCITS Directive-compliant covered bonds.

While the new legislative framework contemplated by the RCB Regulations has been shaped to accommodate certain aspects of existing U.K. covered bond structures, changes are required to such structures to meet the requirements of the RCB Regulations. Covered Bondholders should be aware that significant amendments have been made to certain provisions of the Programme (including certain provisions of the Transaction Documents) as a result of the RCB Regulations. In particular, following the realisation of the Security and/or the commencement of winding-up proceedings in respect of the LLP, from the date of the application of the RCB Regulations to the LLP, all funds available to the LLP will be paid and applied in accordance with the Post-Enforcement Priority of Payments (subject to "*Expenses of the insolvency officeholders*" below). 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 such that certain asset capability and quality related requirements are met.

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

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

Expenses of insolvency officeholders

Under the RCB Regulations (assuming such Regulations apply to the LLP), following the realisation of any asset pool security and/or winding-up of the LLP, certain costs and expenses are payable out of the fixed and floating charge assets

of the LLP in priority to the claims of other Secured Creditors (including the Covered Bondholders). Such costs and expenses are also payable out of the floating charge assets of such owner (but it would appear not out of the fixed charge assets) in priority to the claims of the other secured creditors in an administration of the owner. It appears that these costs and expenses would include costs incurred by the officeholder (including an administrative receiver, liquidator or administrator) in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English law which provides that in general the expenses of any administration or winding-up rank ahead of unsecured debts and the claims of any floating charge-holder but not ahead of the claims of any fixed charge-holder.

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

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

Insolvency Act 2000

Significant changes to the United Kingdom insolvency regime have been enacted since 2000, including the Insolvency Act 2000, the relevant provisions of which came into force on 1 January 2003. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting in place a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. The moratorium provisions of the Insolvency Act 2000 do not expressly state that they apply to limited liability partnerships (such as the LLP). Prior to 1 October 2005, there was some doubt as to whether the moratorium provisions of the Insolvency Act 2000 applied to limited liability partnerships such as the LLP. However, on 1 October 2005, the Limited Liability Partnership (Amendment) Regulations 2005 made it clear that the moratorium provisions apply to limited liability partnerships subject to certain modifications.

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

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions are excluded from the optional moratorium provisions. Such exceptions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment" (also defined but generally a rated, listed or traded bond) and (b) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign currency) of at least £10 million. While the LLP is expected to fall within one of the exceptions there is no guidance as to how the legislation will be interpreted and the Secretary of State for Business, Enterprise and Regulatory Reform may by regulation modify the exceptions. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of the Covered Bondholders. Correspondingly, if the LLP is determined to be a "small" company and determined not to fall within one of the exceptions, then certain actions in respect of the LLP may, for a period, be prohibited by the imposition of a moratorium.

English law security and insolvency considerations

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

proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including English insolvency law) and, if appropriate, Scottish and Northern Irish insolvency law).

In addition, it should be noted that, to the extent that the assets of the LLP are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986 and article 150A of the Insolvency (Northern Ireland) Order 1989 (as amended by the Insolvency (Northern Ireland) Order 2005), certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the LLP in the Transaction Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the LLP has any other such creditors at any time. There can be no assurance that the Covered Bondholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

Pursuant to the modifications made by the RCB Regulations to amongst other things the Insolvency Act 1986 and article 150A of the Insolvency (Northern Ireland) Order 1989, upon registration of the Issuer in the register of issuer under RCB Regulations, the provisions set out above in respect of 176A and article 150A of the Insolvency (Northern Ireland) Order 1989 (as amended by the Insolvency (Northern Ireland) Order 2005) will not apply with respect to the LLP and its floating charge assets. However, the provisions set out above will apply to the LLP prior to such time that the RCB Regulations apply in respect of the LLP

Insolvency Legislation in Northern Ireland

The Insolvency Act 2000 and the corporate insolvency provisions of the Enterprise Act 2002 do not apply in Northern Ireland. The current law is contained in the Insolvency (Northern Ireland) Order 1989 (the **1989 Order**) as amended by the Insolvency (Northern Ireland) Order 2002. The 1989 Order is further amended by the provisions of the Insolvency (Northern Ireland) Order 2005 (the **2005 Order**) which came into force on 27 March 2006. The 2005 Order implemented in Northern Ireland corporate insolvency provisions which are identical to those introduced by the provisions of the Enterprise Act 2002 in England, Wales and Scotland. The changes introduced in England, Wales and Scotland by the Insolvency Act 2000 in relation to small companies are mirrored in the Insolvency (Northern Ireland) Order 2002.

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

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the proposed framework was published in June 2006 under the title "*International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)*" (the **Framework**). The Framework is being implemented in stages: the Basel II standard approach and the Foundation IRB approach for credit risk was implemented from 1 January 2007 and the most advanced Basel II IRB approach and the advanced measurement approach (**AMA**) for operational risks was required to be implemented from 1 January 2008. However, the Framework is not self-implementing and, accordingly, implementation dates in participating countries are dependent on the relevant national implementation process in those countries. In the U.K., Basel II and the EU Capital Requirements Directive have been implemented through the Prudential Sourcebook for Banks, Building Societies and Investment Firms (**BIPRU**) and the EU Capital Requirements Regulations 2006 SI 2006/3221, although the most advanced approaches referred to above have only become available from 1 January 2008. As and when implemented, the Framework could affect risk-weighting of the Covered Bonds for investors who are subject to capital adequacy requirements that follow the Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the application of the Framework and any relevant implementing measures (including in the EEA, the EU Capital Requirements Directive). Proposals and guidelines for implementing the Framework in certain participating jurisdictions are still in development and no predictions can be made as to the precise effects of potential changes on the Covered Bonds, the Alliance & Leicester Group, any investor or otherwise.

Covered Bonds where denominations involve integral multiples: definitive Covered Bonds

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

definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination.

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

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 Alliance & Leicester Group, it may be treated as 'connected to' an employer under an occupational pension scheme which is within the Alliance & Leicester 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 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.

Exchange rate risks and exchange controls

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

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

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without receipts, interest coupons and/or talons attached, or registered form, without receipts, interest coupons and/or talons attached. Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S and Registered Covered Bonds may be issued both outside the United States in reliance on Regulation S and within the United States in reliance on Rule 144A or Section 4(2) under the Securities Act.

Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond without receipts and interest coupons attached (a **Temporary Global Covered Bond**) which will:

- (i) if the Bearer Global Covered Bonds (as defined below) are issued in new global covered bond (**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 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 issued in NGCB form, 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.

If the Bearer Global Covered Bonds are stated in the applicable Final Terms to be issued in NGN form, they may be intended to be eligible collateral for Eurosystem monetary policy, as specified in the applicable final terms. Delivering the Bearer Global Covered Bonds to the Common Safekeeper does not necessarily mean that the Bearer Global 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. Whilst any Bearer Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bearer Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not issued in NGCB form) only to the extent that certification (in a form to be provided by Euroclear and/or Clearstream, Luxembourg) to the effect that the beneficial owners of interests in such Bearer Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (a) 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 (b) 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 Document and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms Document), in each case against certification of non-U.S. beneficial ownership as described above unless such certification has already been given. Purchasers in the United States and certain U.S. persons will not be able to receive Bearer Definitive Covered Bonds or interests in the Permanent Global Covered Bond. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer Definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Covered Bond (if the Permanent Global Covered Bond is not issued in NGCB form) without any requirement for certification.

The applicable Final Terms Document 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 (a) provided the Covered Bonds have a 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 (b) upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an

intention permanently to cease business or have in fact done so and no successor clearing system is available or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer 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 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Bearer Global Covered Bonds, Bearer Definitive Covered Bonds and any Coupons, Talons or Receipts attached thereto will be issued pursuant to the Agency Agreement.

If the Bearer Global Covered Bond is a NGN, the Issuer shall procure that details of each payment of principal, interest (if any) or other amounts shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Covered Bonds recorded in the records of the relevant clearing system and represented by the Bearer Global Covered Bond will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. The following legend will appear on all Bearer Covered Bonds that 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 or other disposition 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 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 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 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 (see, *Subscription and Sale and Transfer and Selling Restrictions*).

The Registered Covered Bonds of each Tranche offered and sold in the United States or to U.S. persons will only be offered and sold in private transactions to 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 covered bond in registered form (a **Rule 144A Global Covered Bond** and, together with a Regulation S Global Covered Bond, the **Registered Global Covered Bonds**).

Registered Global Covered Bonds will either (i) be deposited with a custodian for DTC, and registered in the name of DTC or its nominee or (ii) be deposited with the Common Depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms Document. In the case of a Regulation S Global Covered Bond registered in the name of a nominee of DTC, prior to the end of the distribution compliance period (as defined in Regulation S) applicable to the Covered Bonds represented by such Regulation S Global Covered Bond, interests in such Regulation S Global Covered Bond may only be held through the accounts of Euroclear and Clearstream, Luxembourg. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

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 5.4) 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 5.4) 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 (a) in the case of a Registered Global Covered Bond registered in the name of DTC or its nominee, 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, (b) in the case of a Registered Global Covered Bond registered in the name of the Common Depository or its nominee, 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, whether 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 (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Registered Global Covered Bond (and any interests therein) exchanged for Registered Definitive Covered Bonds. The Issuer will promptly give notice to Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 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) or the Bond Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (c) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

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

Transfer of Interests

Interests in a Rule 144A Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interests in a Regulation S Global Covered Bond representing the same Series and Tranche of Covered Bonds and vice versa. 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 number assigned to Covered Bonds of any other Tranche of the same Series until at least the Exchange Date applicable to the Covered Bonds of such further 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 successor operator and/or successor clearing system and/or additional or alternative clearing system specified in the applicable Final Terms Document or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

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

FORM OF FINAL TERMS DOCUMENT

Set out below is the form of Final Terms Document 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 Final Terms Document but denotes directions for completing the Final Terms Document.

[Date]

Alliance & Leicester 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
Alliance & Leicester Covered Bonds LLP
under the €10 billion
Global Covered Bond Programme**

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

The Prospectus referred to below (as completed by this Final Terms Document) has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in any other circumstances.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which [together] constitute[s] a 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 the Prospectus [as so supplemented]. Full information on the Issuer and the LLP and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms Document and the Prospectus. Copies of the Prospectus [and the supplemental Prospectus] are available free of charge to the public at the registered office of the Issuer and from the specified office of each of the Paying Agents.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]]. This document constitutes the final terms of the Covered Bonds described herein 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 Prospectus dated [current date] [and the supplemental Prospectus dated [date]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Terms and Conditions which are extracted from the Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the LLP and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms Document and the Prospectus dated [original date] and [current date] [and the supplemental Prospectus dated [date]]. Copies of such Prospectuses are available free of charge to the public at the registered office of the Issuer and from the specified office of each of the Paying Agents.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs.]

[When completing any final terms or adding any other final terms or information including final terms at items 9, 10, 15, 16, 17 or 28 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 factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

1. (a) Issuer: Alliance & Leicester plc
 (b) Guarantor: Alliance & Leicester Covered Bonds LLP
2. (a) Series Number: [●]
 (b) Tranche Number: [●]
(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount of Covered Bonds admitted to trading:
 [(a) Series: [●]]
 [(b) Tranche: [●]]
5. Issue Price: [●] per cent. of the aggregate nominal amount [plus accrued interest from [insert date] (if applicable)]
6. (a) Specified Denominations: [●]
 (in the case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be made) (N.B. Where multiple denominations above €50,000 or equivalent are being used the following sample wording should be followed: €50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Covered Bonds in definitive form will be issued with a denomination above [€99,000].)
(N.B. If an issue of Covered Bonds is (i) NOT admitted to trading on a regulated market within the European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €50,000 minimum denomination is not required.)
- (b) Calculation Amount: [●]
(Applicable to Covered Bonds in definitive form)
(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.)
7. (a) Issue Date: [●]
 (b) Interest Commencement Date: [●]
8. (a) Final Maturity Date: [Fixed rate – specify date/
 Floating rate – Interest Payment Date falling in or nearest to [specify month and year]]
 (b) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [Fixed rate – specify date/
 Floating rate – Interest Payment Date falling in or nearest to [specify month and year, in each case falling one year after the Final Maturity Date]]
N.B. Zero Coupon Covered Bonds are not to be issued with an Extended Due for Payment Date

- unless otherwise agreed with the Dealers and the Bond Trustee*
9. Interest Basis: [[●] per cent. Fixed Rate]
 [[LIBOR/EURIBOR] [●] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [Credit Linked Interest]
 [Equity Linked Interest]
 [*specify other*](further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Indexed Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Instalment]
 [*specify other*]
 [*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. This pro-forma has been annotated to indicate where the key additional requirements of Annex XII are dealt with.*]
11. Change of Interest Basis or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Covered Bonds into another Interest Basis or Redemption/Payment Basis*]
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
13. (a) Status of the Covered Bonds: Senior
 (b) Status of the Guarantees: Senior
 (c) [Date [Board] approval for issuance of Covered Bonds and Guarantees obtained: 25 October 2007 [and [●], respectively]]
 [*N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Covered Bonds or related Guarantees*]
14. Method of distribution: [Syndicated/Non-syndicated]
- PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE
15. Fixed Rate Covered Bond Provisions: [Applicable/Not Applicable]
 [*If not applicable, delete the remaining subparagraphs of this paragraph*]
- (a) Rate(s) of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
- (b) Interest Payment Date(s): [[●] in each year up to and including the Final Maturity Date or the Extended Due for Payment Date, if applicable]/[specify other]
- (c) Business Day Convention: [Following Business Day Convention/Modified Following

| | | |
|-----|---|--|
| | | Business Day Convention/Preceding Business Day Convention/[specify other]] |
| | (d) Business Day(s): | [•] |
| | Additional Business Centre(s): | [•] |
| | (e) Fixed Coupon Amount(s): | [•] per Calculation Amount |
| | <i>(Applicable to Covered Bonds in definitive form)</i> | [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•] |
| | (f) Broken Amount(s): | [30/360/Actual/Actual [(ICMA)/specify other]] [adjusted/not adjusted] (N.B. If interest is not payable on a regular basis (for example, if Broken Amounts are specified) Actual/Actual (ICMA) may not be a suitable Day Count Fraction) |
| | <i>(Applicable to Covered Bonds in definitive form)</i> | |
| | (g) Day Count Fraction: | [•] 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] (This will need to be amended in the case of regular interest payment dates which are not of equal durations) (N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)) |
| | (h) Determination Date(s): | |
| | (i) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: | [Not Applicable/Give details] |
| 16. | Floating Rate Covered Bond Provisions: | [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph) |
| | (a) Interest Period(s): | [•] |
| | (b) Specified Interest Payment Dates: | [•] |
| | (c) First Interest Payment Date: | [•] |
| | (d) Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]] |
| | (e) Business Day(s): | [•] |
| | Additional Business Centre(s): | [•] |
| | (f) Manner in which the Rate of Interest and Interest Amount is to be determined: | [Screen Rate Determination/ISDA Determination/specify other] |
| | (g) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): | [•] |
| | (h) Screen Rate Determination: | |
| | Reference Rate: | [•] (Either LIBOR, EURIBOR or other. If other, provide additional information, including amendment to fallback provisions in the Agency Agreement) |
| | Interest Determination Date(s): | [•] (Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR or EURIBOR), 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)

N.B. Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date, if applicable

[•]

(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

- Relevant Screen Page:
- (i) ISDA Determination:
 - Floating Rate Option: [•]
 - Designated Maturity: [•]
 - Reset Date: [•]
 - (j) Margin(s): [+/-] [•] per cent. per annum
 - (k) Minimum Rate of Interest: [•] per cent. per annum
 - (l) Maximum Rate of Interest: [•] per cent. per annum
 - (m) Day Count Fraction: [Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
30E/360 (ISDA)
Other]
(See Condition 4 for alternatives)
[adjusted/not adjusted]
 - (n) Fallback denominator provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions: [•]
17. Zero Coupon Covered Bond Provisions:
- (a) [Amortisation/Accrual] Yield: [•] per cent. per annum
 - (b) Reference Price: [•]
 - (c) Any other formula/basis of determining amount payable: [•]
(Consider applicable Day Count Fraction if not U.S. dollar denominated)
 - (d) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
 - (e) Business Day(s): [•]
Additional Business Centre(s): [•]
 - (f) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 6.7(ii) and 6.11(ii) apply/specify other]
18. Variable Interest Covered Bond Provisions (other than Dual Currency Interest Covered Bonds):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
 - (a) Index/Formula/other variable: [give or annex details]
 - (b) Calculation Agent responsible for calculating the interest due: [•]
 - (c) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [•]

| | | |
|-----------------------------------|---|---|
| (d) | Determination Date(s): | [•] |
| (e) | Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: | [•] <i>(Include a description of market disruption or settlement disruption events and adjustment provisions)</i> |
| (f) | Interest or Calculation Period(s)/ | [•] |
| | Specified Interest Payment Dates: | [•] |
| (g) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other] |
| (h) | Business Day(s): | [•] |
| | Additional Business Centre(s): | [•] |
| (i) | Minimum Rate of Interest: | [•] per cent. per annum |
| (j) | Maximum Rate of Interest: | [•] per cent. per annum |
| (k) | Day Count Fraction: | [•] [adjusted/not adjusted] |
| 19. | Dual Currency Interest Covered Bond Provisions: | [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph) |
| (a) | Rate of Exchange/method of calculating Rate of Exchange: | [give or annex details] |
| (b) | Calculation Agent, if any, responsible for calculating the interest payable: | [•] |
| (c) | Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: | [•] <i>(Include a description of market disruption or settlement disruption events and adjustment provisions)</i> |
| (d) | Person at whose option Specified Currency(ies) is/are payable: | [•] |
| (e) | Business Day(s): | [•] |
| | Additional Business Centre(s): | [•] |
| PROVISIONS RELATING TO REDEMPTION | | |
| 20. | Issuer Call: | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i> |
| (a) | Optional Redemption Date(s): | [•] <i>(N.B. Optional Redemption Dates must be Interest Payment Dates unless otherwise agreed with the Dealers and the Bond Trustee)</i> |
| (b) | Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s): | [[•] per Calculation Amount |
| (c) | If redeemable in part: | |
| | (i) Minimum Redemption Amount: | [•] per Calculation Amount |
| | (ii) Maximum Redemption Amount: | [•] per Calculation Amount |
| (d) | Notice period (if other than as set out in the Terms and Conditions): | [•] <i>(N.B. If setting notice periods which are different to those provided in the Terms and 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)</i> |
| 21. | Investor Put: | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this</i> |

- (a) Optional Redemption Date(s): [•]
- (b) Optional Redemption Amount(s) of each Covered Bond and method, if any, of calculation of such amount(s): [•] per Calculation Amount
- (c) Notice Period: [•]

(N.B.: If setting notice periods which are different to those provided in the terms and conditions, issuers are 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 its fiscal agent or any trustee)

- 22. Final Redemption Amount of each Covered Bond: [[•] per Calculation Amount/specify other/see Appendix]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. This proforma has been annotated to indicate where the key additional requirements of Annex XII are dealt with.)

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

- (a) Index/Formula/variable: [give or annex details]
- (b) Party responsible for calculating the Final Redemption Amount (if not the [Agent]): [•]
- (c) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [•]
- (d) Determination Date(s): [•]
- (e) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (f) Minimum Final Redemption Amount: [•]
- (g) Maximum Final Redemption Amount: [•]

- 23. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons or on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 6.5): [•]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

- 24. Form of Covered Bonds: [Bearer Covered Bonds:
[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event]
[Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event]
(N.B. The exchange upon notice should not be expressed to be

applicable if the Specified Denomination of the Covered Bonds in paragraph 6 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 while is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)

[Registered Covered Bonds: Regulation S Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of the common depositary for [DTC or its nominee/Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of [DTC or its nominee/the common depositary for Euroclear and Clearstream, Luxembourg]

25. New Global Covered Bond: [Yes/No]
26. Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/give details] *(Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 15(d); 16(e) and 18(h) 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 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:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
30. Redenomination renominatisation and reconventioning provisions: Not Applicable/The provisions [in Condition 5.8 apply]
31. Other terms or special conditions: [Not Applicable/give details] *(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

DISTRIBUTION

32. (a) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/give names, addresses and underwriting commitments]
- (b) Stabilising Manager (if any): [Not Applicable/give name]
33. If non-syndicated, name and address of Dealer: [Name]
34. Total commission and concession: [●] per cent. of the Aggregate

| | | |
|-----|--|--|
| 35. | U.S. Selling Restrictions: | Nominal Amount [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA not applicable] |
| 36. | Non-exempt Offer: | Not Applicable |
| 37. | Additional selling restrictions: | [Not Applicable/ <i>give details</i>] |
| 38. | Additional United States Tax Considerations: | [Not Applicable/ <i>give details</i>] |

PURPOSE OF FINAL TERMS DOCUMENT

This Final Terms Document comprises the final terms required for issue and admission to trading on [*specify relevant regulated market*] of the Covered Bonds described herein pursuant to the €10 billion Global Covered Bond Programme of Alliance & Leicester plc.

RESPONSIBILITY

Each of the Issuer and the LLP accepts responsibility for the information contained in this Final Terms Document. [[●] has been extracted from [●]. Each of the Issuer and the LLP confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading].

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING:

- (i) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange) and, if relevant, admission to an official list (for example, the Official List of the U.K. Listing Authority)] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [specify relevant regulated market, for example the Bourse de Luxembourg, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange) and, if relevant, admission to an official list (for example, the Official List of the U.K. Listing Authority)] with effect from [●].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)

- (ii) Estimate of total expenses related to admission to trading: [●]

2. RATINGS:

Ratings:

The Covered Bonds to be issued have been rated:

[S & P: [●]]

[Moody's: [●]]

[Fitch: [●]]

[[Other]: [●]]

(Include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.)

(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

N.B. Consult the relevant Rating Agencies in relation to Covered Bonds which may have a Final Redemption Amount of less than 100 per cent. of the nominal value.

3. COVERED BOND SWAP:

Covered Bond Swap Provider:

[Include name and address of Covered Bond Swap Provider]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE:

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

[When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

5. 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:

[•]

(Expenses are required to be broken down into each principal intended "use" and presented in order of priority of such "uses".)

(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.)

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. HISTORIC INTEREST RATES: (Floating Rate Covered Bonds only)

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].

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

[Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is an index, include the name of the index and if the index is composed by the Issuer, include a description of the index. If the index is not composed by the Issuer, include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

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

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT: (Dual Currency Covered Bonds only)

[Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

[When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

10. TRADEABLE AMOUNTS:

So long as the Covered Bonds are represented by a Global Covered Bond and [specify relevant clearing system(s)] so permit, the Global Covered Bond shall be tradeable in minimum principal amounts of [€50,000]/[specify equivalent to €50,000 if Global Covered Bond not denominated in euro] and integral multiples of [●] (the **Tradeable Amount**) in addition thereto.

[If item 24 of Part A indicates that the Global Covered Bond is exchangeable for definitive Covered Bonds at the option of the Covered Bondholders, the Covered Bonds will be tradeable only in principal amounts of at least the Specified Denomination.]

11. OPERATIONAL INFORMATION:

- (a) ISIN Code: [●]
- (b) Common Code: [●]
- [(c)] *(insert here any other relevant codes such as CUSIP and CINS codes):* [●]
- [(d)] Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- [(e)] Delivery: Delivery [against/free of] payment

Name and address of Initial Paying Agent(s): [●]
 Names and addresses of additional Paying Agent(s) (if any): [●]
 Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]

[Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] *[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 LLP:

By:
Duly authorised

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond (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 Document 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 Document (or the relevant provisions thereof) will be endorsed on, or attached to, each Global Covered Bond and Definitive Covered Bond. Reference should be made to "Form of the Covered Bonds" for a description of the content of the Final Terms Document which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Alliance & Leicester 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 9 April 2008 (the **Programme Date**) made between the Issuer, Alliance & Leicester Covered Bonds LLP (the **LLP**) and HSBC Corporate Trustee Company (UK) 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).

Save as provided for in Conditions 9 and 14, references herein to the **Covered Bonds** shall be references to the Covered Bonds of this Series and shall mean:

- (a) any global covered bond representing Covered Bonds (a **Global Covered Bond**);
- (b) in relation to any Covered Bonds represented by a Global Covered Bond, units of the lowest Specified Denomination in the Specified Currency;
- (c) any Definitive Covered Bonds in bearer form (**Bearer Definitive Covered Bonds**) issued in exchange for a Global Covered Bond in bearer form; and
- (d) any Definitive Covered Bonds in registered form (**Registered Definitive Covered Bonds** and, together with Bearer Definitive Covered Bonds, **Definitive Covered Bonds**) (whether or not issued in exchange for a Global Covered Bond in registered form).

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated the Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee, HSBC Bank plc, as issuing and principal paying agent and agent bank (in such capacity, the **Principal Paying Agent**, which expression shall include any successor principal paying agent and, together with the Registrar, the **Paying Agents**, which expression shall include any additional or successor paying agents) and HSBC Bank plc as registrar (the **Registrar**, which expression shall include any successor registrar, and, together with any transfer agent appointed thereunder, the **Transfer Agents**, which expression shall include any successor transfer agents), and together with the Paying Agents, the Transfer Agents, the Exchange Agent and any Calculation Agent referred to below, the **Agents**). References to the **Calculation Agent** are (except where the context otherwise requires) to the person appointed as calculation agent in relation to one or more Series of Variable Interest Covered Bonds pursuant to the Agency Agreement and shall include any successor calculation agent. References to the **Exchange Agent** are (except where the context otherwise requires) to the person appointed as exchange agent in relation to one or more Series of Covered Bonds pursuant to the Agency Agreement and shall include any successor exchange agent.

Interest-bearing Bearer Definitive Covered Bonds have (unless otherwise indicated in the applicable Final Terms Document) interest coupons (**Coupons**) and, if indicated in the applicable Final Terms Document, 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 Document for the Covered Bonds (or the relevant provisions thereof) is endorsed on or attached to this Covered Bond and supplements these Terms and Conditions (the **Terms and Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify the Terms and Conditions for the purposes of the Covered Bonds. References to the **applicable Final Terms Document** are to the Final Terms Document (or the relevant provisions thereof) endorsed on or attached to 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 the 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 admission to trading) 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 and admission to trading) 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, but only after service of a Notice to Pay on the LLP following service of an Issuer Acceleration Notice on the Issuer (after the occurrence of an Issuer Event of Default) or service of an LLP Acceleration Notice on the LLP (after the occurrence of an LLP Event of Default).

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

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

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Schedule (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the office for the time being of the Bond Trustee being at 8 Canada Square, London E14 5HQ and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms Document for all Covered Bonds of each Series and, if applicable, Tranche (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the registered office of the Issuer and at the specified office of each of the Paying Agents. The Covered Bondholders, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of Charge, the Master Definitions and Construction Schedule, the Agency Agreement, each of the other Transaction Documents and the applicable Final Terms Document which are applicable to them and to have notice of each of the Final Terms Documents relating to each other Series and, if applicable, Tranche.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Terms and Conditions (including the preceding paragraphs) shall bear the meanings given to them in the applicable Final Terms Document and/or the master definitions and construction schedule made between the parties to the Transaction Documents on or about the Programme Date (as amended and/or supplemented and/or restated from time to time, the **Master Definitions and Construction 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 Document and, in the case of Definitive Covered Bonds, serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

The Covered Bonds in this Series may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds, Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Dual Currency Interest Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms Document. Prior to issuing this Series of Covered Bonds (if such Covered Bonds are not Fixed Rate Covered Bonds or Floating Rate Covered Bonds), the Issuer has obtained confirmation from each of the Rating Agencies that the Covered Bonds of this Series will have the same ratings as the ratings of the Covered Bonds of all Series then outstanding and that the ratings of the Covered Bonds of all Series then outstanding will not be adversely affected or withdrawn as a result of the issuance of this Series of Covered Bonds.

The Issuer will not issue unlisted Covered Bonds without first agreeing certain conditions precedent to their issue with the Rating Agencies and will not issue Covered Bonds that are not principal-protected.

The Covered Bonds in this Series may be Instalment Covered Bonds, Partly Paid Covered Bonds or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms Document.

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 Terms and 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 Terms and Conditions are not applicable.

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

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of or, as the case may be, registered in the name of a common depository for, Euroclear Bank S.A./N.V. (**Euroclear**), Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) or The Depository Trust Company (**DTC**) or its nominee, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including, without limitation, Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by the Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, and, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Bearer Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

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

References to Euroclear, Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in the applicable Final Terms Document or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

2. Transfers of Registered Covered Bonds

2.1 Transfers of interests in Registered Global Covered Bonds

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by Euroclear, Clearstream, Luxembourg or DTC, 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. The laws in some States within the United States may 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. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Definitive Covered Bonds or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms Document and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Rule 144A Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Rule 144A Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or to such successor's nominee.

2.2 *Transfers of Registered Covered Bonds in definitive form*

Subject as provided in Conditions 2.3, 2.4, 2.5 and 2.6, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Definitive Covered Bond may be transferred in whole or in part in the authorised denominations set out in the applicable Final Terms Document. In order to effect any such transfer (a) the holder or holders must (i) 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 (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent, and (b) 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 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 Definitive Covered Bond of a like aggregate nominal amount to the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) transferred.

In the case of the transfer of part only of a Registered Definitive Covered Bond, a new Registered Definitive Covered Bond in respect of the balance of the Registered Definitive Covered Bond not transferred will (in addition to the new Registered Definitive Covered Bond in respect of the nominal amount transferred) be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

2.3 *Registration of transfer upon partial redemption*

In the event of a partial redemption of Covered Bonds under Condition 6, 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.

2.4 *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, Registrar or Transfer Agent may require the payment of a sum sufficient to cover any stamp duty, Taxes or any other governmental charge that may be imposed in relation to the registration.

2.5 *Transfers of interests in Regulation S Global Covered Bonds in the United States or to U.S. persons*

Prior to expiry of the applicable Distribution Compliance Period (as defined below), 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:

- (a) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate with the consent of the Issuer (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; or
- (b) 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.

Such transferee may only take delivery through a Rule 144A Covered Bond. Prior to the end of the applicable Distribution Compliance Period beneficial interests in Regulation S Covered Bonds registered in the name of a nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After

expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

2.6 *Transfers of interests in Rule 144A Covered Bonds*

Transfers of Rule 144A Covered Bonds or beneficial interests therein may be made:

- (a) to a transferee who takes delivery of such interest through a Regulation S 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
- (b) 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 in a transaction meeting the requirements of Rule 144A, without certification; or
- (c) 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 Rule 144A Covered Bonds, or upon specific request for removal of any United States securities law legend on Rule 144A Covered Bonds, the Registrar shall deliver only Rule 144A Covered Bonds or refuse to remove the legend, 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.

2.7 *Definitions*

In these Terms and Conditions, the following expressions shall have the following meanings:

Definitive Regulation S Covered Bond means a Registered Covered Bond, in definitive form, sold to non-U.S. persons outside the United States in reliance on Regulation S, which is in definitive form;

Definitive Rule 144A Covered Bond means a Registered Covered Bond, in definitive form, sold in the United States to QIBs in reliance on Rule 144A, which is in definitive form;

Distribution Compliance Period means the period that ends 40 days after the later of the commencement of the offering and the Issue Date;

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

Regulation S means Regulation S under the Securities Act;

Regulation S Covered Bond means a Covered Bond represented by a Regulation S Global Covered Bond or a Definitive Regulation S Covered Bond;

Regulation S Global Covered Bond means a Registered Global Covered Bond representing Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S;

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

Rule 144A Covered Bond means a Covered Bond represented by a Rule 144A Global Covered Bond or a Definitive Rule 144A 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.

3. Status of the Covered Bonds and the Guarantees

3.1 *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 at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than any obligations preferred by mandatory provisions of applicable law.

3.3 *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 pursuant to a guarantee (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 when the same shall become Due for Payment under the Covered Bonds or the Trust Deed until service of a Notice to Pay by the Bond Trustee on the LLP (which the Bond Trustee will be required to serve following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice by the Bond Trustee on the Issuer) or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice by the Bond Trustee on the LLP. The obligations of the LLP under the Covered Bond Guarantee are, subject as aforesaid, direct, 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) discharge *pro tanto* the obligations of the Issuer in respect of such payment under the Covered Bonds, Receipts and Coupons respectively, except where such payment by the LLP has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

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

4. Interest

4.1 *Interest on Fixed Rate Covered Bonds*

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding (as defined in Condition 4.7, but subject to Conditions 4.4 and 4.5) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable, subject as provided in these Terms and Conditions, in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date.

If the Covered Bonds are in definitive form, except as provided in the applicable Final Terms Document, the amount of interest payable on each Interest Payment Date in respect of the Interest Period (as defined in Condition 4.7) ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms Document, amount to the Broken Amount so specified.

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 (as defined in Condition 4.7), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 4.7) 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.

4.2 Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds

(a) Interest Payment Dates

Each Floating Rate Covered Bond and Variable Interest Covered Bond bears interest on its Principal Amount Outstanding (subject to Conditions 4.4 and 4.5) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms Document; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms Document, 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 Document 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.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds will be determined in the manner specified in the applicable Final Terms Document.

(i) ISDA Determination for Floating Rate Covered Bonds

Where ISDA Determination is specified in the applicable Final Terms Document 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 Document) the Margin (if any). For the purposes of this subparagraph (i), **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 Document under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**), and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms Document;
- (B) the Designated Maturity is the period specified in the applicable Final Terms Document; and
- (C) unless otherwise stated in the applicable Final Terms Document, the relevant Reset Date is the first day of that Interest Period.

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

(ii) Screen Rate Determination for Floating Rate Covered Bonds

Where Screen Rate Determination is specified in the applicable Final Terms Document 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:

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

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms Document) 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 subparagraph (ii) in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) 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 Document 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 Document.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms Document for a Floating Rate Covered Bond or a Variable Interest Covered Bond 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 (b) 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 Document for a Floating Rate Covered Bond or a Variable Interest Covered Bond 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 (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) 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 Variable 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 Variable 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 (the **Interest Amount**) payable on the Floating Rate Covered Bonds or Variable Interest Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Covered Bonds or Variable 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 Variable 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 Variable 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.

(e) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the LLP, the Bond Trustee, other Paying Agents and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds or Variable Interest Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 4.7) thereafter. 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 Variable Interest Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to Covered Bondholders in accordance with Condition 13.

(f) **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 subparagraph (b)(i) or (ii) above or as otherwise specified in the applicable Final Terms Document, as the case may be, and in each case in accordance with paragraph (d) above, the Bond Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms Document), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Bond Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Bond Trustee may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). 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.

(g) **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 4.2, whether by the Principal Paying Agent, 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, negligence, bad faith or fraud) no liability to the Issuer, the LLP, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, 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.

4.3 *Interest on Dual Currency Interest Covered Bonds*

In the case of Dual Currency Interest Covered Bonds where the rate or amount of interest fails 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 Document.

4.4 *Interest on Zero Coupon Covered Bonds*

Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will not bear interest. When a Zero Coupon Covered Bond becomes repayable prior to its Maturity Date it will be redeemed at the Early Redemption Amount calculated in accordance with Condition 6.5. In the case of late payment the amount due and repayable shall be calculated in accordance with Condition 6.11.

4.5 *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 Document.

4.6 *Interest following a Notice to Pay*

If a Notice to Pay is served on the LLP, the LLP shall, in accordance with the terms of the Trust Deed, pay Guaranteed Amounts corresponding to the amounts of interest described under Condition 4.1, 4.2, 4.3 or 4.4 (as the case may be) under the Covered Bond Guarantee in respect of the Covered Bonds on the Original Due for Payment Dates and, if applicable, the Extended Due for Payment Date.

4.7 *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 or unless default is otherwise made in respect of payment, in which event, interest will continue to accrue as provided in the Trust Deed.

4.8 *Business Day, Business Day Convention, Day Count Fractions and other adjustments*

- (a) In these Terms and Conditions, **Business Day** means:
- (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 London and any Additional Business Centre specified in the applicable Final Terms Document; and
 - (ii) either (A) 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 as otherwise specified in the applicable Final Terms Document or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open.
- (b) If a **Business Day Convention** is specified in the applicable Final Terms Document 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:
- (i) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) 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 (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) 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
 - (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
 - (iii) 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
 - (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:
- (i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms Document:
 - (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 (as defined in Condition 4.7(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms Document) 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 (I) 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 (II) 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;

- (ii) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms Document, 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 (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
 - (iii) if **Actual/365 (Fixed)** is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 365;
 - (iv) if **Actual/365 (Sterling)** is specified in the applicable Final Terms Document, 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;
 - (v) if **Actual/360** is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 360;
 - (vi) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms Document, 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:
 - (vii) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms Document, 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 Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (d) **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).
 - (e) **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.
 - (f) **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.
 - (g) **Principal Amount Outstanding** means in respect of a Covered Bond on any day the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day.
 - (h) If **adjusted** is specified in the applicable Final Terms Document against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, as such Interest Payment Date shall, where applicable, be adjusted in accordance with the Business Day Convention.
 - (i) If **not adjusted** is specified in the applicable Final Terms Document against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, but such Interest Payment Dates shall not be adjusted in accordance with any Business Day Convention.
 - (j) **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.

5. Payments

5.1 *Method of payment*

Subject as provided below:

- (a) 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
- (b) 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 with a bank in Europe or, at the option of the payee, by a euro cheque.

In the case of Bearer Covered Bonds, payments in U.S. Dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5, means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 7. References to Specified Currency will include any successor currency under applicable law.

5.2 *Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons*

Payments of principal and interest (if any) will (subject as provided below) be made in accordance with Condition 5.1 only against presentation and surrender of Bearer Definitive Covered Bonds, Receipts or Coupons (or, in the case of part payment of any sum due, endorsement of the Bearer Definitive Covered Bond (or Coupon)), as the case may be, only at a 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 in accordance with Condition 5.1 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in accordance with Condition 5.1 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Definitive Covered Bond 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. Receipts presented without the Bearer Definitive Covered Bond to which they appertain do not constitute valid obligations of the Issuer or the LLP. On the date on which any Bearer Definitive Covered Bond becomes due and payable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect of them.

Fixed Rate Covered Bonds in definitive bearer form (other than Dual Currency Interest Covered Bonds or Index Linked Interest 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 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due but in no event thereafter.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable by the Issuer (in the absence of a Notice to Pay or an LLP Acceleration Notice) or by the LLP under the Covered Bond Guarantee (if a Notice to Pay or an LLP Acceleration Notice has been served) 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, Variable Interest Covered Bond Dual Currency Interest Covered Bonds or Index Linked Interest Covered Bonds 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.

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 presentation and surrender of the relevant Bearer Definitive Covered Bond.

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

No payments of principal, interest or other amounts due in respect of a Bearer Global Covered Bond will be made by mail to an address in the United States or by transfer to an account maintained in the United States.

5.4 *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 in accordance with Condition 5.1 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 tenth business day (**business day** being for the purposes of this Condition 5.4 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 (the **Record 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 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 immediately preceding 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 Record Date at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not less than three business days before the due date for any payment of interest or an instalment of principal (other than the final instalment) 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 (i) to an account specified in accordance with Condition 5.1 identified to DTC by a participant in DTC in respect of its holding of such Covered Bonds, or (ii) to an account in the relevant Specified Currency of the Exchange Agent for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

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

5.5 *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 obligations of the Issuer or, as the case may be or 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 respect of Bearer Covered Bonds in U.S. Dollars will only be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and/or interest on the Bearer Covered Bonds in the manner provided above when due;
- (b) 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
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

5.6 *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 Document), **Payment Day** means any day which (subject to Condition 8) 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:
 - (i) the relevant place of presentation;
 - (ii) London; and
 - (iii) any Additional Financial Centre specified in the applicable Final Terms Document; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre) or as otherwise specified in the applicable Final Terms Document or (ii) in relation to any sum payable in euro, a day on which the TARGET System is open; and
- (c) 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.

5.7 *Interpretation of principal and interest*

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

- (a) any additional amounts which may be payable with respect to principal under Condition 7 or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds but excluding any amount of interest referred to therein;
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.5);
- (g) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (h) any Excess Proceeds attributable to principal which may be payable by the Bond Trustee to the LLP in respect of the Covered Bonds.

Any reference in these Terms and 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 or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

5.8 *Redenomination*

Where redenomination is specified in the applicable Final Terms Document as being applicable, the Issuer may, without the consent of the Covered Bondholders, the Receiptholders or the Couponholders, but after prior consultation with the Bond Trustee and the Security Trustee on giving prior notice to the Agents, the Registrar (in the case of Registered Covered Bonds), Euroclear, Clearstream, Luxembourg and DTC and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13 and to the Bond Trustee and the Security Trustee, elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro.

The election will have effect as follows:

- (a) the Covered Bonds and any Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Covered Bond and Receipt equal to the nominal amount of that Covered Bond or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agents and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the stock exchange (if any) on or by which the Covered Bonds may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Covered Bonds, in the denomination of euro 50,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 6; and (ii) in the case of Covered Bonds which are not Relevant Covered Bonds, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agents and

the Trustee may approve) euro 0.01 and such other denominations as the Agent(s) shall determine and notify to the Covered Bondholders;

- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds and Receipts so issued will also become void on that date although those Covered Bonds and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds, Receipts and Coupons will be issued in exchange for Covered Bonds, Receipts and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;
- (e) after the Redenomination Date, all payments in respect of the Covered Bonds, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated (i) in the case of the Covered Bonds represented by a Global Covered Bond, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Covered Bonds; and (ii) in the case of definitive Covered Bonds, by applying the Rate of Interest to the Calculation Amount; and in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form 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;
- (g) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms Document will specify any relevant changes to the provisions relating to interest; and
- (h) such other changes shall be made to these Conditions and/or Trust Deed as the Issuer may, with the agreement of the Agent and the Trustee, decides, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro. Any such other changes will not take effect until after they have been notified to the Covered Bondholders, in accordance with Condition 13.

5.9 Definitions

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

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

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

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

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

Relevant Covered Bonds means all Covered Bonds where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are

admitted to trading on a regulated market in the European Economic Area. "TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

Treaty means the Treaty establishing the European Community, as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam.

6. Redemption and Purchase

6.1 *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 Document in the relevant Specified Currency on the Final Maturity Date.

Without prejudice to Condition 9, if an Extended Due for Payment Date is specified in the applicable Final Terms Document for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms Document (in each case after the expiry of the grace period set out in Condition 9.1(a)) and following service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date, the LLP has insufficient monies available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of a Notice to Pay on the LLP or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, then (subject as provided below) payment of the unpaid portion of the Final Redemption Amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above will be paid by the LLP to the extent it has sufficient monies available under the Guarantee Priority of Payments on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four (4) Business Days prior to the Final Maturity Date of a Series of Covered Bonds whether (a) payment will be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date or (b) payment will not be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date. Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension.

The LLP shall notify the relevant Covered Bondholders (in accordance with Condition 13), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and (in the case of Registered Covered Bonds) the Registrar as soon as reasonably practicable and in any event at least one Business Day prior to the date specified in (a) or (b) of the preceding paragraph (as appropriate) of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee.

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 9.2(a)), and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the monies (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the corresponding part of Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the LLP shall not constitute an LLP Event of Default.

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the liabilities of the LLP under the Covered Bond Guarantee in connection with this Condition 6.1.

6.2 *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 or an Index Linked Interest Covered Bond) or on any Interest Payment Date (if the relevant Covered Bond is a Floating Rate Covered Bond or an Index Linked 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, the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies

the Bond Trustee immediately before the giving of such notice that on the occasion of the next date for payment of interest on the relevant Covered Bonds, that the Issuer is or would be required to pay additional amounts as provided or referred to in Condition 7. Covered Bonds redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.5 together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

If an Issuer Call is specified in the applicable Final Terms Document, the Issuer may, having given not less than 30 nor more than 60 days' notice or such other period of notice as may be specified in the applicable Final Terms Document to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of Registered Covered Bonds) and, in accordance with Condition 13, the Covered Bondholders (which notice shall be irrevocable) redeem all or some only 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 Document together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). The Issuer shall be bound to redeem the Covered Bonds on the date specified in the notice. In the event of a redemption of some only of the Covered Bonds, such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount (if any) as specified in the applicable Final Terms Document. 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 30 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 not less than 15 days (or such shorter period as may be specified in the applicable Final Terms Document) prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds or represented by Global Covered Bonds shall, in each case, bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds or Global Covered Bonds outstanding bears, in each case, to the aggregate nominal amount of the Covered Bonds outstanding on the Selection Date, provided that such nominal amounts shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination. 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 6.3 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 13 at least five days (or such shorter period as is specified in the applicable Final Terms Document) prior to the Selection Date.

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

If an investor put is specified in the Final Terms Document (the **Investor Put**), then if and to the extent specified in the applicable Final Terms Document, upon the holder of the relevant Covered Bond giving to the Issuer, in accordance with Condition 13, not less than 30 nor more than 60 days' (or such other notice period specified in the applicable Final Terms Document) notice (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice provided that the Cash Manager has notified the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s), redeem subject to, and in accordance with, the terms specified in the applicable Final Terms Document in whole (but not in part) such Covered Bond on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms Document, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

If the relevant Covered Bond is in definitive form, to exercise the right to require redemption of this Covered Bond, the holder of this Covered Bond must deliver such Covered Bond, on any Business Day (as defined in Condition 4.7) falling within the above-mentioned notice period at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise of the Investor Put in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition 6.4.

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

6.5 *Redemption due to illegality or invalidity*

- (a) 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, all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP under the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.
- (b) Covered Bonds redeemed pursuant to Condition 6.5(a) will be redeemed at their Early Redemption Amount referred to in Condition 6.7 together (if appropriate) with interest accrued to (but excluding) the date of redemption.
- (c) Covered Bonds redeemed pursuant to Condition 6.5(a) will be redeemed:
 - (i) in the case of Covered Bonds other than Fixed Rate Covered Bonds, at their Principal Amount Outstanding; and
 - (ii) in the case of Fixed Rate Covered Bonds, at a price which shall be the higher of:
 - (A) their Principal Amount Outstanding, together with interest accrued to (but excluding) the date of redemption; and
 - (B) an appropriate make-whole amount deemed fair by an investment bank or other suitable entity of international repute nominated by the Issuer and approved in writing by the Bond Trustee.

6.6 *General*

Prior to the publication of any notice of redemption pursuant to Conditions 6.2, 6.5(a) or 6.5(b), the Issuer shall deliver to the Bond Trustee a certificate signed by two directors stating that the Issuer is entitled or required to effect such redemption and setting forth a statement of facts showing that the conditions set out in Conditions 6.2, 6.5(a) or, as the case may be, 6.5(b) for such right or obligation (as applicable) of the Issuer to arise have been satisfied and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions set out above, in which event it shall be conclusive and binding on all Covered Bondholders, Receiptholders and Couponholders.

6.7 *Early Redemption Amounts*

For the purpose of Condition 6.2, Condition 6.5 and Condition 9, 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 and 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 Bonds are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms Document or, if no such amount or manner is so specified in the applicable Final Terms Document, at its nominal amount; or
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) calculated in accordance within the following formula:

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

where:

"RP" means the Reference Price;

"Y" means the Accrual Yield expressed as a decimal; and

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

be) the date upon which such Covered Bond becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms Document.

6.8 *Instalments*

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.5.

6.9 *Purchases*

The Issuer or any of its subsidiaries (including 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 in the open market either by tender or private agreement or otherwise. 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).

6.10 *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 6.9 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 reissued or resold.

6.11 *Late payment on Zero Coupon Covered Bonds*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Covered Bonds pursuant to Condition 6.1, 6.2, 6.3 or 6.4 above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bonds shall be the amount calculated as provided in Condition 6.7(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 repayable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) the date on which the full amount of the monies payable in respect of such Zero Coupon Covered Bonds has been received by the Agents or the Bond Trustee and notice to that effect has been given to the Covered Bondholders in accordance with Condition 13.

6.12 *Partly Paid Covered Bonds*

Partly Paid Covered Bonds will be redeemed at maturity in accordance with the provisions of the applicable Final Terms Document. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.7.

7. **Taxation**

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature 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 for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax, being made by the Issuer in respect of a payment made by it, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest, if any, 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 (i) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so, or (ii) is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bonds, Receipts or Coupons (as the case may be) by reason of his having some connection with the United Kingdom other than merely by reason of the holding of such Covered Bonds, Receipts or Coupons; or
- (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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive or any agreement between the European Community and any jurisdiction providing for equivalent measures; 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, the **Relevant Date** means the date on which payment in respect of the Covered Bond, Receipt or Coupon first becomes due and payable but, if the full amount of the monies payable on such date has not been received by the Principal Paying Agent or the Bond Trustee on or prior to such date, the **Relevant Date** shall be the date on which such monies shall have been so received and notice to that effect has been given to Covered Bondholders in accordance with Condition 13.

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

8. Prescription

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

The Issuer shall be discharged from its obligation to pay principal on a Registered Covered Bond to the extent that the relevant Registered Covered Bond certificate has not been surrendered to the Registrar by, or a cheque which has been duly despatched in the Specified Currency remains uncashed at, the end of the period of ten years from the Relevant Date for such payment.

The Issuer shall be discharged from its obligation to pay interest on a Registered Covered Bond to the extent that a cheque which has been duly despatched in the Specified Currency remains uncashed at the end of the period of five years from the Relevant Date in respect of such payment.

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 or any Talon which would be void pursuant to Condition 5.

9. Events of Default, Acceleration and Enforcement

9.1 *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 referred to in this Condition 9.1 means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not included in the Early Redemption Amount) accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

- (a) if default is made by the Issuer for a period of seven days or more in the payment of any principal or 14 days or more in the payment of any interest due in respect of the Covered Bonds or any of them; or

- (b) if the Issuer fails to perform or observe any of its other obligations under the Covered Bonds, Receipts or Coupons of any Series or the Trust Deed or any other Transaction Documents to which the Issuer is a party (other than the Programme Agreement and the Subscription Agreement), but excluding any obligation of the Issuer to satisfy the Asset Coverage Test or any representations or warranties given by the Issuer thereunder or pursuant thereto proves to be incorrect, and (except where the Bond Trustee considers such failure to be incapable of remedy when no such continuation or notice as is hereinafter referred to will be required) such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if any loan or loans or other indebtedness for borrowed money which loan or loans or other indebtedness has or have an outstanding principal or aggregate principal amount of at least the Cross Default Amount of the Issuer becomes or become due and repayable prematurely by reason of an event of default (however described) or the Issuer fails to make any payment in respect thereof on the due date for such payment as extended by any applicable grace period as originally provided or the security for any such loan or loans or other indebtedness for borrowed money becomes enforceable or if default is made by the Issuer in making any payment due under any guarantee given by it in respect of any such loan or loans or other indebtedness for borrowed money of any person having an outstanding principal or aggregate principal amount of at least the Cross Default Amount; or
- (d) if the Issuer ceases to carry on the whole or a substantial part of its business except (i) for so long as it remains after such cessation not unable to pay its debts within the meaning of Section 123 of the Insolvency Act, (ii) for the purposes of a reorganisation on terms approved by the Bond Trustee, and (iii) for the purposes of a reconstruction, amalgamation the terms at which have previously been approved by the Bond Trustee; or
- (e) if an administrative or other receiver or an administrator or other similar official is appointed in relation to the Issuer or in relation to the whole or a material part of the assets any of them or if an encumbrancer takes possession of the whole or a material part of the assets of the Issuer, or a distress, diligence, execution or other process is levied or enforced upon or sued out against the whole or a material part of the assets of the Issuer and, in any such case, is not discharged within 30 days; or
- (f) if an effective resolution is passed or an order is made for the winding-up or dissolution of the Issuer (except for the purposes of a reconstruction, amalgamation or merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by an Extraordinary Resolution of the Covered Bondholders or which has been effected in compliance with the terms of Condition 14); or
- (g) 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,

provided that any condition, event or act described in subparagraphs (b) and (c) above shall only constitute an Issuer Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series and provided that 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 be considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee.

For the purposes of these Conditions:

Alliance & Leicester Group means Alliance & Leicester plc and its Subsidiaries.

Cross Default Amount shall mean (a) £25,000,000 or its equivalent in any other currency or currencies or, if greater (b) such amount in sterling as is equal to one per cent. of the aggregate of (1) the nominal amount of the share capital of the Issuer for the time being issued and paid up or credited as paid up and (2) the amounts standing to the credit of the reserves (including any share premium account and profit and loss account) of the Issuer and its Subsidiaries, all as shown in the latest audited consolidated balance sheet of the Issuer and its Subsidiaries prepared in accordance with generally accepted accounting principles in the United Kingdom less (3) any amounts, determined in accordance with generally accepted accounting principles in the United Kingdom, representing distribution of cash or tangible assets declared, recommended or made by the Issuer or any of its Subsidiaries (other than any distribution attributable to the Issuer or another Subsidiary of the Issuer) out of profits accrued prior to the date of, and not provided for in, the latest audited consolidated balance sheet of the Issuer and its Subsidiaries and less (4) any amounts shown in such latest audited consolidated balance sheet (y) attributable to intangible assets and (z) of any debit on profit and loss account. A certificate of the Auditors of the Issuer as to the Specified Amount shall, in the absence of manifest error, be conclusive and binding on all parties.

Upon the Covered Bonds becoming immediately due and payable against the Issuer pursuant to this Condition 9.1, the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP pursuant to the Covered Bond Guarantee. If a Notice to Pay has been served, 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 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 9.3.

The Trust Deed provides that all monies received by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator or other similar official appointed in relation to the Issuer following 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 monies 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) 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.

9.2 *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 9.2 means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice (the **LLP Acceleration Notice**) in writing to the Issuer and the LLP, that (i) 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 the Issuer following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not already included in the Early Redemption Amount) accrued interest, and (ii) 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 (to the extent not already included in the Early Redemption Amount) accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

- (a) if default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount which is Due for Payment under Condition 6.1 when the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (b) if default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document (other than the obligation to satisfy the Asset Coverage Test in accordance with Clause 11 of the LLP Deed) to which the LLP is a party and, (except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required), such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or
- (c) if an order is made or an effective resolution passed for the liquidation or winding-up of the LLP; or
- (d) if the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (e) if the LLP is unable, or admits inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (f) if 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, 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, 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

- (g) if there is a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any Calculation Date following service of a Notice to Pay,

provided that any condition, event or act described in subparagraph (b) above shall only constitute an LLP Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series (subject in each case to being indemnified and/or secured to its satisfaction).

Following service of an LLP Acceleration Notice, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9.3.

Upon service of an LLP Acceleration Notice, the Covered Bondholders shall 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 (to the extent not included in the Early Redemption Amount) accrued interest and any other amount due under such Covered Bonds (other than additional amounts payable under Condition 7) as provided in the Trust Deed.

9.3 *Enforcement*

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

In exercising any of its powers, trusts, authorities and discretions the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time following the service of a LLP Acceleration Notice, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge or any other Transaction Document in accordance with its terms and may, at any time after the Security has become enforceable, take such proceedings or steps as it may think fit to enforce the Security, but it shall not be bound to take any such proceedings or steps 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 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 and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid), and (ii) it shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other Secured Creditors.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, any other Transaction Document, 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 period and such failure shall be continuing.

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

If any Covered Bond, Receipt, Coupon or Talon is 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 given to the Covered Bondholders in accordance with Condition 13 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 initial Registrar and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent 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 Covered Bond 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 Europe;
- (c) so long as any Covered Bond is listed on any stock exchange or admitted to listing or trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or, as the case may be, other relevant authority;
- (d) so long as any of the Registered Global Covered Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent; 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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to any such Directive, provided that the Issuer shall not, under any circumstances, be obliged to maintain a Paying Agent with a specified office in such Member State unless at least one European Member State does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax.

In addition, the Issuer shall forthwith appoint a Paying Agent and a Registrar having a specified office in the United States in the circumstances described in Condition 5.5. 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.

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.

13. Notices

All notices regarding the Bearer Covered Bonds will be valid if published in one leading English language daily newspaper of general circulation in London or any other daily newspaper in London approved by the Bond Trustee. The Issuer or, in the case of a notice given by the Bond Trustee or the Security Trustee, the Bond Trustee or the Security Trustee (as the case may be) 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. If publication as provided

above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

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 or trading 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. Any such notice will be deemed to have been given on the date of such publication. If the giving of notice as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

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

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relevant Covered Bond or Covered Bonds, with the Principal Paying Agent (in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds). Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Principal Paying Agent or the Registrar through DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and DTC and/or Euroclear and/or Clearstream Luxembourg, as the case may be, may approve for this purpose.

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

The Trust Deed contains provisions for convening meetings of the Covered Bondholders of any Series to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Terms and Conditions or the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the LLP or the Bond Trustee and shall be convened by the Issuer at the request in writing of Covered Bondholders holding not less than 10 per cent. of the Principal Amount Outstanding of the Covered Bonds for the time being outstanding. 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 of such Series whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of 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. The Trust Deed provides that Covered Bondholders can pass an Extraordinary Resolution by way of written resolution. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 or to direct the Bond Trustee or the Security Trustee to take any enforcement action pursuant to Condition 9 (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by Covered Bondholders, in the case of a direction to accelerate the Covered Bonds pursuant to Conditions 9.1 and 9.2 or to take enforcement action pursuant to Condition 9.3, holding at least 25 per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding. 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 all Series then outstanding. 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 Covered Bonds.

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

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

- (a) any modification of the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document provided that (i) in the sole opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series, and (ii) in the sole opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series or the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Alliance & Leicester Group; or
- (b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document which is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law.

Notwithstanding the above:

- (a) the Issuer, the LLP, the Principal Paying Agent, the Bond Trustee and the Security Trustee may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders, Receiptholders or Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms Document which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law;
- (b) the Issuer and the LLP may request the Bond Trustee and the Security Trustee to agree to modifications to the Transaction Documents and/or the Terms and Conditions of the Covered Bonds to enable the Covered Bonds issued under the Programme 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 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 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 new legislation. Neither the Bond Trustee nor the Security Trustee shall be obliged to agree to any amendment which, in the sole opinion of the Bond Trustee or the Security Trustee, as the case may be, would have the effect of (a) exposing the Bond Trustee or the Security Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the protections, of the Bond Trustee or the Security Trustee in the Transaction Documents and/or the Terms and Conditions of the Covered Bonds.

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

determination will be materially prejudicial to its interests, such Secured Creditor has given its written consent to such waiver, authorisation or determination and (b) the Security Trustee has not been informed in writing by any such Secured Creditor (other than Covered Bondholders) acting reasonably that such Secured Creditor will be materially prejudiced thereby (other than a Secured Creditor who has given its written consent as aforesaid).

In respect of any modification, waiver, authorisation or determination that is proposed on or after the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, prior to the Bond Trustee agreeing to any such modification, waiver, authorisation or determination pursuant to this Condition 14, the Issuer must send written confirmation to the Bond Trustee that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or result in the Issuer and/or the Programme ceasing to be registered under the RCB Regulations and that either:

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

Where the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Alliance & Leicester Group, it shall give written notice to such Covered Bond Swap Provider or the Interest Rate Swap Provider, setting out the relevant details and requesting its consent thereto. Any such Covered Bond Swap Provider or the Interest Rate Swap Provider, shall, within ten London Business Days of receipt of such notice (the **Relevant Period**), notify in writing the Security Trustee of:

- (a) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or authorisation; or
- (b) subject to paragraph (a), its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonable in the circumstances).

Any failure by the relevant Covered Bond Swap Provider or the Interest Rate Swap Provider to notify the Security Trustee as aforesaid within the Relevant Period shall be deemed to be a consent by the relevant Swap Provider to such proposed modification, waiver or authorisation.

The Security Trustee may (without further enquiry) rely upon the consent or refusal in writing of any Covered Bond Swap Provider or the Interest Rate Swap Provider, as provided above and shall have no liability to any Covered Bond Swap Provider, the Interest Rate Swap Provider or any other Secured Creditor for consenting or not consenting (as the case may be) to a modification, waiver or authorisation on the basis of any such consent or refusal in writing or any deemed consent as provided above.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond 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 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 or stamp duty consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

The Issuer may, without the consent of the holders of the Covered Bonds of any Series or any Receipts or Coupons relating thereto, or any other Secured Creditor consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to, any corporation organised under the laws of the United Kingdom, or any political subdivision thereof, provided that:

- (i) a certificate of two directors of the Issuer and a certificate of a Designated Member of the LLP is delivered to the Bond Trustee and the Security Trustee to the effect that immediately after giving effect to such transaction no Issuer Event of Default or Potential Issuer Event of Default and no LLP Event of Default or Potential LLP Event of Default (in respect of the LLP), respectively, shall have occurred and be continuing;
- (ii) unless the Issuer is the surviving entity, the Issuer shall procure that the surviving or transferee company assumes its obligations as Issuer, or as the case may be, under the Trust Deed, each other relevant Transaction Document and all of the outstanding Covered Bonds of all Series, in place of the Issuer;
- (iii) in the case of an assumption of the obligations of the Issuer by a successor or transferee company, the guarantee of the LLP remain fully effective on the same basis in relation to the obligations of such successor or transferee company; and
- (iv) certain other conditions set out in the Trust Deed are met.

Upon the assumption of the obligations of the Issuer by such surviving or transferee company, the predecessor Issuer shall (subject to the provisions of the Trust Deed) have no further liabilities under or in respect of the Trust Deed or the outstanding Covered Bonds of each Series or any Coupons or Receipts appertaining thereto and the other Transaction Documents. Any such assumption shall be subject to the relevant provisions of the Trust Deed. The Trust Deed provides that any such assumption shall be notified to the holders of all Series of Covered Bonds in accordance with the relevant Terms and Conditions of such Covered Bonds and the other Secured Creditors.

For the purposes hereof:

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

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

15. Indemnification of the Bond Trustee and/or Security Trustee and Bond Trustee and/or Security Trustee Contracting with the Issuer and/or the LLP

If, in connection with the exercise of its powers, trusts, authorities or discretions (a) the Bond Trustee or the Security Trustee is of the opinion that the interests of the holders of the Covered Bonds then outstanding of any one or more Series would be materially prejudiced thereby, the Bond Trustee or the Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a written resolution of such Covered Bondholders of at least 25 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding (a **Written Resolution**) or (b) the Security Trustee is of the opinion (other than in relation to any enforcement action, when it shall only have regard to the interests of the Covered Bondholders) that the interests of a Secured Creditor (other than the Seller) would be materially prejudiced thereby, or any such Secured Creditor (other than the Covered Bondholders) (acting reasonably) informs the Security Trustee in writing that it would be materially prejudiced thereby, the Security Trustee shall only exercise the same with the written consent of such Secured Creditor(s) and provided that the Security Trustee is satisfied that such exercise will not be materially prejudicial to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions (other than as aforesaid), the Security Trustee may not act on behalf of the Seller.

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

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (i) to enter into business transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders or any other Secured Creditors, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for, *inter alia*, (i) supervising the performance by the Issuer, the LLP or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond

Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties, (ii) considering the basis on which approvals or consents are granted by the Issuer, the LLP or any other party to the Transaction Documents under the Transaction Documents, (iii) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test or the Amortisation Test, or (iv) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

16. Further Issues

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

17. Substitution

Substitution of Principal Debtor

The Bond Trustee may agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders but subject to confirmation from the Rating Agencies that the then current ratings of any outstanding Covered Bonds will not be downgraded, withdrawn or qualified as a result of the substitution, to the substitution in place of the Issuer (or of any previous substitute under this paragraph) as the principal debtor under the Covered Bonds, the Receipts, the Coupons and the Trust Deed of either (i) its Successor in Business, (ii) its holding company or (iii) any Subsidiary of the Issuer or its Successor in Business or holding company, subject to (a) except where the Successor in Business or holding company of the Issuer is the new principal debtor, the Covered Bonds being unconditionally and irrevocably guaranteed by the Issuer or, as the case may be, its Successor in Business or holding company, (b) the Trustee being satisfied that the interests of the Covered Bondholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

It shall be a condition of any substitution pursuant to this Condition 17 that:

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

Effect of substitution

Any such substitution shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified to the Noteholders by the Issuer as soon as practicable thereafter.

18. Ratings Confirmations

- 18.1 By subscribing for or purchasing Covered Bond(s), each Covered Bondholder shall be deemed to have acknowledged and agreed that a credit rating of a Series of Covered Bonds is an assessment of credit risk and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a confirmation by a Rating Agency that any action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document will not have an adverse effect on the then current rating of the Covered Bonds or cause such rating to be withdrawn (a **Rating Agency Confirmation**), whether such action is either (i) permitted by the terms of the relevant Transaction Document or (ii) in the best interests of, or not prejudicial to, some or all of the Covered Bondholders.
- 18.2 In being entitled to have regard to the fact that a Rating Agency has confirmed that the then current rating of the relevant Series of Covered Bonds would not be adversely affected or withdrawn, each of the Issuer, the LLP, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that a Rating Agency Confirmation does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the LLP, the Bond Trustee, the Security Trustee, the

Secured Creditors (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.

- 18.3 By subscribing for or purchasing Covered Bond(s) each Covered Bondholder shall be deemed to have acknowledged and agreed that:
- (a) a Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency;
 - (b) 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 shall not be responsible for the consequences thereof;
 - (c) a Rating Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bonds forms a part; and
 - (d) a Rating Agency Confirmation represents only a restatement of the opinions given, and shall not be construed as advice for the benefit of any Covered Bondholder or any other party.

19. Contracts (Rights of Third Parties) Act 1999

No person (other than the Rating Agencies in respect of Condition 17) 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.

20. Governing Law

The Trust Deed, the Agency Agreement, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents except as provided in this Condition 20 are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust is governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law. Those aspects of the Transaction Documents specific to Northern Irish Loans will be governed by Northern Irish law.

USE OF PROCEEDS

The gross proceeds (or the Sterling Equivalent thereof) 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 exchanging the proceeds of the Term Advances into Sterling, if necessary) either to (i) acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the Prescribed Limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

- (a) to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the Prescribed Limit; and
- (b) 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
- (c) subject to complying with the Asset Coverage Test, to make a Capital Distribution to a Member; and/or
- (d) to deposit all or part of the proceeds into the GIC Account (including, without limitation, to fund the Reserve Amount to an amount not exceeding the Prescribed Limit).

ALLIANCE & LEICESTER PLC

History and development

Alliance & Leicester plc (**A&L**) is a public limited company incorporated and registered in England and Wales under the Companies Act 1985. A&L and its subsidiaries (together, the **Group**) is one of the U.K.'s major financial services organisations, offering a broad range of financial services to private and commercial clients.

A&L was originally a building society (a mutual form of organisation existing under English law which engages primarily in residential mortgage lending and deposit taking) prior to its conversion to a public limited company. A&L was incorporated as a public limited company on 10 October 1996 (with registration number 03263713) and the conversion became effective as of 21 April 1997.

A&L is an authorised bank, operating within the U.K. and the Isle of Man and supervised by the Financial Services Authority and the Financial Supervision Commission respectively. Shares in A&L have been listed on the London Stock Exchange since 1997 and are owned by both retail and institutional investors.

The registered office of A&L is at Carlton Park, Narborough, Leicester, LE19 0AL, United Kingdom (telephone number +44 (0) 116 201 1000).

As at 31 December 2007, A&L and its Subsidiaries had total assets of approximately £79 billion and employed approximately 8,000 employees.

Principal activities

The principal activities of the Group are the provision of a comprehensive range of personal financial services in addition to a wide range of banking and financial services to business and public sector customers.

The Group's business comprises two main business units. Retail Banking provides personal savings and residential mortgage lending, current accounts and unsecured personal finance. Retail Banking also provides credit cards through MBNA, life assurance and long term investment products through Legal & General and general insurance products supplied by a range of providers, primarily Zurich Insurance. Commercial Banking provides banking services to commercial customers, including cash and cheque handling for retailers and other corporates, commercial lending, business banking and treasury services. These business units are supported by central group functions including finance, IT, human resources, communications and legal.

The principal markets in which A&L operates are as follows:

Residential mortgage lending

A&L's residential mortgage assets are spread geographically throughout the U.K.. Residential mortgage lending is focused primarily on customers who wish to purchase their primary residence. Arrears at the end of December 2007 totalled less than £10 million. The indexed loan to value ratio at the end of 2007 was 46 per cent.

At the end of December 2007, A&L had £42.8 billion of advances secured on residential property which represents around 54 per cent. of its total assets. At the end of 2007, A&L's market share of U.K. mortgage balances was 3.6 per cent.

Figures relating to residential mortgage lending market shares have been calculated based on market data extracted from the Bank of England's publication Monetary & Financial Statistics. A&L confirms that such information has been accurately reproduced and that, so far as A&L is aware, and is able to ascertain from information published by the Bank of England, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Group Structure

The principal operating subsidiary undertakings of A&L at 31 December 2007 are listed below. These subsidiary undertakings are incorporated and all operate in the United Kingdom except Alliance & Leicester International Limited, which operates in the Isle of Man.

Directly held subsidiary undertakings

Sector

Alliance & Leicester Personal Finance Limited

Unsecured lending

Indirectly held subsidiary undertakings

| | |
|---|-------------------------|
| Alliance & Leicester Commercial Finance plc | Asset leasing |
| Alliance & Leicester International Limited | Offshore deposit taking |

All subsidiary undertakings are limited by ordinary shares and are unlisted. A & L holds a 100 per cent. interest in the ordinary share capital and the voting rights of all its subsidiary undertakings, except for Lanebridge Securities Limited, Mitre Capital Partners Limited and Crossbill Investments Limited.

A & L acquired a 51 per cent. interest in the share capital of Lanebridge Securities Limited on 23 April 2007. Mitre Capital Partners Limited is a wholly owned subsidiary of Lanebridge Securities Limited.

A&L is, directly or indirectly, the holding company of all subsidiary undertakings in the Group (except for Lanebridge Securities Limited, Mitre Capital Partners Limited, The Prepaid Card Company Limited, Money Card (Holdings) Limited and Money Card Limited) and operates as a bank authorised under the Financial Services and Markets Act 2000. It is accordingly dependent on the income from its own operations, and from the performance and dividends of its principal operating subsidiary undertakings listed above.

Management

The Board of Directors of A&L, as at 9 April 2008, was composed of the following members:

| Name | Business Address | Group Function | Principal Activities Outside A&L |
|------------------------|---|--|---|
| Sir Derek Higgs | 17 Ulster Terrace London NW1 4PJ | Chairman | Director of Arena 2001 and Arena Coventry Limited, Trustee of The Textile Conservation Centre Foundation and Scott Trust. Non-executive director of Jones Lang LaSalle Inc. Pro-Chancellor of the University of Bristol. A Board Member of the Heart of National Forest Foundation and Member of Bramdean Asset Management LLP. |
| Malcolm Roger Aish | 17 Ulster Terrace London NW1 4PJ | Non-executive director | Non-executive director of Mitsubishi UFJ Securities International plc. |
| Richard Lee Banks | Bridle Road Bootle Merseyside L30 4GB | Managing Director, Commercial Banking | Director of Liverpool Compact Education Business Partnership and non-executive director of Visa Europe Inc. and Visa Europe Limited. |
| Jane Victoria Barker | 17 Ulster Terrace London NW1 4PJ | Non-executive director | Director of Equitas Holdings Limited, Equitas Limited, Equitas Policyholders Trustees Limited, Equitas Reinsurance Limited, Equitas Runoff Services Limited and a designated Member of the Royal College of Music Council. |
| David Jonathan Bennett | Carlton Park Narborough Leicester LE19 0AL | Chief Executive | Non-executive director and Chair of Audit Committee of easyJet plc. |
| Roy Drysdale Brown | 17 Ulster Terrace London NW1 4PJ | Non-executive director | Member of CBI International Advisory Board, Member of Lloyds of London (Franchise |

| Name | Business Address | Group Function | Principal Activities Outside A&L |
|---------------------------|---|------------------------|---|
| Rodney Jympson Duke | 17 Ulster Terrace London NW1 4PJ | Non-executive director | Board), Chairman of GKN plc., Nonexecutive director of HMV Group plc and HMV Group Pensions Trustee Limited. Non-executive director of Exedra Clubs Ltd, Director of M&R Duke Investments Limited. |
| Mary Francis | 17 Ulster Terrace London NW1 4PJ | Non-executive director | Director of the Almeida Theatre Company Limited, Almeida Production Limited, Almeida Theatre Catering Limited, Centrica plc, Fund Distribution Limited, St Modwen Properties plc and Aviva plc. |
| Robert Michael McTighe | 17 Ulster Terrace London NW1 4PJ | Non-executive director | Chairman of Frontier Silicon Limited, Nujira Limited and Pace Micro Technology plc. Director of Alphamosiac Limited, Cambridge Semiconductor Limited, Corvil Networks, London Metals Exchange Holdings Limited, Perpetuum Limited, Phyworks Limited and Traitrealm Limited. Director of the Office of Communications (OFCOM). |
| Christopher Stuart Rhodes | Carlton Park Narborough Leicester LE19 0AL | Group Finance director | |
| Margaret Salmon | 17 Ulster Terrace London NW1 4PJ | Non-executive director | Chairman of Sector Skills Development Agency Limited, Trustee of Centrepoint. |
| Edward Jonathan Watts | 17 Ulster Terrace London NW1 4PJ | Non-executive director | President of GEO (formerly Hutchinson Network Services and Chairman of Alaya Samadhi Ltd. Director of Ego Holdings Limited, Ego Midco Limited, Ego Acquisitions Limited, Hutchinson Network Services UK Limited, Hutchinson Network Services London Limited and Fibrespeed Limited. |

There are no potential conflicts of interest between the duties to A&L of each of the members of the Board of Directors listed above and his/her private interests or other duties.

Subsidiaries of A&L

A&L currently has the following principal directly held subsidiary:

Alliance & Leicester Personal Finance Limited

Alliance & Leicester Personal Finance Limited is a private limited company incorporated in England and Wales on 29 March 1990 with registered number 02486611. Its core business is the provision of unsecured Loans for personal customers.

ALLIANCE & LEICESTER COVERED BONDS LLP

Alliance & Leicester Covered Bonds LLP (the **LLP**) was incorporated in England and Wales on 12 October 2007 as a limited liability partnership (with registered number OC 332032) with limited liability under the LLPA.

The LLP's registered office is at Carlton Park, Narborough, Leicester LE19 0AL. The telephone number of the LLP's registered office is +44(0) 116 201 1000.

The LLP forms a group with its Members (see below) and has no subsidiaries. The LLP is dependent on Alliance & Leicester plc to provide certain management and administrative services to it, on the terms of the Transaction Documents.

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

The LLP has a standard licence under the Consumer Credit Act 1974, licence number 612274.

The LLP has not engaged since 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, activities contemplated under the Transaction Documents to which it is or will be a party, obtaining a standard licence under the Consumer Credit Act 1974, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to the foregoing.

Members

The Members of the LLP as at the date of this Prospectus and their registered offices are:

| Name | Registered Office |
|---|---|
| Alliance & Leicester plc | Carlton Park, Narborough, Leicester LE19 0AL |
| Alliance & Leicester Covered Bonds (LM) Limited | c/o Structured Finance Management Limited, 35 Great St Helen's, London EC3A 6AP |

Management Board

At the date of this Prospectus, the following are the members of the LLP Management Board:

| Position in the LLP | Name | Principal Activities outside the LLP |
|--------------------------------|---------------|---|
| Member of the Management Board | Ian Hares | Group Treasurer of Alliance & Leicester plc |
| Member of the Management Board | Chris Annis | Head of Treasury Documentation of Alliance & Leicester plc |
| Member of the Management Board | Simon Lloyd | Group Secretary of Alliance & Leicester plc |
| Member of the Management Board | Richard Banks | Managing Director, Commercial Banking of Alliance & Leicester plc |

The business address of all the members of the LLP Management Board listed above is Carlton Park, Narborough, Leicester LE19 0AL.

There are no potential conflicts of interest between any duties of the members of the LLP Management Board to the LLP and their private interests or other duties.

The LLP has no employees.

As at the date of this Prospectus, the LLP is controlled by Alliance & Leicester plc. To ensure that such control is not abused, the Members of the LLP and the LLP, *inter alios*, have entered into the LLP Deed which governs the operation of the LLP.

In the event of the appointment of a liquidator or an administrator to Alliance & Leicester plc, Alliance & Leicester Covered Bonds (LM) Limited (with the prior written consent of the Security Trustee whilst the Covered Bonds are outstanding) may by written notice to the LLP appoint a New Member (which must be a Subsidiary of the Liquidation Member) as a Designated Member.

The LLP has not produced any audited accounts as of the date of this Prospectus.

SUMMARY OF THE PRINCIPAL DOCUMENTS

Trust Deed

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

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

Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any monies due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Receipts or Coupons, or if any other Issuer Event of Default occurs (other than by reason of non-payment), and, in either case, if the Bond Trustee has served an Issuer Acceleration Notice, the LLP has agreed (subject as described below) to pay or procure to be paid (following service of a Notice to Pay) 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, the Extended Due for Payment Date, by the Issuer. Following the occurrence of an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice and service by the Bond Trustee of 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 and (b) the day on which the Guaranteed Amounts are otherwise Due for Payment (the **Guaranteed Amounts Due Date**). In addition, the LLP shall, to the extent it has funds available to it, make payments in respect of the unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date. The Bond Trustee will be required to serve a Notice to Pay following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

Following the occurrence of an LLP Event of Default and the service by the Bond Trustee of an LLP Acceleration Notice on the Issuer and the LLP, in respect of the Covered Bonds of each outstanding Series, the LLP shall, as principal obligor, pay or procure to be paid to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders) in the manner described in the Trust Deed, the Guaranteed Amount in respect of each Covered Bond corresponding to the Early Redemption Amount for that Covered Bond plus (to the extent not included in the Early Redemption Amount) all accrued and unpaid interest and all other amounts payable in respect of that Covered Bond as referred to in the definition of Guaranteed Amount and thereafter the Security shall become enforceable. All monies received or recovered by the Security Trustee or any Receiver (other than any Tax Credit, Third Party Amount or Swap Collateral Excluded Amount which will be paid in accordance with the relevant provisions of the Deed of Charge) will be applied, following enforcement of the Security, in accordance with the Post-Enforcement Priority of Payments.

Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which, following the occurrence of an LLP Event of Default, an LLP Acceleration Notice is served in accordance with Condition 9.2. Following service of an LLP Acceleration Notice, the Covered Bonds will (if an Issuer Acceleration Notice has not already been served) become immediately due and payable as against the Issuer and the obligations of the LLP under the Covered Bond Guarantee will be accelerated.

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, duties, 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 holder of Covered Bonds in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP has agreed that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional (subject to Notice to Pay being given), 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 period specified in Condition 9.2(a) of the Terms and Conditions, failure by the LLP to pay the Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date will result in an LLP Event of Default.

The Trust Deed provides that any Excess Proceeds shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other monies from time to time standing to the credit of the GIC Account. 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 a Notice to Pay) 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 Bonds, 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 recognised under the RCB Regulations. The Issuer may request the Bond Trustee to agree to modifications to the Transaction Documents and/or the Terms and 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 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 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 the requested amendments are to be made solely for the purpose of enabling the Covered Bonds to qualify under the Covered Bonds Regulations.

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 gross proceeds of the issue of the related Covered Bonds to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms Document. Each Term Advance which is made in a currency other than Sterling will be exchanged by the LLP into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP:

- (a) as consideration (in whole or in part) for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – *Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security*; and/or
- (b) to invest in Substitution Assets in an amount not exceeding 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 may be applied by the LLP: (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – "*Mortgage Sale Agreement – Sale by the Seller of Loans and their Related Security*"; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (iii) (subject to satisfying the Asset Coverage Test), to make a Capital Distribution to a Member; and/or (iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (v) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit).

Each Term Advance of the relevant Series or Tranche of Covered Bonds will bear interest at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advance(s) in accordance with the relevant Priorities of Payments. Prior to 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 (but is not required to) use the proceeds of the Term Advances to pay amounts due on the

Covered Bonds; any failure by the LLP to pay any amounts due on the Term Advances, however, 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 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 6.11. The Intercompany Loan Agreement will be governed by English law.

Mortgage Sale Agreement

The Seller

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Programme Date between Alliance & Leicester plc (in its capacity as Seller), the LLP and the Security Trustee.

Sale by the Seller of the Loans and Related Security

The Portfolio will consist of the Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming the Portfolio will vary over time provided that the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Assignment Date. Accordingly, the Portfolio may, at any time, include Loans with different characteristics from Loans that were included in the Portfolio or being offered to Borrowers on previous Assignment Dates.

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

- (a) *First*, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied in whole or in part by the LLP to acquire Loans and their Related Security from the Seller.
- (b) *Second*, the LLP will, in certain circumstances, use the Available Principal Receipts to acquire New Loans and their Related Security from the Seller and/or Substitution Assets (in respect of any Substitution Assets up to the Prescribed Limit) on each LLP Payment Date.
- (c) *Third*, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable endeavours to offer to sell sufficient New Loans and their Related Security to the LLP on or before the next Calculation Date to ensure compliance with the Asset Coverage Test as at the next Calculation Date.

In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the Current Balance of those Loans as at the Assignment Date, which will be satisfied by a combination of:

- (a) a cash payment to be made by the LLP from the Sterling Equivalent of the proceeds of the relevant Term Advance and/or from Available Principal Receipts;
- (b) the Seller being treated as having made a Capital Contribution in Kind in an amount up to the difference between the aggregate Current Balance of the Loans sold by the Seller as at the relevant Assignment Date and the cash payment (if any) made by the LLP in accordance with (a) above; and/or
- (c) Deferred Consideration (including any Postponed Deferred Consideration), which shall be paid by the LLP on the LLP Payment Dates (provided that there are available funds and after the making of any provisions in accordance with normal accounting practice) in accordance with the applicable Priorities of Payments.

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

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

Eligibility Criteria

The sale of Loans and their Related Security to the LLP will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Assignment Date. These are as follows:

- (a) there shall have been neither an Issuer Event of Default and service of an Issuer Acceleration Notice nor an LLP Event of Default and service of an LLP Acceleration Notice as at the relevant Assignment 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 proposed purchase by the LLP of the Loans and their Related Security on the relevant Assignment Date would adversely affect the then current ratings by Moody's, S&P or Fitch of the Covered Bonds;
- (c) the yield (as calculated in accordance with the relevant provisions of the Mortgage Sale Agreement) on the Loans currently comprised in the Portfolio together with the yield on the Loans to be assigned to the LLP on the relevant Assignment Date is not less than the weighted average of LIBOR for three month Sterling deposits under the Interest Rate Swap as at the immediately preceding Calculation Date plus 0.40 per cent., taking into account the average yield on the Loans which are Variable Rate Loans, Discount Loans and Fixed Rate Loans and the margins on the Swaps as at the relevant Assignment Date;
- (d) no Loan that is proposed to be assigned to the LLP on the relevant Assignment Date has a Current Balance of more than £1,000,000;
- (e) if the Loans that are proposed to be assigned to the LLP on the relevant Assignment Date include New Loan Types, the LLP has received written confirmation from each of the Rating Agencies that if such New Loan Types were sold to the LLP, such sale of the New Loan Types to the LLP would not have an adverse effect on the then current ratings by Moody's, S&P or Fitch of the Covered Bonds; and
- (f) no Loan that is proposed to be assigned to the LLP on the relevant Assignment Date relates to a Property which is not a residential Property.

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

If the Seller accepts an application from, or makes an offer (which is accepted) to, a Borrower for a Product Switch or Further Advance which constitutes an unconditional obligation on the part of the Seller to make such Product Switch or a Further Advance, then the Seller may (at its sole discretion) offer to repurchase the relevant Loan and the Related Security to which the Product Switch or Further Advance relates. The Issuer (in its capacity as Servicer) may not agree to a Product Switch or to make a Further Advance to a Borrower if to do so would cause the LLP to be in contravention of the FSMA, although the Seller may agree to such Product Switch or Further Advance if it repurchases the Loan that is subject to such Product Switch or Further Advance and if by so doing the LLP would not thereby be in contravention of the FSMA.

Transfer of Title to the Loans to the LLP

English Loans and Northern Irish Loans will be sold by the Seller to the LLP by way of equitable assignment. The sale of Scottish Loans by the Seller to the LLP on or after the First Assignment Date will be given effect by way of Scottish Declarations of Trust by the Seller, under which the beneficial interest in such Scottish Loans will be transferred to the LLP (and in relation to Scottish Loans, references in this document to a sale and equitable assignment of Loans or to Loans having been sold and equitably assigned are to be read as references to the making of such Scottish Declarations of Trust in respect of Scottish Loans and references to a legal assignment of Loans or to Loans having been legally assigned are to be read as references to the granting of assignments of such Scottish Loans pursuant to the Mortgage Sale Agreement). Such beneficial interest (as opposed to the legal title) cannot be registered or (as applicable) recorded in the Registers of Scotland. As a result, legal title to the Loans and their Related Security will remain in all cases with the Seller until legal assignments or assignments (as appropriate) are delivered by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignment (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described below.

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

- (a) service of a Notice to Pay (unless the Seller has notified the LLP that it will accept the offer set out in the Selected Loan Offer Notice within the prescribed time, in which case legal assignment or assignment will not occur in respect the Loans set out in that Selected Loan Offer Notice) or an LLP Acceleration Notice;
- (b) in respect of Selected Loans only, at the request of the LLP following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;
- (c) the Seller and/or the LLP being required, by an order of a court of competent jurisdiction, or by a regulatory authority to which the Seller is subject 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 Loans and their Related Security;

- (d) it being rendered necessary by law to take such actions;
- (e) the Security under the Deed of Charge or any material part of that Security being in jeopardy and the Security Trustee certifying that, in its reasonable opinion, such action is necessary in order to materially reduce such jeopardy;
- (f) unless otherwise agreed in writing by the Security Trustee (with S&P and Fitch having confirmed it would not adversely affect the then current ratings of the Covered Bonds), the termination of the Seller's role as Servicer under the Servicing Agreement unless the substitute servicer, if any, is a member of the Alliance & Leicester Group;
- (g) the Seller calling for legal assignment or assignation (as appropriate) by giving notice in writing to the LLP and the Security Trustee; and
- (h) the occurrence of an Insolvency Event in relation to the Seller.

If the Seller ceases to have a long term unsecured, unsubordinated and unguaranteed credit rating by Fitch and by S&P of at least BBB- and by Moody's of at least Baa3 (unless Fitch, Moody's and S&P confirm in writing to the LLP, the Security Trustee and the Issuer that the then current ratings of the Covered Bonds then outstanding will not be downgraded, withdrawn or qualified if such notice is not given), the Seller will be obliged to give notice only of the transfer of the equitable and beneficial interest in the Loans to the Borrowers but will not be required to complete any other steps necessary to perfect legal title to the Loans in favour of the LLP, unless and until one of the events set out above occurs.

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of, or (in Scotland) the heritable creditor under, the Mortgages will be secured and supported by an irrevocable power of attorney granted by the Seller in favour of the LLP and the Security Trustee.

The Title Deeds (if any) and Customer Files relating to the Loans in the Portfolio will be held by or to the order of the Seller or the Servicer, as the case may be, or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security, save for Title Deeds (if any) held at the Land Registry or the Registers of Scotland or the Land Registry of Northern Ireland or the Registry of Deeds. The Seller or the Servicer, as the case may be, will undertake that all the Customer Files and, save in relation to Dematerialised Loans, Title Deeds relating to the Loans in the 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 Loans and their Related Security to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which consent will only be given if the Security Trustee is satisfied, acting reasonably, that there will be no adverse effect on the then current ratings of the Covered Bonds as a result thereof), amend or waive the Representations and Warranties in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Assignment Date in respect of the Loans and Related Security to be sold to the LLP only on that date:

- each Loan was originated by the Seller in Sterling and is denominated in Sterling (or was originated in Sterling or euro and is denominated in euro if the euro has been adopted as the lawful currency of the United Kingdom);
- no Loan has a Current Balance of more than £1,000,000;
- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of that Loan were satisfied in all material respects subject only to exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- other than with respect to Monthly Payments, no Borrower is, or has been since the date of the relevant Loan, in material breach of any obligation owed in respect of the relevant Loan or under the Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security;
- the total amount of Interest or arrears of principal, together with any fees, commissions and premiums payable at the same time as such interest payment or principal repayment, on any Loan is not on the relevant Assignment Date in respect of such Loan, nor has been during the 12 months preceding the relevant Assignment Date, more than the Monthly Payment then due;
- all of the Borrowers are natural legal persons and were aged 18 years or older at the date of execution of the Mortgage and no Borrower is an employee of the Issuer;
- each Borrower has made at least one Monthly Payment;

- the whole of the Current Balance on each Loan and all future advances and any Arrears of Interest and all Accrued Interest is secured by a Mortgage;
- each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage (in relation to the English Loans) or first fixed charge (in relation to the Northern Irish Loans) or first ranking standard security (in relation to the Scottish Loans) over the relevant Property, except in the case of some Flexible Loans in respect of which a Mortgage may constitute valid and subsisting first and second charges by way of legal mortgage (in relation to the English Loans) or first and second fixed charges (in relation to the Northern Irish Loans) or first and second ranking standard securities (in relation to the Scottish Loans) over the relevant Property, and subject only in certain appropriate cases to requisite applications for registrations at the Land Registry, the Land Registry of Northern Ireland, the Registry of Deeds or the Registers of Scotland having been made and which are pending and, in relation to such cases, the Seller is not aware of any caution, notice, inhibition or any other matter that would prevent such registration or recording;
- each Loan and its Related Security is valid and binding and enforceable in accordance with its terms and is non-cancellable, save in relation to any term of any Loan or its Related Security, in each case which is not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999 and in relation to any Flexible Loan Drawing and any other Further Advance, in each case which is not enforceable by virtue of the CCA and to the best of the Seller's knowledge, none of the terms of any Loan or its Related Security is not binding by virtue of its being unfair pursuant to the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999;
- all of the Properties are residential properties situated in England, Wales, Northern Ireland or Scotland;
- not more than 12 months (or such longer period as would be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the grant of each Mortgage, the Seller received a Valuation Report on the relevant Property (or such other form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- the benefit of all Valuation Reports, any other valuation report referred to above (if any) and Certificates of Title which were provided to the Seller not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the LLP without obtaining the consent of the relevant valuer, solicitor or licensed or qualified conveyancer;
- prior to the taking of each Mortgage (excluding (i) any Mortgage granted in relation to a Flexible Loan as a result of that Loan being the subject matter of a Product Switch to that Flexible Loan or (ii) any Mortgage completed by way of a re-mortgage pursuant to the Seller's Mortgage Transfer Service), the Seller (A) instructed its solicitor or licensed or qualified conveyancer to carry out an investigation of title to the relevant Property and to undertake such other searches, investigations, enquiries and other actions on behalf of the Seller as are set out in the General Instructions to Solicitors or the CML's Lenders' Handbook contained in the Standard Documentation (or other comparable or successor instructions and/or guidelines as may for the time being be in place), subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender or in circumstances where a Mortgage is provided by the Seller on a "fees free" basis in connection with the re-mortgage of the Property and provided that the relevant Property is conveyed in accordance with a service agreement entered into between the Seller and its solicitor and (B) received a certificate of title from such solicitor or licensed conveyancer or (in Scotland) qualified conveyancer relating to such Mortgaged Property, the contents of which would have been acceptable to a Reasonable, Prudent Mortgage Lender at that time;
- buildings insurance cover for each Property is or will at all relevant times be available under a policy arranged by the Borrower, by the Seller or by the relevant landlord;
- the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loan;
- where there is any restriction on the assignment or transfer of any Loan or Related Security relating to the advance of monies other than the Loan or any Further Advance secured by the Related Security, no such monies have been advanced to the Borrower since the date of completion of such Loan save for where such monies have been advanced under an agreement regulated by the CCA which does not include as one of its terms that the money payable under it is secured by the relevant Mortgage;
- each Loan and its Related Security will be "eligible property" for the purposes of Regulation 2 of the RCB Regulations;
- there are no authorisations, approvals, licences or consents required as appropriate which have not been obtained for the Seller to enter into or to perform the obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence; and

- the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement.

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

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

Repurchase of Loans

If the Seller receives a Loan Repurchase Notice from the LLP identifying a Loan or its Related Security in the Portfolio which did not, as at either:

- (i) the relevant Assignment Date; or,
- (ii) in respect of a Loan subject to a Product Switch or Further Advance that remains in the Portfolio, the relevant Calculation Date immediately following the making by the Seller of the relevant Product Switch or Further Advance,

materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase (a) any such Loan and its Related Security and (b) any other Loan secured or intended to be secured by that Related Security or any part of it. The repurchase price payable upon the repurchase of any such Loan is an amount (not less than zero) equal to the Current Balance thereof and all Arrears of Interest and Accrued Interest relating thereto plus any amounts deducted from the amounts outstanding under such Loan in accordance with the Mortgage Sale Agreement as at the relevant repurchase date. The repurchase proceeds received by the LLP will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see *Cashflows* below).

General ability to repurchase

Prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Seller may from time to time offer to repurchase a Loan and its Related Security from the LLP for a purchase price of not less than the aggregate Current Balance of the relevant Loan and all Arrears of Interest and Accrued Interest relating thereto as at the date of repurchase. 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 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.

Defaulted Loans

Defaulted Loans will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. Prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Seller may, at its option, offer to repurchase a Defaulted Loan and its Related Security from the LLP for an amount equal to its aggregate Current Balance and all Arrears of Interest and Accrued Interest relating thereto as at the date of repurchase. 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 Defaulted 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 Loans and their Related Security.

The LLP will serve on the Seller a Selected Loan Offer Notice offering to sell those Selected Loans and their Related Security for an offer price at least equal to the greater of the then Current Balance of the Selected Loans and all Arrears of Interest and Accrued Interest relating thereto and the Adjusted Required Redemption Amount, in each case subject to the offer being accepted by the Seller within 10 London Business Days. If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee. If the Seller rejects the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Loans and their Related Security to other Purchasers (as described under – *LLP Deed – Sale of Selected Loans in the Portfolio following the service of a Notice to Pay* below).

If the Seller validly accepts the LLP's offer to sell the Selected Loans and their Related Security, the LLP will, within three London Business Days of such acceptance, serve a Selected Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of the Selected Loan Repurchase Notice and will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of the purchase of the Selected Loans and their Related Security by the Seller will take place on the LLP Payment Date next occurring after receipt of the Selected Loan Repurchase Notice or such date as the LLP may direct in the Selected Loan Repurchase Notice (provided that, where a Notice to Pay has been served, such date is not later than the earlier to occur of the date which is (a) 10 London Business Days after receipt by the LLP of the returned Selected Loan Repurchase Notice and (b) the Final Maturity Date of the Earliest Maturing Covered Bonds).

Product Switches, Further Advances and Flexible Loan Drawings

The Seller is solely responsible for funding all Further Advances and Flexible Loan Drawings in respect of 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 Further Advances or Flexible Loan Drawings, as set out in the LLP Deed.

The LLP may require the Seller to repurchase any Loan and its Related Security in the event of a material breach of any of the Representations or Warranties or if any of those Representations or Warranties proves to be materially untrue in relation to that Loan. If a Loan is subject to a Product Switch or an offer of a Further Advance, then the Seller may (at its sole discretion) offer to repurchase the Loan or Loans under the relevant Mortgage Account and the Related Security from the LLP. In either case, the sale price will be equal to the aggregate Current Balance of such Loans and all Arrears of Interest and Accrued Interest relating thereto as at the date of purchase.

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

- any variation agreed with a Borrower to control or manage arrears on the Loan;
- any variation in the term of the Loan;
- any variation imposed by statute;
- any variation of the principal available and/or the rate of interest payable in respect of the Loan where that variation or rate is offered to the Borrowers under Loans which constitute 10 per cent. or more by outstanding principal amount of Loans comprised in the Portfolio in any LLP Payment Period; or
- any variation in the frequency with which the interest payable in respect of the Loan is charged.

New Sellers

In the future, New Sellers (which are, *inter alia*, members of the Alliance & Leicester Group and have their registered office in the United Kingdom) may accede to the Programme, subject to confirmation from the Rating Agencies that the then current ratings of any outstanding Covered Bonds will not be downgraded, withheld or qualified as a result of the accession, and sell loans and their related security to the LLP. Any such New Seller will be required to enter into a New Mortgage Sale Agreement, which will be in substantially the same form and contain substantially the same provisions as the Mortgage Sale Agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee. The sale of New Seller Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Seller Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;
- each New Seller enters into a New Mortgage Sale Agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Seller Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee;
- each New Seller accedes to such Transaction Documents and enters into such other documents as may be required by the Security Trustee, the Bond Trustee, the LLP and/or the Cash Manager (in each case acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;
- any New Seller Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the New Mortgage Sale Agreement;

- either the Servicer services the New Seller Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into a servicing agreement with the LLP and the Security Trustee which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Seller Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (provided that the fees payable to the Servicer or the New Seller (or its nominee) acting as servicer of such New Seller Loans and their Related Security would be determined on or around the date of the accession of the New Seller to the Programme); and
- the Security Trustee has received confirmation from the Bond Trustee that any modifications to the Transaction Documents in order to accommodate the accession of a New Seller to the Programme will not be materially prejudicial to the interests of any of the Covered Bondholders and, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Alliance & Leicester Group, the Covered Bond Swap Providers and the Interest Rate Swap Provider and has received a Rating Agency Confirmation in relation thereto.

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

The Mortgage Sale Agreement is governed by English law (other than certain aspects relating to the Northern Irish Loans and the Scottish Loans and their Related Security, which are governed by Northern Irish law and Scots law, respectively).

Servicing Agreement

Pursuant to the terms of the Servicing Agreement entered into on the Programme Date between the Seller, the LLP, the Servicer and the Security Trustee, the Servicer has agreed to service on behalf of the LLP the Loans and their Related Security comprised in the Portfolio.

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

- (a) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; and
- (b) in accordance with the Seller's administration, arrears and enforcement policies and procedures forming part of the Seller's policy from time to time as they apply to those Loans.

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

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

Right of delegation by the Servicer

The Servicer may from time to time sub-contract or delegate the performance of its duties under the Servicing Agreement, provided that it will nevertheless remain responsible for the performance of those duties to the LLP and the Security Trustee and, in particular, will remain liable at all times for servicing the Loans and their Related Security and for the acts or omissions of any delegate or sub-contractor. Any such sub-contracting or delegation may be varied or terminated at any time by the Servicer.

Undertakings of the Servicer

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

- keep records and books of account on behalf of the LLP in relation to the Loans and their Related Security;
- keep the Customer Files and, save in relation to Dematerialised Loans, Title Deeds in its possession in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to the Title Deeds (if any), the Customer Files and other records relating to the administration of the Loans and their Related Security in its possession;
- keep and maintain records in respect of the Portfolio for the purposes of identifying amounts paid by each Borrower, any amount due from a Borrower and the current balance of each Loan and such other records as would be kept by a Reasonable, Prudent Mortgage Lender;

- provide to the LLP, the Security Trustee and the Rating Agencies a report on a monthly basis containing information about the Loans and their Related Security comprised in the Portfolio, and a report on a quarterly basis, in a form agreed with the LLP, the Security Trustee and the Rating Agencies, containing certain information about the individual Loans in the Portfolio;
- with effect on and from the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, provide to the FSA such information about the Loans and their Related Security contained in the Portfolio and/or such other information as the FSA may direct pursuant to the RCB Regulations;
- assist the Cash Manager in the preparation of a Monthly Asset Coverage Report in accordance with the Cash Management Agreement;
- take all reasonable steps to recover all sums due to the LLP, including instituting proceedings and enforcing any relevant Loan or its Related Security using the discretion of a Reasonable, Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy; and
- enforce any 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 procedures that would be undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

The Servicer will undertake not to agree to a Product Switch or to make a Further Advance to a Borrower if to do so would cause the LLP to be in contravention of the FSMA. However, the Seller may agree to such Product Switch or Further Advance if it repurchases the Loan that is subject to such Product Switch or Further Advance and if by so doing the LLP would not thereby be in contravention of the FSMA.

The Servicer also undertakes that, on the Servicer ceasing to be assigned a long-term, unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by S&P of at least BBB- or by Fitch of at least BBB-, it will use reasonable endeavours to enter into a new or a master servicing agreement (in such form as the LLP and the Security Trustee shall reasonably require) with a third party within 60 days under which such third party will undertake the servicing obligations in relation to the Portfolio.

Setting of LLP Standard Variable Rate and LLP Differential Rate

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set the LLP Standard Variable Rate, the LLP Differential Rate and any other applicable discretionary rates or margins in relation to Loans in the Portfolio, except in the limited circumstances described below when the LLP will be entitled to do so. The Servicer will not (except in limited circumstances) at any time set or maintain:

- the LLP Standard Variable Rate applicable to any Variable Rate Loan and/or the LLP Differential Rate applicable to any Discount Loan sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the Seller Standard Variable Rate which applies to that type of Variable Rate Loan beneficially owned by the Seller outside the Portfolio or the Differential Rate which would apply to that type of Discount Loan in equivalent circumstances beneficially owned by the Seller outside the Portfolio; or
- any other discretionary rate or margin in respect of any other Loan sold by the Seller to the LLP and in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin of the Seller, which applies to that type of loan beneficially owned by the Seller, as applicable, outside the Portfolio.

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

- the income which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);
- the LLP Standard Variable Rate in relation to any Variable Rate Loan, the LLP Differential Rate in relation to any Discount Loan and any other applicable discretionary rates or margins in relation to Loans in the Portfolio which the Servicer proposes to set for the Relevant LLP Payment Period under the Servicing Agreement; and
- the other resources available to the LLP including payments received under the Interest Rate Swap and, where relevant, the relevant Covered Bond Swaps,

whether the LLP will receive an amount of income during the Relevant LLP Payment Period which when aggregated with the other funds otherwise available to it is less than the amount which is the aggregate of (A) the amount of interest which would be payable (or provisioned to be paid) under the Intercompany Loan Agreement or, if a Notice to Pay has been served, the Covered Bond Guarantee on the LLP Payment Date falling at the end of the Relevant LLP Payment Period and amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements on the LLP Payment Date falling at the end of the Relevant LLP Payment Period and (B) the other expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priority of Payments applicable

prior to an LLP Event of Default and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security (the **Interest Rate Shortfall Test**).

If the Servicer 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 amount of the shortfall and the LLP Standard Variable Rate and/or any other applicable discretionary rates or margins in relation to Loans in the Portfolio which would, in the Servicer's opinion, need to be set in order for no shortfall to arise and the Interest Rate Shortfall Test to be met, having regard to the date(s) (which shall be specified in the notice) on which such change to the LLP Standard Variable Rate and/or any other applicable discretionary rates or margins in relation to Loans in the Portfolio would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

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

- (a) the LLP Standard Variable Rate and/or the LLP Differential Rate and/or any other applicable discretionary rates or margins in relation to Loans in the Portfolio which the Servicer proposes to set under the Servicing Agreement for the relevant LLP Payment Period; and
- (b) the other resources available to the LLP under the Interest Rate Swap,

whether the LLP would receive an aggregate amount of interest on the Loans in the Portfolio and amounts under the Interest Rate Swap during the Relevant LLP Payment Period which would give an annual yield on the Loans in the Portfolio of at least the weighted average of LIBOR for Sterling deposits under the Interest Rate Swap as at the preceding Calculation Date plus 0.40 per cent (the **Yield Shortfall Test**).

If the Servicer determines that the Yield Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one London Business Day, of the amount of the shortfall and the LLP Standard Variable Rate and/or any other applicable discretionary rates or margins in relation to any Loans which would, in the Servicer's opinion, need to be set in order for no shortfall to arise and the Yield Shortfall Test to be met, having regard to the date(s) (which shall be specified in the notice) on which such change to the LLP Standard Variable Rate and/or any other applicable discretionary rates or margins in relation to Loans in the Portfolio would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

If the LLP or the Security Trustee notifies the Servicer that, having regard to the obligations of the LLP, the LLP Standard Variable Rate and/or any other applicable discretionary rates or margins in relation to Loans in the Portfolio should be increased, the Servicer will take all steps which are necessary, including publishing any notice which is required in accordance with the relevant Mortgage Terms, to effect such change in the LLP Standard Variable Rate and/or any other applicable discretionary rates or margins in relation to Loans in the Portfolio on the date(s) specified in the notice to the LLP and the Security Trustee.

The LLP and the Security Trustee may terminate the authority of the Servicer to determine and set the LLP Standard Variable Rate and/or the LLP Differential Rate and/or any other applicable discretionary rates or margins in relation to Loans in the Portfolio on or after the occurrence of a Servicer Event of Default as defined under *Removal or resignation of the Servicer* below, in which case the LLP will set the LLP Standard Variable Rate, the LLP Differential Rate and/or any other applicable discretionary rates or margins in relation to other Loans in the Portfolio.

Remuneration

The LLP shall pay to the Servicer an administration fee (inclusive of VAT) for its services as agreed between the LLP and the Servicer. Such administration fee shall be calculated in relation to each Calculation Period and shall be payable to the Servicer in arrear on each LLP Payment Date. As at the closing date, the administration fee shall be 0.08 per cent. per annum (inclusive of VAT). The amount of such fee may increase from time to time.

Removal or resignation of the Servicer

The LLP and the Security Trustee may, upon written notice to the Servicer, terminate the Servicer's appointment under the Servicing Agreement if any of the following events (each a **Servicer Termination Event** and, each of the first three events set out below, a **Servicer Event of Default**) occurs and while such event continues:

- the Servicer defaults in the payment on the due date of any amount due and payable by it under the Servicing Agreement and does not remedy that default for a period of five London Business Days after the earlier of the Servicer becoming aware of the default or receipt by the Servicer of written notice from the Security Trustee or the LLP requiring the default to be remedied;
- the Servicer defaults in the performance or observation of any of its other covenants and obligations under the Servicing Agreement, which default in the reasonable opinion of the Security Trustee is materially prejudicial to the interests of the Covered Bondholders, and does not remedy that default within 20 London Business Days after

the earlier of the Servicer becoming aware of the default or receipt by the Servicer of written notice from the LLP and the Security Trustee requiring the default to be remedied;

- an Insolvency Event occurs in relation to the Servicer;

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

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

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

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

Asset Monitor Agreement

Under the terms of the Asset Monitor Agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Security Trustee and the Bond 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 conduct tests in respect of the arithmetical accuracy of the calculations performed by the Cash Manager, prior to service of a Notice to Pay or an 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 on that Calculation Date. If and for so long as the long-term ratings of the Cash Manager or the Issuer are below BBB-/Baa3/BBB- (by S&P, Moody's or Fitch, respectively), the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to conduct such tests following each Calculation Date. Following service of a Notice to Pay (but prior to service of an LLP Acceleration Notice), the Asset Monitor will also be required to test the arithmetical accuracy of the calculations performed by the Cash Manager in respect of the Amortisation Test.

Following a determination by the Asset Monitor of any errors in the arithmetical accuracy of the calculations performed by the Cash Manager such that the Asset Coverage Test 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 Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated by an amount exceeding one per cent. of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, except in certain limited circumstances, to assume that all information provided to it by the Cash Manager for the purpose of conducting such tests is true and correct and not misleading, and is not required to conduct a test or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

As at the Programme Date, the LLP will pay to the Asset Monitor a fee of £3,000 per test (exclusive of VAT) for the tests to be performed by the Asset Monitor.

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

The Asset Monitor may, at any time, resign by giving at least 30 days' prior written notice to the LLP and the Security Trustee, and may resign by giving immediate notice in the event of a professional conflict of interest caused by the action of any recipient of its reports.

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

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

The Asset Monitor Agreement is governed by English law.

LLP Deed

The Members of the LLP have agreed to operate the business of the LLP in accordance with the terms of a limited liability partnership deed entered into on the Programme Date between the LLP, the Seller, the Liquidation Member, the Bond Trustee and the Security Trustee (as amended and/or supplemented and/or restated from time to time, the **LLP Deed**). A management board comprised as of the Programme Date of 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, subject to certain decisions reserved to the Members in the LLP Deed.

Members

As at the Programme Date, each of the Seller and the Liquidation Member is a member (each a **Member**, and together with any other members from time to time, the **Members**) of the LLP. The Seller and the Liquidation Member are designated members (each a **Designated Member**, and together with any other designated members from time to time, the **Designated Members**) of the LLP. The Designated Members shall have such duties as are specified in the LLPA or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

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

Any New Seller that wishes to sell New Seller Loans and their Related Security to the LLP will, amongst other things, be required to become a Member of the LLP and accede to the LLP Deed, amongst other documents. Other than in the case of a New Seller or the replacement of the Seller as a Member in the circumstances outlined in the previous paragraph, no New Member may be appointed without the consent of the Security Trustee and the receipt by the LLP or the Security Trustee of a Rating Agency Confirmation.

Capital Contributions

From time to time the Seller (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (e.g. through a contribution of Loans to the LLP). The Capital Contributions of the Seller shall be calculated in Sterling on each Calculation Date as the difference between (a) the Current Balance of Loans in the Portfolio as at the last day of the preceding Calculation Period plus Principal Receipts standing to the credit of the Principal Ledger on the GIC Account plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the preceding Calculation Period and (b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the preceding Calculation Period. The LLP Deed does not impose any limit on the amount of Capital Contributions the Seller (in its capacity as a Member) may make to the LLP from time to time. Cash Capital Contributions will normally be credited to the Principal Ledger on the GIC Account and be applied as Available Principal Receipts. However, the Seller shall be entitled to require that the LLP credit Cash Capital Contributions to the Reserve Ledger on the GIC Account so that they may be applied as Available Revenue Receipts.

The Liquidation Member will not make any Capital Contributions to the LLP.

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

Asset Coverage Test

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

If on any Calculation Date the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Members (other than the

Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see *Summary of the Principal Documents – Mortgage Sale Agreement – Sale by Seller of Loans and their Related Security*) or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met. An Issuer Event of Default shall occur if the Asset Coverage Test is not remedied on the next Calculation Date.

For the purposes hereof:

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

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

where,

A = the lower of (a) and (b), where:

- (a) = the sum of the **Adjusted Current Balance** of each Loan in the Portfolio as at the relevant Calculation Date, which shall be the lower of:
- (i) the actual Current Balance of the relevant Loan in the Portfolio as calculated on the relevant Calculation Date; and
 - (ii) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are not Defaulted Loans, M = 0.75, for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of less than or equal to 75 per cent., M = 0.40 and for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of more than to 75 per cent., M = 0.25),

minus

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

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

AND

- (b) = the aggregate **Arrears Adjusted Current Balance** of the Loans in the Portfolio as at the relevant Calculation Date which shall be the lower of:
- (i) the actual Current Balance of the relevant Loan in the Portfolio as calculated on the relevant Calculation Date; and
 - (ii) the Indexed Valuation relating to that Loan multiplied by N (where for all Loans that are not Defaulted Loans, N = 1, for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of less than or equal to 75 per cent., N = 0.40 and for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of more than 75 per cent., N = 0.25);

minus

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

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

the result of which is multiplied by the Asset Percentage (as defined below);

- B = the aggregate amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents (including, for the avoidance of doubt, any amount then standing to the credit of the GIC Accounts and any Authorised Investments (but without double counting));
- C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;
- D = the aggregate principal amount of any Substitution Assets as at the relevant Calculation Date;
- W = 100 per cent. of the sum of the aggregate cleared credit balances in respect of Flexible Loans and the aggregate cleared credit balances in respect of Further Advances in the Portfolio as at the relevant Calculation Date in each case pursuant to Loans that are regulated by the CCA that are not represented by the Seller to be enforceable;
- X = 3 per cent. of the aggregate Current Balance of the Loans in the Portfolio, as calculated on the relevant Calculation Date or, if the long-term unsubordinated rating of Alliance and Leicester plc is less than BBB- by S&P, Baa3 by Moody's or BBB- by Fitch, the amount of deposits held at Alliance & Leicester plc by a Borrower whose Loan is included in the Portfolio as at the date of notification to the Borrowers of the sale of Loans to the LLP, if greater than such amount;
- Y = 8 per cent. *multiplied by* the Flexible Draw Capacity (as defined below) *multiplied by* 3;
- 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 per cent.

Asset Percentage means 91.0 per cent. or such lesser percentage figure as determined from time to time in accordance with the terms of the LLP Deed being the figure calculated in accordance with the WAFF and WALS (and/or such figures calculated in accordance with such alternative methodologies) in each case as determined by S&P or Fitch or such figure selected by the LLP (or the Cash Manager on its behalf) and notified to Moody's and the Security Trustee.

On or prior to the Calculation Date falling in January, April, July and October of each year, the LLP (or the Cash Manager on its behalf) will calculate, or procure the calculation of, the WAFF and the WALS (and/or such figures calculated in accordance with such alternative methodologies as Fitch and S&P may prescribe) for the Portfolio based

on the value of the Loans as at the last day of the Calculation Period immediately preceding such Calculation Date as a whole or a random sample of the Loans in the Portfolio, such calculations to be made on the same basis throughout unless agreed otherwise by the Rating Agencies.

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

Save where otherwise agreed with the Rating Agencies, the Asset Percentage will be adjusted in accordance with the various methodologies prescribed by each of S&P and Fitch to ensure that sufficient credit enhancement will be maintained, provided that the Asset Percentage may not, at any time, exceed 91.0 per cent.

In addition, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the percentage figure selected by it, being the difference between 100 per cent. and the amount of credit enhancement required to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology.

Flexible Draw Capacity means an amount equal to the maximum amount of cash withdrawals that Borrowers are entitled to draw under Flexible Loans included in the Portfolio as at the end of the immediately preceding Calculation Period.

Amortisation Test

The LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

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

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

$$A + B + C - Z$$

where,

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

- (a) the actual Current Balance of the relevant Loan as calculated on the relevant Calculation Date multiplied by M; and
- (b) 100 per cent. of the Indexed Valuation multiplied by M,

where for all Loans that are not Defaulted Loans M = 1 or for all the Loans that are Defaulted Loans M = 0.7;

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

C= the aggregate outstanding principal balance of any Substitution Assets; 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.

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

After service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the LLP will be obliged to sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be credited to the GIC Account and applied as set out in the Guarantee Priority of Payments.

Method of Sale of Selected Loans

If the LLP is required to sell Selected Loans and their Related Security to Purchasers following the service of a Notice to Pay, the LLP will be required to ensure that before offering Selected Loans for sale:

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

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

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

For the purposes hereof:

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

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

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

Following service of the Notice to Pay, if the Selected Loans have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, if the Earliest Maturing Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing 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, then the LLP will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

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

The LLP is also permitted to offer for sale to Purchasers a Partial Portfolio. Where a Notice to Pay has been served, except in circumstances where the portfolio of Selected Loans is being sold within six months of, as applicable, the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing 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, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

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

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

The terms of any sale and purchase agreement with respect to the sale of Selected Loans (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under – *Deed of Charge – Release of Security* below) are satisfied.

Following service of a Notice to Pay, if Purchasers accept the offer or offers from the LLP so that some or all of the Selected Loans and their Related Security shall be sold prior to the Final Maturity Date of the Earliest Maturing Covered Bonds or, if the Earliest Maturing 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, 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 or the Seller in respect of the Loans and their Related Security unless expressly agreed by the Security Trustee and the LLP, or in respect of any representations and warranties to come from the Seller, expressly agreed with the Seller.

Covenants of the LLP and the Members

Each of the Members covenants that, subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to dissolve or purport to dissolve the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

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

- (a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future;
- (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; or
- (k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets.

The LLP and each of the Members further covenants that from and including the date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations it will:

- (i) ensure that the Asset Pool will only comprise those assets set out in items (a) to (h) of Regulation 3(1) (*Asset Pool*) of the RCB Regulations;
- (ii) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of "eligible property" in Regulation 2 (*Eligible Property*) of the RCB Regulations;
- (iii) keep a record of those assets that form part of the Asset Pool which, for the avoidance of doubt, shall not include any Swap Collateral; and
- (iv) at all times comply with its obligations under the RCB Regulations and/or the FSA Regulated Covered Bond Sourcebook.

Limit on Investing in Substitution Assets and Authorised Investments

Prior to 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 in Substitution Assets, provided that the aggregate amount so invested in such Substitution Assets does not exceed 10 per cent. of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Placing 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 and the LLP will be permitted to invest all available monies in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments.

Other Provisions

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under *Cashflows* below.

The LLP Management Board, will comprise as at the Programme Date of directors, officers and/or employees of the Seller (in its capacity as Member), will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP, to make a resolution for the voluntary winding-up of the LLP or to contribute to the losses of the LLP, which require a unanimous decision of the Members) the Members delegate all matters. Any decision by the LLP Management Board relating to the appointment of a liquidator, to waive certain indemnities provided to the LLP, any transfer of the whole or any part of or any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not dissolve or purport to dissolve the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed, *inter alia*, not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or the Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full or appropriate provisions have been made for their payment.

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 the Seller or the disposal by the Seller of its interest in the shares of the Liquidation Member (other than with the consent of the LLP and, for as long as any Covered Bonds are outstanding, the Security Trustee), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only, the Seller shall cease to be a Member of the LLP and the Liquidation Member shall become entitled to appoint a Subsidiary as a Member of the LLP.

The LLP Deed is governed by English law.

Cash Management Agreement

The Cash Manager will provide certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement entered into on the Programme Date between the LLP, Alliance & Leicester plc in its capacity as the Cash Manager and the Security Trustee.

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

- (a) maintaining the Ledgers on behalf of the LLP;
- (b) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable;
- (c) distributing the Revenue Receipts and the 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 in accordance with the LLP Deed, as more fully described under *Credit Structure – Amortisation Test* below;

- (f) providing the FSA with information on the composition of any Substitute Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information; as may be required by the FSA in accordance with the RCB Regulations; and
- (g) 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 each have the right to terminate the appointment of the Cash Manager and to appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

The Cash Management Agreement is governed by English law.

Interest Rate Swap Agreement

Some of the Loans in the Portfolio from time to time will pay a variable rate of interest for a period of time that may either be linked to the Seller Standard Variable Rate or linked to an interest rate other than the Seller Standard Variable Rate, such as a rate that tracks the Bank of England base rate. Other Loans will pay a fixed rate of interest for a period of time. However, the Sterling payments to be made by the LLP under each of the Covered Bond Swaps will be based on Sterling LIBOR and, in addition, the LLP's obligations to make interest payments under the outstanding Term Advances, or (following service on the LLP of a Notice to Pay) the Covered Bond Guarantee, may be based on Sterling LIBOR. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Loans in the Portfolio; and
- (b) Sterling LIBOR,

the LLP, the Interest Rate Swap Provider and the Security Trustee will enter into an Interest Rate Swap in respect of all Series of Covered Bonds under the Interest Rate Swap Agreement.

Under the terms of the Interest Rate Swap, in the event that the relevant rating of the Interest Rate Swap Provider (or for such time as the Interest Rate Swap Provider is not rated, the relevant rating of the guarantor of the Interest Rate Swap Provider's obligations) is downgraded by a Rating Agency below the rating specified in the Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Interest Rate Swap Provider (or for such time as the Interest Rate Swap Provider is not rated, the guarantor of the Interest Rate Swap Provider's obligations), unless the Rating Agencies have previously confirmed that as a result of the downgrade, the then current ratings of the Covered Bonds would not be adversely affected, the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Interest Rate Swap, arranging for its obligations under the Interest Rate Swap to be transferred to an entity with ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swap, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the LLP to terminate the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances (each referred to as an **Interest Rate Swap Early Termination Event**), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement; and
- upon the occurrence of the insolvency of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap Agreement.

Upon the termination of an Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the LLP or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

If a withholding or deduction for, or on account of, taxes is imposed on payments made by the Interest Rate Swap Provider to the LLP under the Interest Rate Swaps, the Interest Rate Swap Provider shall always be obliged to gross up those payments. If a withholding or deduction for, or on account of, taxes is imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swaps, the LLP shall not be obliged to gross up those payments.

The Interest Rate Swap Provider may transfer all its interest and obligations in and under the Interest Rate Swap Agreement to a transferee, which has the minimum ratings required by each of the Rating Agencies, without any prior written consent of the Security Trustee, subject to certain conditions, including in certain circumstances, confirmation from the Rating Agencies that the then current ratings of the relevant Series of the Covered Bond will not be adversely affected by such transfer.

If the LLP is required to sell Selected Loans in the Portfolio in order to remedy a breach of the Asset Coverage Test or in order to provide liquidity in respect of the Earliest Maturing Covered Bonds following service of a Notice to Pay, then to the extent practicable and desirable, either:

- (a) the Interest Rate Swap in connection with the relevant Loans will partially terminate and any breakage costs payable by or to the LLP in connection with such termination will following the service of a Notice to Pay be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Loans; or
- (b) such Interest Rate Swap will be partially novated to the purchaser of the relevant Loans, and such purchaser will thereby become party to a separate interest rate swap transaction with the Interest Rate Swap Provider.

The Interest Rate Swap Agreement is (and each Interest Rate Swap thereunder will be) governed by English law.

Covered Bond Swap Agreements

The LLP will enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers and the Security Trustee to provide a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay on the LLP).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds.

Under the Covered Bond Swaps on the relevant Issue Date, the LLP will, if applicable, pay to the Covered Bond Swap Provider an amount equal to the relevant portion of the amount received by the LLP under the applicable Term Advance (being the aggregate nominal amount of such Series or Tranche, as applicable, of Covered Bonds) and, if applicable, in return the Covered Bond Swap Provider will pay to the LLP the Sterling Equivalent of the first-mentioned amount. Thereafter, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date an amount equal to the relevant portion of the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan Agreement or the Covered Bond Guarantee in respect of interest and, if applicable, principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will pay to the Covered Bond Swap Provider on each LLP Payment Date an amount in Sterling calculated by reference to Sterling LIBOR plus or minus a spread and, if applicable, the Sterling Equivalent of the relevant portion of any principal due to be repaid in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement.

Under the terms of each Covered Bond Swap, in the event that the relevant rating of the Covered Bond Swap Provider (or for such time as the Covered Bond Swap Provider is not rated, the relevant rating of the guarantor and the Covered Swap Provider's obligations) is downgraded by a Rating Agency below the rating specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Covered Bond Swap Provider (or for such time as the Covered Bond Swap Provider is not rated, the relevant rating of the guarantor and the Covered Swap Provider's obligations), unless the Rating Agencies have previously confirmed that as a result of the downgrade, the then current ratings of the Covered Bonds would not or may not, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap, arranging for its obligations under the Covered Bond Swap to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the Covered Bond Swap Agreement (any such guarantee to comply with relevant Rating Agency criteria), or taking such other action as it may agree with the relevant Rating Agency. In addition, if the net exposure of the LLP against the Covered Bond Swap Provider under the relevant Covered Bond Swap exceeds the threshold specified in the relevant Covered Bond Swap Agreement, the Covered Bond Swap Provider will be required to provide collateral for its obligations in the form of cash collateral. A failure to take such steps will, subject to certain conditions, allow the LLP to terminate the Covered Bond Swap.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement; and
- upon the occurrence of an insolvency of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations, or the merger of the Covered Bond Swap Provider without an assumption of its obligations under the relevant Covered Bond Swap Agreement.

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

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

If a withholding or deduction for, or on account of, taxes is imposed on payments made by the Covered Bond Swap Provider to the LLP under a Covered Bond Swap, the Covered Bond Swap Provider shall always be obliged to gross up those payments. If a withholding or deduction for, or on account of, taxes is imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap, the LLP shall not be obliged to gross up those payments.

An amount equal to any Tax Credits received by the LLP or any Member of the LLP in respect of a Covered Bond Swap will first be used to reimburse the relevant Covered Bond Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Covered Bond Swap.

Any Tax Credits or Swap Collateral Excluded Amounts will be paid to the Covered Bond Swap Provider directly and not via the Priorities of Payments.

The Covered Bond Swap Provider may transfer all its interest and obligations in and under the relevant Covered Bond Swap Agreement to a transferee with the minimum ratings required by S&P and Fitch, without any prior written consent of the Security Trustee, subject to certain conditions, including, in certain circumstances, confirmation from S&P and Fitch that the then current ratings of the relevant Series of the Covered Bonds will not be adversely affected.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Terms and Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating:

- (a) the Adjusted Required Redemption Amount for the sale of Selected Loans; and
- (b) the purchase price to be paid for any Covered Bonds purchased by the LLP in accordance with Condition 6.10.

The Covered Bond Swap Agreements are (and each Covered Bond Swap thereunder, will be) governed by English law.

Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement entered into on the Programme Date between the LLP, the Account Banks, the Cash Manager and the Security Trustee, the LLP will maintain with the Account Banks the GIC Account together with the Swap Payments Accounts and the Swap Collateral Accounts, which will be operated in accordance with the Cash Management Agreement, the LLP Deed, the Deed of Charge and the relevant Swap Agreements.

All amounts received from Borrowers in respect of Loans in the Portfolio will be paid into the GIC Account and credited to the Revenue Ledger or the Principal Ledger, as the case may be. The Account Banks have agreed to pay interest on the monies standing to the credit of the GIC Account at specified rates determined in accordance with the Bank Account Agreement. On each LLP Payment Date, as applicable, amounts required to meet the claims of the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred from the Revenue Ledger, the Principal Ledger, the Reserve Ledger or the Capital Account Ledger, as applicable, to the Payment Ledger on the GIC Account and applied by the Cash Manager in accordance with the Priorities of Payments described below under *Cashflows*.

The GIC Account, the Swap Payments Accounts and the Swap Collateral Accounts may be required to be transferred to an alternative bank in certain circumstances, including if the ratings assigned to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Account Bank fall below A-1 by S&P, F1 by Fitch and P-1 by Moody's.

The Bank Account Agreement is governed by English law.

Stand-by Bank Account Agreement

Pursuant to the terms of a stand-by bank account agreement entered into on the Programme Date between the LLP, HSBC Bank plc (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (the **Stand-by Bank Account Agreement**), the LLP will open with the Stand-by Account Bank a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) or a stand-by swap payments account and/or a stand-by swap collateral account (each a **Stand-by Swap Account**), as the case may be, if the LLP cannot find a replacement account bank in accordance with the terms of the Bank Account Agreement or the relevant

Account Bank cannot obtain a guarantee of its obligations, in each case if the ratings assigned to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Account Bank fall below A-1 by S&P, P-1 by Moody's or F1 by Fitch, and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for other reasons. The Stand-by GIC Account, the Stand-by Transaction Account and any Stand-by Swap Account will be operated in accordance with the Stand-by Bank Account Agreement, the Cash Management Agreement, the LLP Deed, the Deed of Charge and the relevant Swap Agreements. Any Stand-by Transaction Account opened pursuant to the Stand-by Bank Account Agreement will have the same function as the Payment Ledger on the GIC Account.

If the ratings assigned to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Stand-by Account Bank fall below A-1 by S&P, P-1 by Moody's or F1 by Fitch, there will be a requirement that the Stand-by Account Bank either be replaced by, or have its obligations guaranteed by, a satisfactorily rated financial institution.

References in this Prospectus to the GIC Account include references to the Stand-by GIC Account when the Stand-by GIC Account becomes operative. References in this Prospectus to the Payment Ledger on the GIC Account include references to the Stand-by Transaction Account when the Stand-by Transaction Account becomes operative. References in this Prospectus to the Swap Payments Accounts and the Swap Collateral Accounts include references to any Stand-by Swap Account when such Stand-by Swap Account becomes operative.

The Stand-by Bank Account Agreement is governed by English law.

Corporate Services Agreement

The Liquidation Member and Holdings have entered into a Corporate Services Agreement with Structured Finance Management Limited (as Corporate Service Provider) on the Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the Liquidation Member and Holdings respectively.

The Corporate Services Agreement is governed by English law.

Secretarial Services Agreement

The Liquidation Member and Holdings have entered into a Corporate Services Agreement with the Secretarial Services Provider on the Programme Date, pursuant to which the Secretarial Services Provider has agreed to provide secretarial services to the Liquidation Member and Holdings respectively.

The Secretarial Services Agreement is governed by English law.

Issuer-ICSDs Agreement

The Issuer has entered into an Issuer-ICSDs Agreement with Euroclear Bank SA/NV and Clearstream Banking SA (the **ICSDs**) in respect of any Covered Bonds issued in NGCB form. The Issuer-ICSDs Agreement provides that the ICSDs will, in respect of any such NGCBs, maintain their respective portion of the issue outstanding amount through their records.

The Issuer-ICSDs Agreement is governed by English law.

Deed of Charge

Pursuant to the terms of the Deed of Charge entered into on the Programme Date by the LLP, the Security Trustee and the other Secured Creditors, the obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

- (a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the English Loans and Northern Irish Loans and their Related Security and other related rights comprised in the Portfolio;
- (b) an assignment in security of the LLP's interest in the Scottish Loans and their Related Security and other related rights comprised in the Portfolio (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);
- (c) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party;
- (d) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including the Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;

- (e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts; and
- (f) a first floating charge over (i) all the assets and undertakings of the LLP governed by English law or Northern Irish law which are not, from time to time, subject to any fixed charge in favour of the Security Trustee pursuant to the Deed of Charge and (ii) all the assets and undertaking of the LLP located in or governed by the law of Scotland (whether or not subject to any fixed charge as aforesaid).

In respect of the property, rights and assets referred to in paragraph (b) above, fixed security will be created over such property, rights and assets sold to the LLP after the Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge. In the event of the delivery of assignments of Scottish Loans and their Related Security pursuant to the Mortgage Sale Agreement, the LLP will deliver fixed charges in the form of Scottish Sub-Securities in respect of the Scottish Loans and their related Scottish Mortgages then in the Portfolio to the Security Trustee pursuant to the Deed of Charge.

Release of Security

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP), release those Loans from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if:

- (a) in the case of the sale of Selected Loans, the Security Trustee provides its prior written consent to the terms of such sale as described under *Summary and the Principal Documents – LLP Deed – Method of Sale of Selected Loans* above;
- (b) the LLP provides a certificate to the Security Trustee that such sale of Loans and their Related Security has been made in accordance with the terms of the Transaction Documents; and
- (c) in the case of the sale of Selected Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.

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

The Security Trustee will be paid a fee in accordance with the Deed of Charge..

Enforcement

If an LLP Acceleration Notice is served on the LLP, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds (other than any Tax Credit, Third Party Amount or Swap Collateral Excluded Amounts) 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 (other than any aspects of the Deed of Charge relating to the Northern Irish Loans and their Related Security which will be governed by Northern Irish law and other than the assignment in security referred to in paragraph (b) above and any Scottish Supplemental Charge or Scottish Sub-Security granted after the Programme Date pursuant and supplemental to the Deed of Charge which will, in each case, be governed by Scots law).

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until service of a Notice to Pay on the LLP following service by the Bond Trustee of an Issuer Acceleration Notice or, if earlier, following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds outstanding at all times;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following service of a Notice to Pay on the LLP;
- if the Issuer's short-term ratings, as applicable, are not at least A-1+ by S&P, F1+ by Fitch or P-1 by Moody's, Available Revenue Receipts will be trapped in the Reserve Fund; and
- under the terms of the Bank Account Agreement, the Account Bank 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. below LIBOR for one-month Sterling deposits or such greater amount as the LLP and the Account Bank may agree from time to time.

Certain of these factors are considered more fully in the remainder of this section.

Guarantees

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, Acceleration and Enforcement*) following the service of a Notice to Pay. 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. However, should any payments made by the LLP under the Covered Bond Guarantee be subject to any withholding or deduction for or on account of taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having the power to tax, the LLP will not be obliged to pay any additional amount as a consequence.

See further *Summary of the Principal Documents – Trust Deed* as regards the terms of the 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 service of a Notice to Pay.

Asset Coverage Test

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If the Asset Coverage Test is failed on any Calculation Date, and such failure is not remedied on or before the next following Calculation Date, then an Issuer Event of Default will occur. The Asset Coverage Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of set-off on a Borrower's current or deposit accounts held with the Seller, set-off associated with drawings made by Borrowers under Flexible Loans and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Assignment 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 service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or

the realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where Covered Bondholders may not be repaid, an LLP Event of Default will occur and all 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 service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further *Summary of the Principal Documents – LLP Deed – Amortisation Test* above.

Reserve Fund

If at any time prior to the occurrence of an Issuer Event of Default, the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are not at least rated A-1+ by S&P or F1+ by Fitch or P-1 by Moody's, the LLP will be required to credit Available Revenue Receipts to the Reserve Fund 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 and service of an Issuer Acceleration Notice.

The Reserve Fund Required Amount will be funded from the proceeds from any Term Advances and from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice 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 Available Revenue Receipts and be applied accordingly.

CASHFLOWS

As described above under *Credit Structure*, until a Notice to Pay is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority:

- (a) prior to service on the LLP of, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;
- (b) following service of a Notice to Pay; and
- (c) following service of an LLP Acceleration Notice, realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

Allocation and distribution of Available Revenue Receipts prior to service on the LLP of a Notice to Pay or an LLP Acceleration Notice

Prior to service on the LLP of a Notice to Pay or an LLP Acceleration Notice on the LLP, Available Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP or the Cash Manager on its behalf shall calculate the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date and the Reserve Fund Required Amount (if applicable).

Pre-Acceleration Revenue Priority of Payments

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts from the Revenue Ledger and the Reserve Ledger, as applicable, to the Payment Ledger on the GIC Account, in an amount equal to the lower of (a) the amount required to make the payments described below and (b) the amount of Available Revenue Receipts standing to the credit of the GIC Account.

Prior to service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts 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 Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards payment of any amounts due and payable by the LLP to the Bond Trustee and the Security Trustee incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in this Pre-Acceleration Revenue Priority of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to discharge any liability of the LLP for Taxes and stamp duties;
- (b) *second*, in or towards payment or any amounts (including costs and expenses) due and payable to the Agents pursuant to the terms of the Agency Agreement, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (iii) amounts (if any) due and payable to the Account Banks or, as applicable, the Stand-by Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement or the Stand-by Bank Account Agreement, as the case may be, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;

- (iv) amounts (including costs and expenses) due and payable to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (v) amounts (including costs and expenses) due and payable to the Secretarial Services Provider pursuant to the terms of the Secretarial Services Agreement, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (vi) amounts (if any) due and payable to the FSA in respect of fees owed to the FSA under the RCB Regulations (other than the initial registration fees); and
 - (vii) 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 (h) below), together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
- (d) *fourth*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, of any amount due or to become due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of:
- (i) any amounts due or to become due and payable to the Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreements; and
 - (ii) any amounts due or to become due and payable (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (f) *sixth*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Event of Default is either remedied or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (g) *seventh*, in or towards a credit to the Reserve Ledger on the GIC Account of an amount required to ensure that the Reserve Fund is funded to the Reserve Fund Required Amount as calculated on the immediately preceding Calculation Date;
- (h) *eighth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement, except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers;
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed (and if Alliance & Leicester plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) and any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (j) *tenth*, in or towards payment of Deferred Consideration (including any Postponed Deferred Consideration) due to the Seller for the sale of the Loans and their Related Security to the LLP, to pay all remaining Available Revenue Receipts (if the amount of the remaining Available Revenue Receipts is greater than the amount of the profit to be paid to the Members in accordance with (j) below, after deducting an amount equal to the profit to be paid to the Members in accordance with (j) below) to the Seller (subject to deducting any amounts due to the LLP or the Security Trustee by way of set-off pursuant to Clause 7.3 of the Mortgage Sale Agreement); and
- (k) *eleventh*, towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) by way of fees and as their profit for their respective interests as Members in the LLP.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap under the Covered Bond Swap Agreements 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 and other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable *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 in the future as the Cash Manager may reasonably determine.

Any amounts (other than Swap Collateral Excluded Amounts) received under the Interest Rate Swap Agreement and any amounts (other than in respect of principal and other than Swap Collateral Excluded Amounts) received under the Covered Bond Swap Agreements on the LLP Payment Date or on any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) above or the preceding two paragraphs will be credited to the Revenue Ledger on the GIC Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such monies shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

Allocation and distribution of Available Principal Receipts prior to service on the LLP of a Notice to Pay or an LLP Acceleration Notice

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

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

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger on the GIC Account, in an amount equal to the lower of (a) the amount required to make the payments described below and (b) the amount of Available Principal Receipts standing to the credit of the GIC Account.

If any payments of principal are required to be made by the LLP on an Interest Payment Date, 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 under the Covered Bonds on that Interest Payment Date unless, notwithstanding the proviso in item (c) of the Pre-Acceleration Principal Priority of Payments or in the paragraph immediately following the Pre-Acceleration Principal Priority of Payments, payment is made by the LLP directly to the Bond Trustee (or the Principal Paying Agent at the direction of the Bond Trustee).

Pre-Acceleration Principal Priority of Payments

Prior to service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Principal Receipts 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):

- (a) *first*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement 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;
- (b) *second*, to deposit the remaining Available 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;
- (c) *third*, in or towards repayment on the LLP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably

determine) of the corresponding Term Advance related to such Series of Covered Bonds by making the following payments:

- (i) 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 due and payable by the LLP under the relevant Covered Bond Swap Agreements, 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 Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
- (ii) (where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond 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; and

- (d) *fourth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution *pro rata* and *pari passu* to each Member (other than the Liquidation Member) by way of return of that Member's Capital Contribution to the LLP (or, if Alliance & Leicester plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) in accordance with the LLP Deed.

Any amounts in respect of principal (other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, (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 due in the future as the Cash Manager may reasonably determine.

Any amounts of principal (other than Swap Collateral Excluded Amounts) received under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (c) above or the paragraph preceding this paragraph will be credited to the Principal Ledger on the GIC Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such monies shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

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 service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will be applied as described below under *Guarantee Priority of Payments*.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger on the GIC Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the GIC Account.

The LLP will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) of the *Guarantee Priority of Payments* below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled payment dates therefor.

Guarantee Priority of Payments

On each LLP Payment Date on and from the date of service of a Notice to Pay on the LLP (but prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice), the LLP or the Cash Manager on its behalf will apply Available Revenue Receipts and Available Principal Receipts to make the following payments and provisions in

the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein; and
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
- (b) *second*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein; and
 - (ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in this Guarantee Priority of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for Taxes and stamp duty;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (iii) amounts (if any) due and payable to the Account Banks and, if applicable, the Stand-by Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement or the Stand-by Bank Account Agreement, as the case may be, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (iv) amounts due and payable to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (v) amounts (including costs and expenses) due and payable to the Secretarial Services Provider pursuant to the terms of the Secretarial Services Agreement, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (vi) amounts (if any) due and payable to the FSA in respect of fees owed to the FSA under the RCB Regulations (other than the initial registration fees); and
 - (vii) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (k) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
- (d) *fourth*, in or towards payment on the LLP Payment Date, or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, of any amount due or to become due and payable to the Interest Rate Swap Provider (including any termination payment due or to become due and payable by the LLP under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Interest Rate Swap Providers) pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payments falling due in the future as the Cash Manager may reasonably determine, of:
 - (i) the amounts due or to become due and payable to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap

Agreements, 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) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

- (ii) Scheduled Interest that is Due for Payment (or that will become Due for Payment) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine, provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received or to be received from the Covered Bond Swap Providers) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (f) *sixth*, in or towards payment on the LLP Payment Date or to provide for payment prior to the next LLP Payment Date, of:

- (i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
- (ii) (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) Scheduled Principal that is Due for Payment (or that will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received or to be received from the Covered Bond Swap Providers) 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 sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds or provision to be made in respect thereof under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (g) *seventh*, in or towards payment on the LLP Payment Date (if such date is an Interest Payment Date) or to provide for payment on any Interest Payment Date prior to the next following LLP Payment Date of the Final Redemption Amount (or portion thereof remaining unpaid) of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date, by making the following payments:

- (i) the amounts due or to become due and payable to the relevant Covered Bond Swap Providers (whether or not in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the Covered Bond Swap Agreement, but excluding any Excluded 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) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
- (ii) the Final Redemption Amount or the relevant proportion thereof *pro rata* and *pari passu* under the Covered Bond Guarantee in respect of each relevant Series of Covered Bonds to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders,

but, in the case of any such payment or provision, after taking into account any amounts receivable from the Interest Rate Swap Provider in respect of the corresponding Interest Rate Swap and, if applicable, any amounts (whether or not in respect of principal) receivable from the relevant Covered Bond Swap Provider in respect of

the corresponding Covered Bond Swap, provided that if the amount available for distribution under this paragraph (g) (excluding any amounts received or to be received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final Redemption Amount in respect of the relevant Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each Series of Covered Bonds under sub-paragraph (g)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (h) *eighth*, to deposit the remaining monies in the GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (g) (inclusive) above, until the Covered Bonds have been fully repaid or repayment in full of the Covered Bonds has been provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement, except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers;
- (j) *tenth*, in or towards payment of any amounts due or to become due and payable in the immediately succeeding LLP Payment Period (whether in respect of principal or interest) under the Intercompany Loan Agreement, *pro rata* and *pari passu* in respect of each relevant Term Advance;
- (k) *eleventh*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed (and, if Alliance & Leicester plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (l) *twelfth*, thereafter any remaining monies will be applied in accordance with the LLP Deed.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each Covered Bond Swap under the Covered Bond Swap Agreement or, as the case may be, in respect of interest due under the Covered Bond Guarantee *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap (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 (other than Swap Collateral Excluded Amounts) received under the Interest Rate Swap Agreement or 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 in accordance with paragraph (e), (f) or (g) above or the preceding two paragraphs will be credited to the Revenue Ledger or the 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.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such monies shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps and Tax Credits received in respect of 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.

Application of monies received by the Security Trustee following 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 monies received or recovered by the Security Trustee or any Receiver, after the service of an LLP Acceleration Notice, the commencement of winding-up proceedings against the LLP and/or realisation of the Security, for the benefit of the Secured Creditors in respect of the Secured Obligations (other than any Tax Credit, Third Party Amount or Swap Collateral Excluded Amount), shall be held by it in the LLP Accounts on trust to be applied (save to the extent required otherwise by law) in the following order of priority (and, in each case, only if and to the extent that payments or provisions of a higher order of priority have been made in full) (the **Post-Enforcement Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) all amounts due and payable or to become due and payable to:
 - (A) the Bond Trustee under the provisions of the Trust Deed together with interest and applicable VAT (or similar Taxes) chargeable on the supply in respect of which the payment is made as provided therein; and
 - (B) the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable amounts in respect of VAT (or similar Taxes) chargeable on the supply in respect of which the payment is made as provided therein;
 - (ii) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or similar Taxes) thereon as provided therein;
 - (iii) amounts in respect of:
 - (A) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, together with applicable amounts in respect of VAT (or similar Taxes) chargeable on the supply in respect of which the payment is made as 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 or, as applicable, the Stand-by Bank Account Agreement, together with applicable amounts in respect of VAT (or similar Taxes) chargeable on the supply in respect of which the payment is made as provided therein;
 - (C) amounts due to the Account Banks or, as applicable, the Stand-by Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement, together with applicable amounts in respect of VAT (or similar Taxes) chargeable on the supply in respect of which the payment is made as provided therein;
 - (D) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable amounts in respect of VAT (or similar Taxes) chargeable on the supply in respect of which the payment is made as provided therein; and
 - (E) amounts (including costs and expenses) due and payable to the Secretarial Services Provider pursuant to the terms of the Secretarial Services Agreement, together with applicable amounts in respect of VAT (or similar Taxes) thereon as provided therein;
 - (iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment, but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreement; and
 - (v) all amounts due and payable:
 - (A) to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
 - (B) under the Covered Bond Guarantee, to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (a)(v) (excluding any amounts received from any Covered Bond Swap Provider in respect of amounts referred to in (A) above) would be insufficient to

pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under (B) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant 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;

- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement;
- (c) *third*, in or towards payment of all amounts outstanding under the Intercompany Loan Agreement *pro rata* and *pari passu* in respect of each relevant Term Advance;
- (d) *fourth*, in or towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (e) *fifth*, in or towards payment to the Members (and, if Alliance & Leicester plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed.

If the LLP receives any Tax Credits in respect of a Swap following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, such Tax Credits will be used to reimburse the relevant Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Swap. Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Swap will be returned to the relevant Swap Provider subject to the terms of the relevant Swap Agreement, and any Third Party Amounts will be returned to the Seller.

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 is likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));
- (ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and
- (iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in paragraphs (i) and (ii) above (e.g. liquidity loans),

shall be expenses which shall be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding-up or provisional liquidation), and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further, *Risk Factors – Expenses of Insolvency officeholders*.

THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**) consist of Loans and their Related Security sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under *Summary of the Principal Documents – Mortgage Sale Agreement*.

For the purposes hereof:

Initial Portfolio means the portfolio of Loans and their Related Security, particulars of which are set out in the Mortgage Sale Agreement (other than any Loan and its Related Security redeemed in full on or before the First Assignment Date), and all rights, 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 Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal monies, interest and costs and the right to sue on all covenants and undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Terms;
- (b) subject where applicable to the subsisting rights of redemption of Borrowers, all Deeds of Consent, Deeds of Postponement, MH/CP Documentation or any collateral security for the repayment of the relevant Loans;
- (c) the right to exercise all the powers of the Seller in relation thereto subject to and in accordance with the applicable Mortgage Terms;
- (d) all the estate and interest in the relevant Properties vested in the Seller;
- (e) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof; and
- (f) the proceeds of all claims made by or on behalf of the Seller or to which the Seller is entitled under the Buildings Policies and the Properties in Possession Policy in relation to any such Loan.

New Portfolio means each portfolio of Loans and their Related Security (other than any Loans and their Related Security which have been redeemed in full prior to the relevant Assignment Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the relevant Assignment 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 Covered Bonds – Limited description of the Portfolio, Risk Factors relating to the LLP, including the ability of the LLP to fulfil its obligations in relation to the Covered Bond Guarantee – Maintenance of Portfolio and Changes to the Lending Criteria of the Seller*.

DESCRIPTION OF THE U.K. REGULATED COVERED BOND REGIME

The Regulated Covered Bonds Regulations 2008 (SI 2008/346) (the **RCB Regulations**) and the corresponding implementation provisions, set out in the new RCB Sourcebook to the FSA's Handbook (the **RCB Sourcebook**), came into force in the U.K. on 6 March 2008. In summary, the RCB Regulations implement a legislative framework for U.K. covered bonds. The framework is intended to meet the requirements set out in Article 22(4) of Directive 85/611 EC on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting. Notwithstanding the intention behind the new framework, the FSA will not notify the European Commission of an issuer's inclusion in the register of issuers, regulated covered bond included in the register of regulated covered bonds and the status of the guarantees offered in respect of such bonds, until the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made covered bonds are not UCITS compliant.

The RCB Regulations and the RCB Sourcebook include various requirements related to issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FSA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FSA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above). While the framework has been shaped to generally accommodate existing U.K. covered bond structures, certain changes are required to such structures to meet the requirements of the RCB Regulations.

The U.K. Financial Services Authority (**FSA**) will perform certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FSA has certain powers under the RCB Regulations. In particular, in certain circumstances the FSA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner. Moreover, as the body which regulates the financial services industry in the U.K., the FSA may take certain actions in respect of issuers using its general powers under the U.K. regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

On or prior to 30 April 2008, the Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and any Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds under RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme will be so registered or regulated. 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 upon receipt from the FSA of its final decision on the application.

See also the investment considerations described under "*Risk Factors*" – "*U.K. regulated covered bond regime*" and "*Expenses of insolvency officeholders*".

DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland under the Limited Liability Partnerships Act 2000 (the **LLPA**) (and under the Limited Liability Partnerships Act (Northern Ireland) 2002, in Northern Ireland). 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 so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

Partnership characteristics

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

Taxation

Limited liability partnerships are tax transparent except in the case of value added tax (in respect of which a limited liability partnership can register for VAT in its own name) and in certain winding-up proceedings. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are taxed in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are taxed in relation to the business of that partnership.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP, nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organization" 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 S&P's highest rating: AAA. The DTC Rules applicable to its Direct or Indirect 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 DTC 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 Direct or Indirect 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 name 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 (**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 Direct or Indirect 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 Direct or Indirect 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 the Issuer or the Principal Paying 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 Direct Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under *Subscription and Sale and Transfer and Selling Restrictions*.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Covered Bonds

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

It should be noted that DTC will only process payments of principal and interest in U.S. dollars. Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. dollars in respect of a Registered Global Covered Bond accepted by DTC, payment will be made to the Exchange Agent and the Exchange Agent will (in accordance with express written 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 Direct or Indirect 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 Direct or Indirect Participant and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Agents 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 may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under *Subscription and Sale and Transfer and Selling Restrictions*, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series or Tranche, as applicable, transfers of Covered Bonds of such Series or Tranche, as applicable between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series or Tranche, as applicable between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

United Kingdom Taxation

The following is a summary of the Issuer's and the LLP's understanding of the current United Kingdom law and Her Majesty's Revenue and Customs (HMRC) published practice relating to the taxation treatment of the Covered Bonds at the date of this Prospectus. This summary deals only with the question of whether payments of interest on the Covered Bonds may be made without withholding or deduction for or on account of United Kingdom income tax and does not deal with other United Kingdom tax consequences that might arise from holding the Covered Bonds. It only applies to the position of persons who are the absolute beneficial owners of Covered Bonds. The United Kingdom tax treatment of prospective purchasers of Covered Bonds depends on their individual circumstances and may be subject to change in the future. Prospective purchasers of Covered Bonds who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should consult their own professional tax advisers. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect (possibly with retroactive effect) after such date.

Payment of interest by the Issuer in respect of the Covered Bonds

The Issuer, provided that it continues to be a bank within the meaning of Section 991 of the Income Tax Act 2007 (ITA), 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 ITA, will be entitled to make payment of interest without withholding or deduction for or on account of United Kingdom income tax. Interest on the Covered Bonds may also be paid without withholding or deduction for or on account of United Kingdom tax where (a) the Covered Bonds are and continue to be listed on a "recognised stock exchange", within the meaning of Section 1005 of ITA (the London Stock Exchange is a recognised stock exchange and securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange); (b) the maturity of the Covered Bond is less than 365 days; or (c) at the time the interest on the Covered Bond is paid, the Issuer reasonably believes (and any person by or through whom interest on the Covered Bond is paid reasonably believes) the interest constitutes an "excepted payment" within the meaning of any of sections 933 to 937 of ITA, provided that the HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In all other cases, an amount must be withheld from payments of interest on the Covered Bonds on account of United Kingdom income tax at the savings rate (currently 20 per cent.) (or, if the Finance Bill 2008 is enacted in its current form, from 6 April 2008, the basic rate, which would also be 20 per cent.), subject to any direction to the contrary by HMRC under an applicable double taxation treaty.

Covered Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the U.K. who either pays or credits interest to, or receives interest for the benefit of, a Covered Bondholder, or who either pays amounts payable on the redemption of the Covered Bonds to, or receives amounts for the benefit of, a Covered Bondholder, although HMRC published practice is that it will not exercise its power to require this information in respect of amounts payable on the redemption of Covered Bonds where such amounts are paid on or before 5 April 2009. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Covered Bondholder is resident for tax purposes.

Payments by the LLP

If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds), such payment may (unless the Covered Bonds in question have a maturity of less than 365 days) 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 ITA. The LLP will not be required to pay any additional amounts in the event of a payment being made net of any withholding or deduction.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, a Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding

system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland). The attention of Covered Bondholders is drawn to Condition 7(d).

U.S. Federal Income Taxation

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, COVERED BONDHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS IN COVERED BOND FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a general summary of certain material U.S. federal income tax consequences that may be relevant to a U.S. Holder with respect to the purchase, ownership and disposition of Covered Bonds. This summary addresses only the U.S. federal income tax considerations of U.S. Holders, as defined below, who purchase Covered Bonds in the original offering at the original issue price and that will hold the Covered Bonds as capital assets. It is not a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Covered Bonds. In particular, this summary does not address tax considerations applicable to holders that are subject to special tax rules, including, without limitation, the following (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in securities or currencies or notional principal contracts; (iv) tax-exempt entities; (v) regulated investment companies; (vi) real estate investment trusts; (vii) persons that will hold the Covered Bonds as part of a "hedging" or "conversion" transaction or as a position in a "straddle" or as part of a "synthetic security" or other integrated transaction for U.S. federal income tax purposes; (viii) partnerships or pass-through entities or persons who hold the Covered Bonds through partnerships or other pass-through entities; (ix) persons that own interests treated as equity of the Issuer for U.S. federal income tax purposes; (x) persons (or their "qualified business units") that have a "functional currency" other than the U.S. dollar; and (xi) certain U.S. expatriates and former long-term residents of the United States. Further, this summary does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of the Covered Bonds. This summary also does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the federal income tax laws of the U.S. federal government.

This summary is based on the Code, U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Prospectus. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For the purposes of this summary, a **U.S. holder** is a beneficial owner of Covered Bonds that is, for U.S. federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation or other entity treated as a corporation, created or organized in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (x) a court within the United States is able to exercise primary supervision over its administration and one or more United States persons (as defined in Section 7701(a)(30) of the Code) have the authority to control all of the substantial decisions of such trust or (y) it has a valid election in effect under the applicable Treasury Regulations to be treated as a United States person. If a partnership or other pass-through entity taxable as a partnership holds the Covered Bonds, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership holding Covered Bonds should consult its own tax adviser.

No rulings have been sought from the United States Internal Revenue Service (the **IRS**) regarding the matters discussed herein and there can be no assurance that the IRS or the courts will agree with the conclusions expressed. This discussion is a general summary and does not cover all tax matters that may be important to a particular investor. **Prospective investors should consult their own tax advisers regarding the proper treatment of the Covered Bonds for U.S. federal income tax purposes and the tax consequences of an investment in the Covered Bonds under the federal, state and local laws of the United States and any other jurisdiction where the investor may be subject to taxation with respect to their particular situation.**

Payments of Interest

Payments of "qualified stated interest" (as defined below under *Original Issue Discount*) on a Covered Bond will be taxable to a U.S. holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. holder's method of tax accounting).

If payments of qualified stated interest are made with respect to a Covered Bond denominated in a currency other than U.S. dollars (a **Foreign Currency Note**), the amount of interest income realized by a U.S. holder that uses the cash method of tax accounting will be the U.S. dollar value of the Specified Currency payment based on the exchange rate in effect on the date of receipt, regardless of whether the payment in fact is converted into U.S. dollars on such date. A U.S. holder that uses the accrual method of accounting for tax purposes will accrue interest income on the Foreign Currency Note in the relevant foreign currency and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the interest accrual period (or portion thereof within the U.S. holder's taxable year), or, if the accrual-basis U.S. holder so elects, at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt (if such date is within five business days of the last day of the accrual period). A U.S. holder that makes such election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service (the **IRS**). A U.S. holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss, as the case may be, on the receipt of an interest payment made with respect to a Foreign Currency Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. Any such foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on the Foreign Currency Note.

Purchase, Sale and Retirement of Covered Bonds

A U.S. holder's tax basis in a Covered Bond generally will equal the cost of such Covered Bond to such holder, increased by any amounts includible in income by the holder as original issue discount and market discount, and reduced by any amortized premium (each as described below) and any payments other than payments of qualified stated interest made on such Covered Bond. In the case of a Foreign Currency Note, the cost to a U.S. holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Note that is traded on an established securities market, a cash-basis U.S. holder (and, if it so elects, an accrual-basis U.S. holder) will determine the U.S. dollar value of the cost of such Foreign Currency Note by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a U.S. holder's tax basis in a Foreign Currency Note in respect of original issue discount, market discount and premium denominated in the Specified Currency will be determined in the manner described under *Original Issue Discount* and *Premium and Market Discount* below. The conversion of U.S. dollars to the Specified Currency and the immediate use of such currency to purchase a Foreign Currency Note generally will not result in taxable gain or loss for a U.S. holder.

Upon the sale, exchange, retirement or other disposition of a Covered Bond, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (less any accrued qualified stated interest, which will be taxable as such) and the U.S. holder's tax basis in such Covered Bond. If a U.S. holder receives payment in a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Covered Bond, the amount realized will be the U.S. dollar value of the foreign currency amount received, calculated at the exchange rate in effect on the date the instrument is disposed of or retired. In the case of a Foreign Currency Note that is traded on an established securities market, a cash-basis U.S. holder and, if it so elects, an accrual-basis U.S. holder may determine the U.S. dollar value of the amount realized by translating such amount at the spot rate on the settlement date of the sale. This election available to accrual-basis U.S. holders in respect of the purchase and sale of Foreign Currency Notes traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Notes (as defined below) and foreign currency gain or loss, gain or loss recognized by a U.S. holder generally will be long-term capital gain or loss if the U.S. holder has held the Covered Bond for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. Contingent Debt Obligations (as defined below) are subject to special rules, which, to the extent relevant, will be addressed in the applicable Final Terms Document.

Gain or loss recognized by a U.S. holder on the sale, exchange or retirement of a Foreign Currency Note generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held such Foreign Currency Note. Such foreign currency gain or loss will not be treated as an adjustment to interest income received on the Foreign Currency Note.

Original Issue Discount

If the Issuer issues Covered Bonds at a discount from their stated redemption price at maturity, and such discount is equal to or more than the product of one-fourth of one percent (0.25 per cent.) of the stated redemption price at maturity of the Covered Bonds and the number of full years to their maturity, the Covered Bonds will be **Original Issue Discount Notes**. The difference between the issue price and the stated redemption price at maturity of the Covered Bonds will be the **original issue discount (OID)**. The **issue price** of the notes will be the first price at which a substantial amount of the Covered Bonds are sold to the public (i.e., excluding sales of Covered Bonds to underwriters, placement agents, wholesalers, or similar persons). The **stated redemption price at maturity** will include all payments under the Covered Bonds other than payments of qualified stated interest (as defined below).

U.S. holders of Original Issue Discount Notes generally will be subject to the special tax accounting rules for obligations issued with OID provided by the Internal Revenue Code of 1986, as amended, and certain regulations promulgated thereunder (the **OID Regulations**). U.S. holders of such Covered Bonds should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

In general, each U.S. holder of an Original Issue Discount Note, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the **daily portions** of OID on the Original Issue Discount Note for all days during the taxable year that the U.S. holder owns such Note. The daily portions of OID on an Original Issue Discount Note are determined by allocating to each day in any accrual period a rateable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Note, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an Original Issue Discount Note allocable to each accrual period is determined by (a) multiplying the "adjusted issue price" (as defined below) of the Original Issue Discount Note at the beginning of the accrual period by the "yield to maturity" of such Note (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest (as defined below) allocable to that accrual period. The **yield to maturity** is the discount rate that causes the present value of all payments on the Original Issue Discount Note as of its original issue date to equal the issue price of such Note. The **adjusted issue price** of an Original Issue Discount Note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such Note in all prior accrual periods. The term **qualified stated interest** generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of an Original Issue Discount Note at a single fixed rate of interest or, subject to certain conditions, based on one or more interest indices. Interest is considered "unconditionally payable" if reasonable legal remedies exist to compel timely payment or terms and conditions of the debt instrument make the likelihood of late payment (other than late payment that occurs within a reasonable grace period) or non-payment (ignoring the possibility of non-payment due to default, insolvency or similar circumstances) a remote contingency. Interest payments on the Covered Bonds that are deferrable at the option of the Issuer will generally not be qualified stated interest.

In the case of an Original Issue Discount Note that is a Floating Rate Covered Bond, both the **yield to maturity** and **qualified stated interest** will generally be determined for these purposes as though the Original Issue Discount Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Covered Bond on its date of issue or, in the case of certain Floating Rate Covered Bonds, the rate that reflects the yield that is reasonably expected for the Covered Bond. (Additional rules may apply if interest on a Floating Rate Covered Bond is based on more than one interest index.) As a result of this "constant yield" method of including OID in income, the amounts includible in income by a U.S. holder in respect of an Original Issue Discount Note denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis.

A U.S. holder generally may make an irrevocable election to include in its income its entire return on a Covered Bond (i.e., the excess of all remaining payments to be received on the Covered Bond, including payments of qualified stated interest, over the amount paid by such U.S. holder for such Covered Bond) under the constant-yield method described above. For Covered Bonds purchased at a premium or bearing market discount in the hands of the U.S. holder, the U.S. holder making such election will also be deemed to have made the election (discussed below in *Premium and Market Discount*) to amortize premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an Original Issue Discount Note that is also a Foreign Currency Note, a U.S. holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (a) calculating the amount of OID allocable

to each accrual period in the Specified Currency using the constant-yield method described above, and (b) translating the amount of the Specified Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a U.S. holder's taxable year) or, at the U.S. holder's election (as described above under *Payments of Interest*), at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt (if such date is within five business days of the last day of the accrual period). Because exchange rates may fluctuate, a U.S. holder of an Original Issue Discount Note that is also a Foreign Currency Note may recognize a different amount of OID income in each accrual period than would the holder of an otherwise similar Original Issue Discount Note denominated in U.S. dollars. All payments on an Original Issue Discount Note (other than payments of qualified stated interest) will generally be viewed first as payments of previously accrued OID (to the extent thereof, with payments attributed first to the earliest-accrued OID), and then as payments of principal. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Note), a U.S. holder will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

A subsequent U.S. holder of an Original Issue Discount Note that purchases such Note at a cost less than its remaining redemption amount (as defined below), or an initial U.S. holder that purchases an Original Issue Discount Note at a price other than such Note's issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the U.S. holder acquires the Original Issue Discount Note at a price greater than its adjusted issue price, such holder is required to reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price. The **remaining redemption amount** for an Original Issue Discount Note is the total of all future payments to be made on such Note other than payments of qualified stated interest.

Floating Rate Covered Bonds that provide for interest payable, at a rate equal to LIBOR, EURIBOR or a similar index, plus a spread will generally be treated as **variable rate debt instruments** under the OID Regulations. Accordingly, the stated interest on such Floating Rate Covered Bonds generally will be treated as qualified stated interest, and such a Covered Bond will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a Floating Rate Covered Bond does not qualify as a variable rate debt instrument, such Covered Bond will be subject to special rules (the **Contingent Payment Regulations**) that govern the tax treatment of debt obligations that provide for contingent payments (**Contingent Debt Obligations**). A detailed description of the tax considerations relevant to U.S. holders of any such Covered Bonds will be provided in the applicable Final Terms Document.

If certain of the Covered Bonds are subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Final Terms Document, such Covered Bonds (particularly Original Issue Discount Notes) may be subject to special rules that differ from the general rules discussed above. Purchasers of Covered Bonds with such features should carefully examine the applicable Final Terms Document and should consult their own tax advisors with respect to such Covered Bonds since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of the purchased Covered Bonds.

Premium and Market Discount

A U.S. holder of a Covered Bond that purchases the Covered Bond at a cost greater than its remaining redemption amount (as defined above) will be considered to have purchased the Covered Bond at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Covered Bond. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. holder that elects to amortize such premium must reduce its tax basis in a Covered Bond by the amount of the premium amortized during its holding period. Original Issue Discount Notes purchased at a premium will not be subject to the OID rules described above. In the case of premium in respect of a Foreign Currency Note, a U.S. holder should calculate the amortization of such premium in the Specified Currency. Amortization deductions attributable to a period reduce interest payments in respect of that period and therefore are translated into U.S. dollars at the exchange rate used by the U.S. holder for such interest payments. Exchange gain or loss will be realized with respect to amortized bond premium on such a Covered Bond based on the difference between the exchange rate on the date or dates such premium is recovered through interest payments on the Covered Bond and the exchange rate on the date on which the U.S. holder acquired the Covered Bond. With respect to a U.S. holder that does not elect to amortize bond premium, the amount of bond premium will be included in the U.S. holder's tax basis when the Covered Bond matures or is disposed of by the U.S. holder. Therefore, a U.S. holder that does not elect to amortize such premium and that holds the Covered Bond to maturity generally will be required to treat the premium as capital loss when the Covered Bond matures.

If a U.S. holder of a Covered Bond purchases the Covered Bond at a price that is lower than its remaining redemption amount or, in the case of an Original Issue Discount Note, its adjusted issue price, by at least 0.25 per cent. of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Covered Bond will be considered to have **market discount** in the hands of such U.S. holder. In such case, gain realized by the U.S. holder on the disposition of the Covered Bond generally will be treated as ordinary income to the extent of the market discount that accrued on the Covered Bond while it was held by such U.S. holder. In addition, the U.S. holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Covered Bond. In general terms, market discount on a Covered Bond will be treated as accruing rateably over the term of such Covered Bond or, at the election of the holder, under a constant yield method. Market discount on a Foreign Currency Note will be accrued by a U.S. holder in the Specified Currency. The amount includible in income by a U.S. holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Covered Bond is disposed of by the U.S. holder.

A U.S. holder may elect to include market discount in income on a current basis as it accrues (on either a rateable or constant-yield basis) in lieu of treating a portion of any gain realized on a sale of a Covered Bond as ordinary income. If a U.S. holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Note that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder's taxable year). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

Short-Term Notes

The rules set forth above will also generally apply to Covered Bonds having maturities of not more than one year (**Short-Term Notes**), but with certain modifications.

First, the OID Regulations treat none of the interest on a Short-Term Note as qualified stated interest. Thus, all Short-Term Notes will be Original Issue Discount Notes. OID will be treated as accruing on a Short-Term Note rateably or, at the election of a U.S. holder, under a constant yield method.

Second, a U.S. holder of a Short-Term Note that uses the cash method of tax accounting, that is not a bank, securities dealer, regulated investment company or common trust fund, and that does not identify the Short-Term Note as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a U.S. holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry the Short-Term Note until the maturity of such Note or its earlier disposition in a taxable transaction. In addition, such a U.S. holder will be required to treat any gain realized on a sale, exchange or retirement of the Short-Term Note as ordinary income to the extent such gain does not exceed the OID accrued with respect to such Note during the period the U.S. holder held the Note. Notwithstanding the foregoing, a cash-basis U.S. holder of a Short-Term Note may elect to accrue original issue discount into income on a current basis (in which case the limitation on the deductibility of interest described above will not apply). A U.S. holder using the accrual method of tax accounting and certain cash-basis U.S. holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include original issue discount on a Short-Term Note in income on a current basis.

Third, any U.S. holder (whether cash or accrual basis) of a Short-Term Note can elect to accrue the "acquisition discount," if any, with respect to such Note on a current basis. If such an election is made, the OID rules will not apply to the Short-Term Note. Acquisition discount is the excess of the remaining redemption amount of the Short-Term Note at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing rateably or, at the election of the U.S. holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Note.

Index-Linked Covered Bonds and Other Covered Bonds Providing for Contingent Payments

The Contingent Payment Regulations, which govern the tax treatment of Contingent Debt Obligations, generally require accrual of interest income on a constant-yield basis in respect of such obligations at a yield determined at the time of their issuance, and may require adjustments to such accruals when any contingent payments are made. A detailed description of the tax considerations relevant to U.S. holders of any Contingent Debt Obligations will be provided in the applicable Final Terms Document.

Covered Bonds with Payments in Multiple Currencies

Special rules apply to Covered Bonds that provide for payments in more than one currency. A detailed description of the tax considerations relevant to U.S. holders of such Covered Bonds will be provided in the applicable Final Terms Document.

Information Reporting and Backup Withholding

The Paying Agent will be required to file information returns with the IRS with respect to payments made to certain U.S. holders of Covered Bonds. In addition, certain U.S. holders may be subject to backup withholding tax in respect of such payments if they do not provide an accurate taxpayer identification number or certification of exempt status to the Paying Agent or otherwise comply with the applicable backup withholding requirements. Persons holding Covered Bonds who are not U.S. holders may be required to comply with applicable certification procedures to establish that they are not U.S. holders in order to avoid the application of such information reporting requirements and backup withholding tax.

The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is timely furnished to the IRS in the manner required. Certain U.S. holders (including, among others, corporations) are not subject to information reporting or backup withholding. U.S. holders should consult their tax advisors as to their qualification for exemption from information reporting and/or backup withholding.

ERISA Considerations

The Covered Bonds should be eligible for purchase by employee benefit plans and other plans subject to the US Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of section 4975 of the Code and by governmental, church and non-US plans that are subject to state, local, other federal law of the United States or non-US law that is substantially similar to ERISA or section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on employee benefit plans (as defined in section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under *Risk Factors*.

Section 406 of ERISA and section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest** or **disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person, including a plan fiduciary, who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to the transactions contemplated by the Transaction Documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of section 406 of ERISA or section 4975 of the Code may arise if any of the Covered Bonds is acquired or held by a Plan with respect to which the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of section 406 of ERISA and section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any Covered Bonds and the circumstances under which such decision is made. Included among these exemptions are section 408(b)(17) of ERISA and section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a **qualified professional asset manager**), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by

in-house asset managers). Prospective investors should consult with their advisors regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Covered Bonds.

Each purchaser and subsequent transferee of any Covered Bond will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Covered Bond through and including the date on which the purchaser or transferee disposes of such Covered Bond, either that (a) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental, church or non-US plan which is subject to any US or non-US federal, state or local law of the United States that is substantially similar to the provisions of section 406 of ERISA or section 4975 of the Code or (b) its purchase, holding and disposition of such Covered Bond will not result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code (or, in the case of a governmental, church or non-US plan, any substantially similar US or non-US federal, state or local law of the United States) for which an exemption is not available.

In addition, the US Department of Labor has promulgated a regulation, 29 C.F.R. section 2510.3-101, as modified by section 3(42) of ERISA (the **Plan Asset Regulation**) describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an **equity interest** of an entity that is neither a **publicly-offered security** nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in form debt may be considered an **equity interest** if it has **substantial equity features**. If the Issuer were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the Covered Bonds, such plan assets would include an undivided interest in the assets held by the Issuer and transactions by the Issuer would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and section 4975 of the Code. While there is little pertinent authority in this area and no assurance can be given, the Issuer believes that the Covered Bonds should not be treated as **equity interests** for the purposes of the Plan Asset Regulation.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Covered Bonds should determine whether, under the documents and instruments governing the Plan, an investment in such Covered Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio. Any Plan proposing to invest in such Covered Bonds (including any governmental, church or non-US plan) should consult with its counsel to confirm that such investment will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental, church, or non-US plan, any substantially similar US or non-US state, local or federal law).

The sale of any Covered Bonds to a Plan is in no respect a representation by the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Any further ERISA considerations with respect to Covered Bonds may be found in the relevant Final Terms Document.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have pursuant to a programme agreement (as the same is incorporated by reference into a subscription agreement entered into by each Dealer for each issue of Covered Bonds subscribed pursuant to a subscription agreement (each a **Subscription Agreement**) and as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 9 April 2008, or in a dealer accession letter to the Programme which incorporates the duties and obligations assumed by Dealers under the Programme Agreement, agreed with the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to subscribe for 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 appoint other dealers from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis.

The Issuer may pay the Dealers commissions 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 costs, 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 all their obligations in relation to any agreement to purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

In order to facilitate the offering of any Tranche of the Covered Bonds, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Covered Bonds are reclaimed if Covered Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Covered Bonds to the extent that it discourages resales thereof. No representation or warranty is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations, stabilising activities may only be carried on by the stabilising manager named in the applicable Final Terms Document and only for a period of 30 days following the Issue Date of the relevant Tranche of Covered Bonds.

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 Registered Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another 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):

- (a) that either: (i) 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 or (ii) it is outside the United States and is not a U.S. person;
- (b) 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 in this section;
- (c) it agrees that neither the Issuer nor the LLP has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;
- (d) 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, only (i) to the Issuer or any affiliate thereof,

(ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing the Covered Bonds for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

- (e) 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 (d) above, if then applicable;
- (f) that either (i) it is not an employee benefit plan as defined in Section 3(3) of ERISA, which is subject thereto, a plan as defined in Section 4975(e)(1) of the Code, an entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity, or a governmental, church or non-US plan which is subject to Similar Law, or (ii) its purchase and holding of the Covered Bonds does not constitute a non-exempt prohibited transactions under the fiduciary provisions of ERISA, Section 4975 of the Code, or any similar violation of Similar Law;
- (g) 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 initially offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (h) that the Covered Bonds represented by a Rule 144A Global Covered Bond and Definitive Rule 144A Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF 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 THIS SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND 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 THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THE ACQUISITION OF THE COVERED BONDS BY, OR ON BEHALF OF, OR WITH THE ASSETS OF ANY “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (ERISA), SUBJECT TO THE FIDUCIARY RESPONSIBILITY PROVISIONS THEREOF, ANY “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE CODE), OR ANY ENTITY PART OR ALL OF THE ASSETS OF WHICH CONSTITUTE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101 AS MODIFIED BY SECTION 3(42) OF ERISA (PLAN ASSET REGULATION) (COLLECTIVELY BENEFIT PLAN INVESTORS), OR ANY GOVERNMENTAL, CHURCH OR OTHER PLAN SUBJECT TO FEDERAL, STATE, LOCAL OR NON-U.S. LAW SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA OR SECTION 4975 OF THE CODE IS PROHIBITED UNLESS SUCH PURCHASE, HOLDING AND SUBSEQUENT DISPOSITION OF THE COVERED BONDS WOULD NOT RESULT IN ANY PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR UNDER SECTION 4975 OF THE CODE (OR IN THE CASE OF A GOVERNMENTAL, CHURCH OR OTHER PLAN, ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE, LOCAL OR NON-U.S. LAW).

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDER OF SUCH SECURITY SENT TO ITS REGISTERED ADDRESS, 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).

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A";

- (i) 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 later of the commencement of the offering and the Issue Date), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Covered Bonds represented by a Regulation S Global Covered Bond and Definitive Regulation S Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF 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. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE ISSUE DATE, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (II) TO "QUALIFIED INSTITUTIONAL BUYERS" AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT"; and

- (j) 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.

No sale of Rule 144A Covered Bonds in the United States to any one purchaser will be for less than U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount and no Rule 144A Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent in another Specified Currency). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Covered Bonds and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Selling Restrictions

United States

Each Dealer has acknowledged, and each further Dealer appointed under the Programme Agreement will be required to acknowledge, that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and Covered Bonds may not be offered, sold or delivered directly or indirectly within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Each Dealer has agreed that it will not offer, sell or deliver a Covered Bond in bearer form within the United States or to United States persons except as permitted by the Programme Agreement. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

In connection with any Covered Bond represented by a Regulation S Global Covered Bond or any Definitive Regulation S Covered Bond (**Regulation S Covered Bond**), 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 any such Regulation S Covered Bond within the United States or to, or for the account or benefit of, U.S. persons (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (**Distribution Compliance Period**), and except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bond during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Regulation S Covered Bond 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 any Regulation S Covered Bond within the United States by any dealer (who is 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 Programme Agreement provides that selected Dealers, through their selling agents which are registered broker-dealers in the United States, may resell Covered Bonds in the United States to QIBs pursuant to Rule 144A under the Securities Act and each such purchase of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the Securities Act provided by Rule 144A.

Each Dealer appointed under the Programme Agreement will be required to represent and agree in respect of transactions under Rule 144A that it has not (and will not), nor has (nor will) any person acting on its behalf, (a) made offers or sales of any security, or solicited officers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Covered Bonds under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Covered Bonds in the United States.

Each issuance of Variable Interest 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 Document.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of an offering contemplated by this Prospectus as completed by the Final Terms Document in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) if the Final Terms Document in relation to the Covered Bonds specifies that an offer of those Covered Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Covered Bonds which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms Document contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms Document, as applicable;

- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

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

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the LLP or, in the case of the Issuer would not, if either were not an authorised person, apply to the Issuer; 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 U.K..

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; the **FIEL**) and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Republic of Italy

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Covered Bonds may not be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to qualified investors ("*investitori qualificati*"), as defined in Article 100 of Legislative Decree no.58 of 24 February 1998, as amended (the **Financial Services Act**) and the relevant implementing Italian Securities Exchange Commission (**CONSOB**) regulations, as amended from time to time, and in Article 2 of Directive No. 2003/71/EC of November 2003; or
- (b) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999 (**Regulation No. 11991**), as amended.

Furthermore, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**);
- (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy (as amended from time to time) pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian Authority.

France

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that: it has only made and will only make an offer of Covered Bonds to the public (*appel public à l'épargne*) in France in the period beginning (i) when a prospectus in relation to those Covered Bonds has been approved by the *Autorité des marchés financiers (AMF)*, on the date of such publication or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive No. 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the latest on the date which is 12 months after the date of approval of the prospectus, all in accordance with Articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF.

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 Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms Document.

GENERAL INFORMATION

Authorisation

The establishment, implementation and operation of the Programme and the issue of Covered Bonds was duly confirmed and authorised by resolutions of the Board of Directors of the Issuer dated 25 October 2007. Pursuant to such resolutions, authority was delegated to the Chief Executive Officer or any two directors of Alliance & Leicester plc to sub-delegate authority to do all such things as may be necessary or desirable in connection with the establishment, implementation and operation of the Programme. Pursuant to such sub-delegated authority exercised pursuant to an approval and authorisation by the Chief Executive Officer dated 2 April 2008, the establishment, implementation and operation of the Programme by the Issuer has been duly authorised by a covered bond approval and authorisation of the Issuer. The establishment, implementation and operation of the Programme. Pursuant to such resolution, authority was delegated to the Chief Executive Officer or any two directors of Alliance & Leicester plc to sub-delegate authority to do all such things as may be necessary or desirable in connection with the establishment, implementation and operation of the Programme.

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 London Stock Exchange's regulated market 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 9 April 2008.

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 for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer and at the specified offices of the Paying Agents save that item (iii) will not be available at the specified offices of the Paying Agents (and items (i) and (iv) will be available for collection free of charge):

- (i) the memorandum and articles of association of the Issuer and the constitutive documents of the LLP;
- (ii) the Issuer's Annual Report and Accounts for the years ended 31 December 2007 and 2006;
- (iii) the Programme Agreement, the Agency Agreement and the Trust Deed (which contains the Covered Bonds Guarantee, the forms of Global Covered Bonds, Covered Bonds in definitive form, Receipts, Coupons and Talons);
- (iv) this Prospectus;
- (v) any future information memoranda, offering circulars, prospectuses and supplements to this Prospectus and any other documents incorporated herein or therein by reference;
- (vi) in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document); and
- (vii) each Final Terms Document (save that any Final Terms Document relating to an unlisted Covered Bond will only be available for inspection by a holder of such Covered Bonds and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of such Covered Bond and its identity).

In addition, copies of this Prospectus, any supplementary prospectus, any documents incorporated by reference and each Final Terms Document relating to Covered Bonds which are admitted to trading on the London Stock Exchange's regulated market will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/engb/pricesnews/marketnews/.

Clearing Systems

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms Document. 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 cleared through DTC, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms Document. 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 Document.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041-0099.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries since 31 December 2007, being the date of the last audited financial statements of the Issuer or of the LLP since 12 October 2007, being the date of incorporation of the LLP, and there has been no material adverse change in the financial position or prospects of the Issuer and its respective subsidiaries since 31 December 2007.

Litigation

Neither the Issuer nor any of its subsidiaries nor the LLP is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or its subsidiaries or the LLP is aware) which may have or have had in the 12 months prior to the date hereof, a significant effect on the financial position or profitability of the Issuer or its subsidiaries or the LLP.

Auditors

The Issuer's Annual Report and Accounts for the years ended 31 December 2007 and 31 December 2006, certain pages of which have been incorporated by reference, have been audited by Deloitte & Touche LLP, chartered accountants and registered auditors, as stated in their reports.

The auditors of the LLP are Deloitte & Touche LLP, chartered accountants and registered auditors.

Reports

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

Post-issuance information

The Issuer provides monthly Investor Reports detailing, among other things, compliance with the Asset Coverage Test. Copies of the applicable Final Terms Document for each series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the registered office of the Issuer and at the specified office of each of the Paying Agents

Contracts (Rights of Third Parties) Act 1999

The Contracts (Rights of Third Parties) Act 1999 (the **Act**) provides, *inter alia*, that persons who are not parties to a contract governed by the laws of England and Wales may be given enforceable rights under such contract. Unless specifically provided in the applicable Final Terms Document to the contrary, this Programme expressly excludes the application of the Act to any issue of Covered Bonds under the Programme.

GLOSSARY

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| 30/360, 360/360 or Bond Basis | The meaning given in Condition 4.7(c)(vi) on page 75 |
| 30E/360 or Eurobond Basis | The meaning given in Condition 4.7(c)(vii) on page 75 |
| 30E/360 (ISDA) | The meaning given in Condition 4.7(c)(viii) on page 75 |
| 1999 Regulations | Unfair Terms in Consumer Contracts Regulations 1999, as amended |
| €, 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 introduced at the start of the third stage of European Economic Monetary Union pursuant to the Treaty of Rome of 25 March, 1957, as amended by, <i>inter alia</i> , the Single European Act of 1986 and the Treaty of European Union of 7 February, 1992 and the Treaty of Amsterdam of 2 October, 1997 establishing the European Community |
| £ or Sterling | The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland |
| \$, U.S.\$ or U.S. Dollars or US Dollars | The lawful currency for the time being of the United States of America |
| ¥, Yen or JPY | The lawful currency for the time being of Japan |
| Account Banks | Alliance & Leicester plc and any other financial institution which accedes to the Bank Account Agreement as an Account Bank |
| Accrual Period | In accordance with Condition 4.7(c)(i)(A), 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 |
| Accrual Yield | In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms Document |
| Accrued Interest | In relation to a Loan as at any date, interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Day immediately preceding the relevant date to (but excluding) the relevant date |
| Actual/360 | The meaning given in Condition 4.7(c)(v) on page 75 |
| Actual/Actual or Actual/Actual (ISDA) | The meaning given in Condition 4.7(c)(ii) on page 75 |
| Actual/365 (Fixed) | The meaning given in Condition 4.7(c)(iii) on page 75 |
| Actual/365 (Sterling) | The meaning given in Condition 4.7(c)(iv) on page 75 |
| Actual/Actual (ICMA) | The meaning given in Condition 4.7(c)(i) on page 75 |
| Additional Business Centre | The meaning (if any) given in the applicable Final Terms Document |
| Adjusted Aggregate Loan Amount | The meaning given on page 116 |
| Adjusted Current Balance | The meaning given on page 116 |
| Adjusted Required Redemption Amount | The Sterling Equivalent of: <ul style="list-style-type: none"> (a) the Required Redemption Amount; plus or minus (b) any swap termination amounts payable to or by the LLP under the Covered Bond Swap Agreement in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of the GIC Account and the principal balance of any Substitution Assets and Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to pay or repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds |

which mature prior to or on the same date as the relevant Series of Covered Bonds); plus or minus

- (c) any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement

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| Agency Agreement | The agency agreement dated the Programme Date and made between, <i>inter alia</i> , the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the other Paying Agents, the Registrar and the Transfer Agent (as amended and/or supplemented and/or restated from time to time) |
| Agents | The Paying Agents, the Registrar, the Exchange Agent, the Transfer Agents and any Calculation Agent |
| Alliance & Leicester Group | Alliance & Leicester plc and its Subsidiaries collectively |
| Amortisation Test | The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on each Calculation Date after a Notice to Pay has been served on the LLP |
| Amortisation Test Aggregate Loan Amount | The meaning given on page 118 |
| Amortisation Test Current Balance | The meaning given on page 118 |
| Amortised Face Amount | The meaning given on page 83 |
| Arrears Adjusted Current Balance | The meaning given on page 116 |
| Arrears of Interest | In relation to a Loan as at any date, the aggregate of all interest and expenses which are due and payable and unpaid on that date |
| Asset Coverage Test | The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date |
| Asset Monitor | A reputable institution acceptable to the Rating Agencies appointed pursuant to the Asset Monitor Agreement |
| Asset Monitor Agreement | The asset monitor agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee (as amended and/or supplemented and/or restated from time to time) |
| 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 | 91.0 per cent. or such lesser percentage figure as determined from time to time in accordance with the terms of the LLP Deed |
| Asset Pool | All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) (Asset Pool) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations |
| Assignment Date | Each of the First Assignment Date and each other date on which a New Portfolio is assigned to the LLP in accordance with the terms of the Mortgage Sale Agreement |
| Authorised Investments | Each of: <ul style="list-style-type: none">(a) Sterling gilt-edged securities having a remaining maturity date of 30 days or less and maturing on or before the next following LLP Payment Date;(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 30 days or less and mature on or before the next following LLP Payment Date and the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1 by Moody's, A-1 by S&P and F1 by Fitch;

- (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 30 days or less and mature on or before the next following LLP Payment Date and which are rated Aaa by Moody's, AAA by S&P and AAA by Fitch; and
- (d) Sterling denominated residential mortgage backed securities provided that such investments have a remaining period to maturity of 30 days or less and mature on or before the next following LLP Payment Date, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's, AAA by S&P and AAA by Fitch

provided that such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations

Available Principal Receipts

On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the GIC Account;
- (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Portfolios, refinance an existing Term Advance or invest in Substitution Assets), (ii) any Cash Capital Contributions received from a Member (other than those Cash Capital Contributions credited to the Reserve Ledger on the GIC Account) and (iii) the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement to the extent that such proceeds represent principal, but excluding any amount of principal received under the Covered Bond Swap Agreements; and
- (c) the amount of any termination payment received from a Swap Provider which is not applied to acquire a replacement for the relevant terminated Swap,

Less

- (d) any Swap Collateral Excluded Amounts

Available Revenue Receipts

On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Revenue Receipts received during the immediately preceding 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, the Substitution Assets and any Authorised Investments in the preceding Calculation Period and the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement to the extent that such proceeds comprise Accrued Interest and Arrears of Interest or other interest amounts, but excluding amounts received by the LLP under the Interest Rate Swap Agreement and amounts in respect of interest received by the LLP under each Covered Bond Swap Agreement;

- (c) amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (d) any other revenue receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account;
- (e) following service of a Notice to Pay, amounts standing to the credit of the Reserve Fund; and
- (f) the amount of any premium received by the LLP from a new Swap Provider as consideration for the entry by the LLP into a new Swap, except to the extent applied to pay any termination payment under the relevant Swap being replaced,

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- (g) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller;
- (h) Tax Credits; and
- (i) Swap Collateral Excluded Amounts

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| Bank Account Agreement | The bank account agreement entered into on the Programme Date between the LLP, the Account Banks, the Cash Manager and the Security Trustee (as amended and/or supplemented and/or restated from time to time) |
| Banking Act | Financial Services Act and Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended |
| Base Rate Loan | Those Loans to the extent that and for such period that their Mortgage Terms provide that they are subject to the Base Rate-Linked Rate |
| Base Rate-Linked Rate | The rate of interest that applies to the Base Rate Loans in the Portfolio that is a margin (expressed as a percentage figure) above and/or equal to and/or below the Bank of England Base Rate |
| Bearer Covered Bonds | Covered Bonds in bearer form |
| Bearer Definitive Covered Bond | A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms Document), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 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) or Lead Manager (in the case of syndicated issues) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Terms and Conditions by reference as indicated in the applicable Final Terms Document and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms Document endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue |
| Bearer Global Covered Bonds | Global Covered Bonds in bearer form, comprising Temporary Global Covered Bonds and Permanent Global Covered Bonds |
| Beneficial Owner | Each actual purchaser of each DTC Covered Bond |
| Bond Trustee | HSBC Corporate Trustee Company (UK) Limited, in its capacity as bond trustee under the Trust Deed together with any successor or additional bond trustee appointed from time to time thereunder |

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| Borrower | In relation to a Loan, each individual specified as such in the relevant Mortgage Terms together with each individual (if any) who assumes from time to time an obligation to repay such Loan or any part of it |
| Broken Amount | The meaning (if any) given in the applicable Final Terms Document |
| Buildings Policies | <p>(a) All buildings insurance policies relating to Properties which have been taken out in the name of the relevant Borrower (and, in the case of the Issuer Buildings Policies, the Seller) in accordance with the applicable Mortgage Terms; and</p> <p>(b) All landlord's buildings insurance policies relating to leasehold Properties</p> |
| Business Day | The meaning given in Condition 4.7(a) on page 74 |
| Business Day Convention | In respect of a Tranche of Covered Bonds and either the Specified Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms Document and determined in accordance with Condition 4.7(b) |
| Calculation Agent | In relation to one or more Series of Variable Interest 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 calculation agent in relation to such Covered Bonds |
| Calculation Amount | The meaning given in the applicable Final Terms Document |
| Calculation Date | The third London Business Day prior to each LLP Payment Date |
| Calculation Period | The period from (and including) one Calculation Date to (but excluding) the next following Calculation Date, except that the first Calculation Period shall commence on (and include) the first Issue Date under the Programme and end on (but exclude) the next following Calculation Date |
| Capital Account Ledger | The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time |
| Capital Contribution | In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed |
| Capital Contributions in Kind | A contribution of Loans and their Related Security to the LLP in an amount equal to (a) the Current Balance of those Loans as at the relevant Assignment Date minus (b) any cash payment paid by the LLP for the Loans and their Related Security on that Assignment Date, together with (i) the principal amount of all Flexible Loan Drawings and Further Advances in respect of such Loans which are funded by the Seller as a Member of the LLP and (ii) Capitalised Arrears added to the principal amount outstanding of such Loans |
| Capital Distribution | Any return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration) |
| Capitalised Arrears | <p>In relation to a Loan on any date (the determination date), the amount (if any) at such date of any Arrears of Interest in respect of which, on or prior to the determination date, each of the following conditions has been satisfied:</p> <p>(a) the Seller (or the Servicer on the Seller's behalf) has, by arrangement with the relevant Borrower, agreed to capitalise such Arrears of Interest; and</p> <p>(b) such Arrears of Interest have been capitalised and added, in the relevant accounts of the Seller (or, if the determination date occurs after the First Assignment Date, the LLP), to the principal amount outstanding in respect of such Loan</p> |
| Capitalised Expenses | In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added |

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| | to the principal amount outstanding of that Loan in accordance with the relevant Mortgage Terms (including any High Loan-to-Value Fee) |
| Capitalised Interest | The increase in the Current Balance of a Flexible Loan that occurs as a result of the relevant Borrower having taken a Payment Holiday in respect of interest on that Flexible Loan, such increase to be in an amount equal to the Accrued Interest that was due but not paid |
| Cash Capital Contribution | A capital contribution to the LLP made in cash whether by way of loan or otherwise |
| Cash Management Agreement | The cash management agreement entered into on the Programme Date between the LLP, the Cash Manager and the Security Trustee (as amended and/or supplemented and/or restated from time to time) |
| Cash Manager | Alliance & Leicester plc, in its capacity as cash manager or any successor cash manager appointed from time to time |
| CCA | Consumer Credit Act 1974, as amended |
| CCA 2006 | Consumer Credit Act 2006 |
| Certificate of Title | A solicitor's or licensed conveyancer's or qualified conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation |
| Charged Property | The meaning given on page 125 |
| Clearing Systems | DTC, Euroclear and/or Clearstream, Luxembourg |
| Clearstream, Luxembourg | Clearstream Banking, société anonyme or its successors |
| CML | Council of Mortgage Lenders |
| CML Code | Mortgage Code (as defined below) |
| Common Depository | HSBC Bank plc, in its capacity as the common depository for Euroclear and Clearstream, Luxembourg |
| Common Safekeeper | The common safekeeper for Euroclear and Clearstream, Luxembourg |
| Corporate Services Agreement | The corporate services agreement entered into by the Liquidation Member and Holdings, with, <i>inter alios</i> , the Corporate Services Provider and the LLP dated the Programme Date (as amended and/or supplemented and/or restated from time to time) |
| Corporate Services Provider | Structural Finance Management Limited, in its capacity as corporate services provider (and any successor corporate services provider) |
| Couponholders | The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons) |
| Coupons | Interest coupons in respect of Bearer Definitive Covered Bonds |
| Covered Bond | Each covered bond issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements for a Covered Bond issued pursuant to Condition 6.12 and Condition 10 |
| Covered Bond Regulations | The Regulated Covered Bonds Regulations 2008 developed by HM Treasury in consultation with the FSA and in force since 6 March 2008 or such other replacement or amended legislation which may be enacted to implement a recognition regime for covered bonds issued in the United Kingdom. |
| Covered Bond Swap Agreement | Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee governing any Covered Bond Swaps in the form of an ISDA Master Agreement, including a schedule, one or more confirmations and a credit support annex |
| Covered Bond Swap Early Termination Event | The meaning given on page 123 |

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| Covered Bond Swap Provider | Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement |
| Covered Bond Swap Rate | In relation to a Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap relating to such Covered Bonds or, if the relevant Covered Bond Swap Agreement has terminated, the applicable spot rate |
| Covered Bondholders | The holders for the time being of the Covered Bonds |
| Credit Linked Interest Covered Bonds | Covered Bonds in respect of which payments of interest will be calculated by reference to the creditworthiness of, performance of obligations by or some other factor relating to one or more Reference Entities, as set out in the applicable Final Terms Document |
| Cross Default Amount | The meaning given in Condition 9.1 on page 86 |
| Current Balance | In relation to any Loan at any date (the determination date), the aggregate at such date (but avoiding double counting) of: <ul style="list-style-type: none"> (a) the Initial Advance; (b) Capitalised Expenses; (c) Capitalised Interest; (d) Capitalised Arrears; and (e) Further Advances and/or Flexible Loan Drawings, in each case relating to such Loan less any prepayment, repayment or payment of any of the foregoing made on or prior to the determination date |
| Custodian | Any custodian with whom the relevant Registered Global Covered Bonds have been deposited |
| Customer Files | The file or files relating to each Loan and its Related Security containing, <i>inter alia</i> : <ul style="list-style-type: none"> (a) all material correspondence relating to that Loan; and (b) the completed mortgage documentation applicable to the Loan (other than the Title Deeds) including (where available) the Valuation Report and the solicitor's or licensed or qualified conveyancer's Certificate of Title, whether original documentation, in electronic form or otherwise |
| Day Count Fraction | The applicable meaning given in Condition 4.7(c) on page 74 |
| DBERR | Department for Business, Enterprise and Regulatory Reform |
| Dealer | Each dealer appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds |
| Deed of Charge | The deed of charge entered into on the Programme Date between the LLP, the Bond Trustee, the Security Trustee and the other Secured Creditors (as amended and/or supplemented and/or restated from time to time and including each further charge or security granted pursuant thereto) |
| 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 or a heritable creditor in relation to a Property agrees with the Seller to postpone its mortgage or standard security (as appropriate) over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage |
| Defaulted Loan | Any Loan in the Portfolio which is three months or more in arrears |

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| Deferred Consideration | The consideration payable to the Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priority of Payments |
| Definitive Covered Bond | A Bearer Definitive Covered Bond and/or a Registered Definitive Covered Bond, as the context may require |
| Definitive Regulation S Covered Bond | A Registered Covered Bond sold to non-U.S. persons outside the United States in reliance on Regulation S, which is in definitive form |
| Definitive Rule 144A Covered Bond | A Registered Covered Bond sold in the United States to QIBs in reliance on Rule 144A, which is in definitive form |
| Dematerialised Loan | An English Loan completed on or after 13 October 2003 in relation to which the Seller is not required by law to hold any deeds or documents in order to evidence title to the relevant Property or any rights in relation to the relevant Property or the Seller's Mortgage of the relevant Property and in relation to which the Seller does not retain Title Deeds or a Scottish Loan completed on or after 22 January 2007 in relation to which land and charge certificates are available in electronic form only |
| Designated Account | The meaning given in Condition 5.4 on page 77 |
| Designated Bank | The meaning given in Condition 5.4 on page 77 |
| 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 being, as at the Programme Date, Alliance & Leicester plc and the Liquidation Member |
| Determination Date | The meaning given in the applicable Final Terms Document |
| Determination Period | The meaning given in Condition 4.7(d) on page 75 |
| Differential Rate | In relation to a Discount Loan beneficially owned by the Seller on the Seller's residential mortgage books, the applicable margin above or below the Seller Standard Variable Rate |
| Direct Participants | Direct participants in DTC |
| Directors | The directors for the time being of the Issuer |
| Discount Rate | The rate of interest applicable to a Discount Loan |
| Discount Loans | A type of Loan product that allows the Borrower for a specified period of time, which is usually between one and five years, to pay interest at a specified discount to the standard variable rate (the Discount Rate). |
| Distribution Compliance Period | The period that ends 40 days after the later of the commencement of the offering and the Issue Date |
| DTC | The Depository Trust Company or its successors |
| DTC Covered Bonds | Registered Covered Bonds accepted into DTC's book-entry settlement system |
| DTCC | The Depository Trust & Clearing Corporation |
| Dual Currency Interest Covered Bond | A Covered Bond in respect of which payments of interest will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree, such currencies and rates of exchange to be specified in the applicable Final Terms Document |
| Due for Payment | The requirement by the LLP to pay any Guaranteed Amount: <ul style="list-style-type: none"> (a) following service of a Notice to Pay but prior to service of an LLP Acceleration Notice: <ul style="list-style-type: none"> (i) (except where paragraph (ii) below applies) on the date on which the Scheduled Payment Date in respect of such Guaranteed Amount is reached, or, if the applicable Final Terms Document specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, on 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 or such other Interest Payment Date(s) specified in the applicable Final Terms Document (the **Original Due for Payment Date**); and

- (ii) in relation to any Guaranteed Amount in respect of the Final Redemption Amount payable on the Final Maturity Date of a Series of Covered Bonds for which an Extended Due for Payment Date is specified in the applicable Final Terms Document, on the Extended Due for Payment Date, but only to the extent that the LLP, having received the Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date, does not pay Guaranteed Amounts corresponding to the full amount of the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, because the LLP has insufficient monies available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (1) the date which falls two Business Days after service of the Notice to Pay on the LLP or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a)) and (2) the Extension Determination Date.

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 service of an LLP Acceleration Notice, on the date on which the LLP Acceleration Notice is served on the Issuer and the LLP

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| 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 Document (ignoring any acceleration of amounts due under the Covered Bonds prior to service of an LLP Acceleration Notice) |
| Early Redemption Amount | The amount calculated in accordance with Condition 6.7 |
| Early Repayment Charge | Any fee which a Borrower is required to pay in the event that his or her Loan becomes repayable for default or for any other mandatory reason or he or she repays all or any part of the relevant Loan before a specified date |
| Eligibility Criteria | The meaning given on page 105 |
| English Loan | A Loan secured by a Mortgage over a Property located in England or Wales |
| Equity Linked Interest Covered Bonds | Covered Bonds in respect of which payments of interest will be calculated by reference to the price, value, performance or some other factor relating to one or more Reference Assets, as set out in the applicable Final Terms Document |
| EU | European Union |
| EU Capital Requirements Directive | Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast) |
| EURIBOR | Euro-zone inter-bank offered rate |
| Euroclear | Euroclear Bank S.A./N.V. or its successors |
| Excess Proceeds | In accordance with Condition 9.1, monies received (following service 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 officer appointed in relation to the Issuer |
| Exchange Act | The U.S. Securities Exchange Act of 1934, as amended |

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| Exchange Agent | In relation to one or more Series of Covered Bonds, the person initially appointed as exchange agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor exchange agent in relation to such Covered Bonds |
| 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 on page 50 and in the case of Registered Covered Bonds, the meaning given on page 52 |
| Excluded Scheduled Interest Amounts | The meaning given in the definition of Scheduled Interest |
| Excluded Scheduled Principal Amounts | The meaning given in the definition of Scheduled Principal |
| Excluded Swap Termination Amount | In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable under that Swap Agreement (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 Document to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full by the Extension Determination Date |
| Extension Determination Date | In relation to any 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 a Series of Covered Bonds will be redeemed at the Final Redemption Amount in accordance with the Terms and Conditions |
| Final Redemption Amount | The meaning given in the relevant Final Terms Document |
| Final Terms Document | The final terms which, with respect to each Tranche or 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 U.K. Listing Authority and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds |
| Financial Services Act | Legislative Decree No. 58 of 24 February 1998 of the Republic of Italy, as amended |
| First Assignment Date | The date on which the Initial Portfolio is sold and assigned to the LLP pursuant to the terms of the Mortgage Sale Agreement |
| Fitch | Fitch Ratings Ltd. or its successors |
| Fixed Coupon Amount | The meaning given in the applicable Final Terms Document |
| Fixed Rate Covered Bonds | Covered Bonds that pay 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 Loans | Loans where the interest rate payable by the Borrower does not vary and is fixed for a certain period of time by the Seller |
| Flexible Draw Capacity | The meaning given on page 118 |
| Flexible Loan | A type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Mortgage Account and/or overpay or underpay principal in a given month and/or take a Payment Holiday (in each case only if and to the extent that the Borrower has overpaid) |

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| Flexible Loan Drawing | Any further drawing of monies made by a Borrower under a Flexible Loan other than the Initial Advance (but including any Capitalised Interest) |
| Floating Rate | The meaning given in the ISDA Definitions |
| Floating Rate Convention | The meaning given in Condition 4.7(b)(i) on page 74 |
| 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 interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms Document |
| Floating Rate Option | The meaning given in the ISDA Definitions |
| Following Business Day Convention | The meaning given in Condition 4.7(b)(ii) on page 74 |
| Framework | A comprehensive framework, the text of which was published by the Basel Committee on Banking Supervision in June 2006 under the title " <i>International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)</i> " |
| FSA | Financial Services Authority |
| FSMA | Financial Services and Markets Act 2000, as amended |
| Further Advance | In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance which is secured by the same Mortgage as the Initial Advance 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 and does not include a Flexible Loan Drawing |
| GIC Account | The account in the name of the LLP held with Alliance & Leicester plc and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such additional or replacement account as may for the time being be in place with the prior consent of the Security Trustee and designated as such |
| Global Covered Bond | A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require |
| Guaranteed Amounts | Prior to service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Terms and Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds (other than additional amounts payable under Condition 7), 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 |
| Guaranteed Amounts Due Date | The later of (a) the date which is two Business Days following service of a Notice to Pay on the LLP, and (b) the date on which the Guaranteed Amounts are otherwise Due for Payment |
| Guarantee Priority of Payments | The meaning given on page 133 |
| Halifax Index | The index of increases or decreases in house prices issued by Halifax plc in relation to residential properties in the United Kingdom |

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| Halifax Price Indexed Valuation | In relation to any Property at any date, the Latest Valuation of that Property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Latest Valuation |
| High Loan-to-Value Fee | Any fee incurred by a Borrower as a result of taking out a Loan with a Loan-to-Value Ratio in excess of a certain percentage specified in the Offer Conditions |
| Holdings | Alliance & Leicester LM Holding Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 06378148) |
| 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 such securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree |
| Indexed Valuation | In relation to any Loan secured over any Property at any date: <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 | Indirect participants in DTC that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly |
| Initial Advance | In relation to a Loan, the original principal amount advanced by the Seller including any retention(s) advanced to the relevant Borrower after completion of the Mortgage but excluding any: <ul style="list-style-type: none"> (a) High Loan-to-Value Fee; (b) Further Advance; (c) Flexible Loan Drawing; and (d) Early Repayment Charge, in each case relating to any such Loan |
| Initial Portfolio | The meaning given on page 138 |
| Insolvency Act | Insolvency Act 1986, as amended |
| Insolvency Event | In respect of the Seller or the Servicer: <ul style="list-style-type: none"> (a) an order is made or an effective resolution passed for the liquidation or winding-up of the relevant entity, except for the purposes of a reconstruction, amalgamation or merger or following the transfer of all or substantially all of the assets of the relevant entity, the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution of the Covered Bondholders or which has been effected in compliance with the terms of Condition 14; or (b) the relevant entity stops or threatens to stop payment to its creditors generally; or (c) the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business save, (i) for so long as it remains after such cessation not unable to pay its debts within the meaning of Section 123 of the Insolvency Act, (ii) for the purposes of a reorganisation on terms approved by the Bond Trustee or (iii) for purposes of a reconstruction, amalgamation or merger between the Issuer and the relevant entity or following the transfer of all or substantially all of the assets of the Issuer to the relevant entity or of the relevant entity to the Issuer; or |

- (d) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied or enforced upon or sued out against the whole or any material part of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or
- (e) the relevant entity is unable to pay its debts as they fall due

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| Instalment Amounts | In respect of Instalment Covered Bonds, each amount specified as such in the applicable Final Terms Document |
| Instalment Covered Bonds | Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms Document |
| Instalment Dates | In respect of Instalment Covered Bonds, each date specified as such in the applicable Final Terms Document |
| Insurance Acknowledgement | In the case of the Issuer Buildings Policies, a letter from the relevant insurer substantially in the form set out in the Mortgage Sale Agreement |
| Insurance Policies | The Buildings Policies and the Issuer Insurance Policies |
| Intercompany Loan Agreement | The term loan agreement dated the Programme Date between the Issuer, the LLP, the Cash Manager and the Security Trustee |
| Interest Amount | The amount of interest payable on the Floating Rate Covered Bonds or Variable Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 4.2(d) |
| Interest Commencement Date | In the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms Document from (and including) which the relevant Covered Bonds will accrue interest |
| Interest Determination Date | In respect of Floating Rate Covered Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms Document |
| Interest Payment Date | In respect of Fixed Rate Covered Bonds, the meaning given in the applicable Final Terms Document and in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds, the meaning given in Condition 4.2(a) |
| Interest Period | In accordance with Condition 4.7(e), the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date |
| Interest Rate Shortfall Test | The meaning given on page 113 |
| Interest Rate Swap | The interest rate swap entered into in connection under the terms of the Interest Rate Swap Agreement |
| Interest Rate Swap Agreement | The agreement between the LLP, the Interest Rate Swap Provider and the Security Trustee dated the Programme Date governing the Interest Rate Swap in the form of an ISDA Master Agreement, including a schedule, one or more confirmations and a credit support annex |
| Interest Rate Swap Early Termination Event | The meaning given on page 122 |
| Interest Rate Swap Provider | Alliance & Leicester plc in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider |
| Investor Put | The meaning given in Condition 6.4 on page 82 |
| 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 |
| ISDA | International Swaps and Derivatives Association, Inc. |

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| ISDA Definitions | The meaning given in Condition 4.2(b)(i) on page 71 |
| ISDA Determination | If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(i) |
| ISDA Master Agreement | The 1992 ISDA Master Agreement (Multicurrency – Cross Border), as published by ISDA |
| ISDA Rate | The meaning given in Condition 4.2(b)(i) on page 71 |
| Issue Date | Each date on which the Issuer issues a Tranche of Covered Bonds under the Programme, as specified in the applicable Final Terms Document |
| Issue Price | The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Series or Tranche of Covered Bonds will be issued |
| Issuer | Alliance & Leicester plc |
| Issuer Acceleration Notice | The meaning given in Condition 9.1 on page 85 |
| Issuer Buildings Policies | Those of the Buildings Policies which are issued to Borrowers by the Seller on behalf of CGU Underwriting Limited (formerly known as Commercial Union Underwriting Limited) or such other entity as may from time to time be appointed to issue the Issuer Buildings Policies |
| Issuer Call | The meaning given in Condition 6.3 on page 82 |
| Issuer Event of Default | The meaning given in Condition 9.1 on page 85 |
| Issuer Insurance Policies | (a) the Properties in Possession Policy; and (b) the Issuer Buildings Policies |
| Issuer Subordinated Loan | The meaning given on page 115 |
| Late Payment | The meaning given in Condition 6.11 |
| Latest Valuation | In relation to any Property, the value given to that Property by the most recent Valuation Report addressed to the Seller |
| Ledger | Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Capital Account Ledger and the Payment Ledger |
| Lending Criteria | The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender |
| LIBOR | London inter-bank offered rate |
| Liquidation Member | Alliance & Leicester Covered Bonds (LM) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 06386071) |
| LLP | Alliance & Leicester Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC332032) |
| LLPA | Limited Liability Partnerships Act 2000 |
| 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 Issuer Acceleration Notice) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and 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 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 and any additional or replacement accounts opened in the name of the LLP, including each Swap Payments Account, each Swap |

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| | Collateral Account, the Stand-by GIC Account, the Stand-by Transaction Account and any Stand-by Swap Account |
| LLP Deed | The limited liability partnership deed entered into on the Programme Date between the LLP, the Seller, the Liquidation Member, the Bond Trustee and the Security Trustee (as amended and/or supplemented and/or restated from time to time) |
| LLP Differential Rate | In relation to a Discount Loan in the Portfolio, the applicable margin above or below the LLP Standard Variable Rate as set, other than in limited circumstances, by the Servicer pursuant to the Servicing Agreement; |
| LLP Event of Default | The meaning given in Condition 9.2 on page 87 |
| LLP Management Board | The management board 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 relating to the business of the LLP and its management |
| LLP Payment Date | The 17th day of each month or if not a London Business Day the next following London Business Day |
| LLP Payment Period | The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date |
| LLP Standard Variable Rate | The standard variable rate applicable to Variable Rate Loans in the Portfolio as set, other than in limited circumstances, by the Servicer pursuant to the Servicing Agreement |
| Loan | Each mortgage loan referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all Further Advances and Flexible Loan Drawings) due or owing with respect to that mortgage loan under the relevant Mortgage Terms by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same |
| Loan Repurchase Notice | A notice in substantially the form set out in the Mortgage Sale Agreement served by the LLP on the Seller in relation to the repurchase of Loans in the Portfolio by the Seller in accordance with the terms of the Mortgage Sale Agreement |
| Loan-to-Value Ratio | The ratio of the outstanding balance of a Loan to the value of the Property securing that Loan |
| London Business Day | A day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London |
| London Stock Exchange | London Stock Exchange plc |
| Margin | In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms Document |
| Master Definitions and Construction Schedule | The master definitions and construction schedule made between the parties to the Transaction Documents on or about the Programme Date (as the same may be amended and/or supplemented and/or restated from time to time) |
| Maximum Rate of Interest | In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms Document |
| Maximum Redemption Amount | The amount specified as such in the applicable Final Terms Document |
| MCCB | Mortgage Code Compliance Board |
| MCOB | Mortgages and Home Finance: Conduct of Business Sourcebook, published by the FSA, as amended |

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| Member | Each member of the LLP |
| MH/CP Documentation | An affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the Property secured thereby |
| Minimum Rate of Interest | In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms Document |
| Minimum Redemption Amount | The amount specified as such in the applicable Final Terms Document |
| Modified Following Business Day Convention | The meaning given in Condition 4.7(b)(iii) on page 74 |
| Monthly Asset Coverage Report | The report substantially in the form set out in Schedule 3 to the Cash Management Agreement |
| Monthly Payment | The amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Loan |
| Monthly Payment Day | The date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Loan or, if any such day is not a London Business Day, the next following London Business Day |
| Moody's | Moody's Investors Service Limited or its successors |
| Mortgage | The legal charge, mortgage, standard security or charge securing a Loan |
| Mortgage Account | The mortgage account into which all Loans secured on the same Property will be incorporated |
| Mortgage Code | The mortgage code sponsored by the CML and policed by the MCCB under which, until 31 October 2004, residential mortgage business in the United Kingdom was voluntarily self-regulated |
| Mortgage Conditions | The terms and conditions applicable to the Loans as contained in the Seller's " Mortgage Conditions " booklets for England and Wales, Northern Ireland or Scotland applicable from time to time (or the equivalent documentation published by a New Seller) |
| Mortgage Pool | The mortgages owned from time to time by the LLP |
| Mortgage Sale Agreement | The mortgage sale agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee (as amended and/or supplemented and/or restated from time to time) and, where the context so requires, including any New Mortgage Sale Agreement entered into from time to time between any New Seller, the LLP and the Security Trustee |
| Mortgage Transfer Service | A service offered by the Seller which allows re-mortgages of Properties to be completed under an expedited procedure. |
| Mortgage Terms | All of the terms and conditions applicable to a Loan, including, without limitation, the applicable Mortgage Conditions and Offer Conditions |
| N(M) | The date on which the FSMA regime relating to the regulation of mortgages came into effect, 31 October 2004 |
| Negative Carry Factor | The meaning given on page 117 |
| New Global Covered Bond | A Temporary Global Covered Bond in the form set out in Part 1 of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part 2 of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms Document specifies that the Covered Bonds are in NGCB form |
| New Loan | Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to the LLP after the First Assignment Date pursuant to the Mortgage Sale Agreement |
| New Loan Type | A new type of mortgage loan originated by the Seller or a New Seller, which the Seller or the New Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller or the |

New Seller, acting reasonably) from any of the Loans or New Seller Loans in the Portfolio. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from any of the Loans or New Seller Loans in the Portfolio 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, discount rate or any other interest rate or the benefit of any discounts, cashbacks and/or rate guarantees

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| New Member | Any new member admitted to the LLP after the Programme Date |
| New Mortgage Sale Agreement | Any new mortgage sale agreement entered into between any New Seller, the LLP and the Security Trustee (as amended and/or supplemented and/or restated from time to time), which shall be substantially in the same form and contain substantially the same provisions as the mortgage sale agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee (as amended and/or supplemented and/or restated from time to time) |
| New Portfolio | The meaning given on page 138 |
| New Portfolio Notice | A notice in the form set out in the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement |
| New Seller | Any member of the Alliance & Leicester Group (other than Alliance & Leicester plc) that, <i>inter alia</i> , has its registered office in the United Kingdom and accedes to the relevant Transaction Documents and sells New Seller Loans and their Related Security to the LLP in the future pursuant to a New Mortgage Sale Agreement |
| New Seller Loans | Loans originated by a New Seller |
| NGCB | New global covered bond |
| Non-exempt Offer | The meaning given on page 155 |
| Northern Irish Loan | A Loan secured by a Mortgage over a Property in Northern Ireland |
| Notice to Pay | The meaning given in Condition 9.1 on page 87 |
| Offer Conditions | The terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower |
| Official List | Official List of the U.K. Listing Authority |
| OFT | Office of Fair Trading |
| Ombudsman | Financial Ombudsman Service under the FSMA |
| Omnibus Proxy | The omnibus proxy mailed by DTC to the Issuer as soon as possible after the record date in accordance with DTC's usual procedures |
| Optional Redemption Amount | The meaning (if any) given in the applicable Final Terms Document |
| Optional Redemption Date | The meaning (if any) given in the applicable Final Terms Document |
| Original Due for Payment Date | The meaning given in paragraph (a) of the definition of Due for Payment |
| Partial Portfolio | Part of any portfolio of Selected Loans |
| Partly-Paid Covered Bonds | Covered Bonds which are only partly paid up on issue, in respect of which interest will accrue in accordance with Condition 4.4 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 Document |
| Paying Agents | The Principal Paying Agent and any other paying agent appointed pursuant to the terms of the Agency Agreement |
| Payment Day | The meaning given in Condition 5.6 on page 78 |
| Payment Holiday | A period during which a Borrower may suspend payments under a Loan where the Borrower is permitted under the relevant Mortgage Terms to do so and will not therefore be in breach of the relevant Mortgage Terms |

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| Payment Ledger | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Available Revenue Receipts and Available Principal Receipts for application in accordance with the relevant Priority of Payments |
| Permanent Global Covered Bond | The meaning given on page 52 |
| Portfolio | The Initial Portfolio and each New Portfolio acquired by the LLP but excluding Loans which have been redeemed in full or repurchased by the Seller or a New Seller or otherwise sold by the LLP |
| Post-Enforcement Priority of Payments | The meaning given on page 136 |
| Postponed Deferred Consideration | Deferred Consideration the payment of which is, by reason of the application thereto of the proviso as to Available Revenue Receipts and/or the making of provisions as referred to in the Mortgage Sale Agreement, postponed from the date on which such Deferred Consideration would, but for such application, have been paid |
| Potential Issuer Event of Default | The meaning given in Condition 14 on page 93 |
| Potential LLP Event of Default | The meaning given in Condition 14 on page 93 |
| Pre-Acceleration Principal Priority of Payments | The meaning given on page 131 |
| Pre-Acceleration Priority of Payments | The Pre-Acceleration Principal Priority of Payments or the Pre-Acceleration Revenue Priority of Payments |
| Pre-Acceleration Revenue Priority of Payments | The meaning given on page 129 |
| Preceding Business Day Convention | The meaning given in Condition 4.7(b)(iv) on page 74 |
| Prescribed Limit | The limit on investing in Substitution Assets set out in <i>Summary of the Principal Documents – LLP Deed – Limit on Investing in Substitution Assets and Authorised Investments</i> |
| Principal Amount Outstanding | In accordance with Condition 4.7(f), in respect of a Covered Bond on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day |
| Principal Ledger | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed |
| Principal Paying Agent | HSBC Bank plc, and any successor principal paying agent |
| Principal Receipts | Any payment received in respect of principal in respect of any Loan (including payments pursuant to any Insurance Policies), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise (without double counting but including principal received or treated as received after completion of the enforcement procedures) |
| Priorities of Payments | The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts in different circumstances |
| Product Switch | A variation to the financial terms and conditions applicable to a Loan other than: <ul style="list-style-type: none"> (a) any variation agreed with a Borrower to control or manage arrears on the Loan; (b) any variation in the term of the Loan; (c) any variation imposed by statute; (d) any variation of the principal available and/or the rate of interest payable in respect of the Loan where that variation or rate is offered to the Borrowers under Loans which constitute 10 per cent. or more by |

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| | outstanding principal amount of Loans comprised in the Portfolio in any LLP Payment Period; or |
| | (e) any variation in the frequency with which the interest payable in respect of the Loan is charged |
| Programme | €10 billion global covered bond programme established by the Issuer on the Programme Date |
| Programme Agreement | The programme agreement entered into on the Programme Date between the Issuer, the LLP and the Dealers (as amended and/or supplemented and/or restated from time to time) |
| Programme Date | 9 April 2008 |
| Programme Resolution | Any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 or to direct the Bond Trustee or the Security Trustee to take any enforcement action pursuant to Condition 9 |
| Property | (In England and Wales) freehold, commonhold or leasehold property or (in Northern Ireland) freehold or leasehold property or property held under a fee farm grant or (in Scotland) a heritable property or a property held under a long lease which is subject to a Mortgage |
| Prospectus Directive | Directive 2003/71/EC |
| Purchaser | Any third party or the Seller to whom the LLP offers to sell Selected Loans |
| Put Notice | The meaning given in Condition 6.4 on page 82 |
| QIB | A "qualified institutional buyer" within the meaning of Rule 144A |
| Rate of Interest | In respect of a Series of interest-bearing Covered Bonds, the rate of interest payable from time to time in respect of such Covered Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms Document |
| Rating Agencies | Moody's, S&P and Fitch, and each a Rating Agency |
| Rating Agency Confirmation | A confirmation in writing by Moody's, S&P and Fitch that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter |
| RCB Regulations | The Regulated Covered Bonds Regulations 2008 (SI 2008/346) |
| RCB Sourcebook | The FSA Regulated Covered Bond Specialist Sourcebook 2008 |
| Reasonable, Prudent Mortgage Lender | A lender acting within the policy applied by the Seller and/or the Servicer, as applicable, from time to time to the originating, underwriting and servicing of mortgage loans beneficially owned by the Seller outside the Mortgage Pool |
| Receiptholders | The holders of the Receipts |
| Receipts | Receipts for the payment of instalments of principal (other than the final instalment) attached on issue to Bearer Definitive Covered Bonds repayable in instalments |
| Receiver | Any person or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver, manager, or receiver and manager of the Charged Property by the Security Trustee pursuant to the Deed of Charge |
| Record Date | The meaning given in Condition 5.4 on page 77 |
| Redeemed Covered Bonds | The meaning given in Condition 6.3 on page 82 |
| Reference Assets | In respect of Equity Linked Interest Covered Bonds, shares or other securities, as indicated in the applicable Final Terms Document |
| Reference Entities | In respect of Credit Linked Interest Covered Bonds, entities as indicated in the applicable Final Terms Document |
| Reference Price | In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms Document |

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| Reference Rate | In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms Document |
| Register | The register of holders of the Registered Covered Bonds maintained by the Registrar |
| Registered Covered Bond | A Covered Bond in registered form |
| Registered Definitive Covered Bond | A Registered Covered Bond in definitive form issued or, as the context 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 Document), such Registered Covered Bond in definitive form being 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 Terms and Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Terms and Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms Document and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms Document endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon |
| Registered Global Covered Bonds | Global Covered Bonds in registered form, comprising Rule 144A Global Covered Bonds and Regulation S Global Covered Bonds |
| Registered Land | In the case of England and Wales, land the title to which is, or is required to be, registered at the Land Registry and, in the case of Northern Ireland, land the title to which is, or is required to be, registered at the Land Registry of Northern Ireland |
| Registers of Scotland | The Land Register of Scotland and/or the General Register of Sasines |
| Registrar | HSBC Bank plc, in its capacity as registrar (and any successor registrar) |
| Regulated Covered Bonds | Covered Bonds that have been admitted to the register of regulated covered bonds maintained by the FSA pursuant to the RCB Regulations |
| Regulated Mortgage Contract | The meaning given under the FSMA (with effect from N(M)); a contract is a regulated mortgage contract if, at the time it is entered into on or after N(M): <ul style="list-style-type: none"> (a) the contract is one under which the lender provides credit to an individual or to trustees; (b) the contract provides that the obligation of the individual/trustees to repay is to be secured by (in England and Wales) a first ranking legal mortgage or (in Northern Ireland) a first ranking legal charge or first ranking legal mortgage or (in Scotland) a first ranking standard security on land (other than timeshare accommodation) in the United Kingdom; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the individual or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person |
| Regulation S | Regulation S under the Securities Act |
| Regulation S Covered Bond | A Covered Bond represented by a Regulation S Global Covered Bond or a Definitive Regulation S Covered Bond |
| Regulation S Global Covered Bond | A Registered Global Covered Bond representing Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S |
| Related Security | In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio (but excluding the Properties in Possession Policy and Issuer |

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| | Buildings Policies in respect of which the LLP and the Security Trustee have received Insurance Acknowledgements) |
| Relevant Date | The meaning given in Condition 7 on page 85 |
| Relevant Period | The meaning given in Condition 14 on page 35 |
| Relevant Screen Page | In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms Document |
| Representations and Warranties | The representations and warranties set out in the Mortgage Sale Agreement |
| Required Current Balance Amount | The meaning given on page 119 |
| Required Redemption Amount | The meaning given on page 119 |
| Requisite Ratings | At any time, the rating then ascribed by each Rating Agency to the long-term, unsecured, unguaranteed and unsubordinated debt obligations of the Issuer |
| Reserve Fund | The reserve fund that the LLP will be required to establish on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount and any Cash Capital Contributions made to the LLP by the Seller which the Seller directs the LLP to credit thereto |
| Reserve Fund Required Amount | if Alliance & Leicester's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P or F1+ by Fitch or P-1 by Moody's, nil or such other amount as Alliance & Leicester plc shall direct the LLP from time to time and otherwise, an amount equal to the Sterling Equivalent of the interest due on each Series of Covered Bonds for X months together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (b) of the Pre-Acceleration Revenue Priority of Payments plus £600,000 or such higher amount as Alliance & Leicester plc shall direct the LLP from time to time where, X = the number of months between the dates on which the LLP is required to make payments under the Covered Bond Swap entered into in relation to a Series of Covered Bonds, or if no Covered Bond Swap has been entered into in relation to a Series of Covered Bonds, the number of months between the Interest Payment Dates in relation to the Series of Covered Bonds |
| Reserve Ledger | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts and (if so directed by the Seller) Cash Capital Contributions 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 |
| Responsible Persons | The meaning given on page 3 |
| Revenue Ledger | The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed |
| Revenue Receipts | Any payment received in respect of any Loan, including payments pursuant to any Insurance Policies and any payment in respect of interest amounts on a Loan (otherwise than in respect of a Loan that has been repurchased by the Seller), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise, which in any such case is not a Principal Receipt in respect of such Loan |
| Rule 144A | Rule 144A under the Securities Act |
| Rule 144A Covered Bond | A Covered Bond represented by a Rule 144A Global Covered Bond or a Definitive Rule 144A Covered Bond. |

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| Rule 144A Global Covered Bond | A Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A |
| Rules | The rules, regulations and procedures creating and affecting DTC and its operations |
| S&P | Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or its successors |
| Scheduled Interest | In relation to a Series of Covered Bonds, an amount equal to the amount in respect of interest which is or would have been due and payable under such Covered Bonds on each Interest Payment Date as specified in Condition 4 (but excluding any additional amounts relating to premiums, default interest or interest upon interest (Excluded Scheduled Interest Amounts) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the applicable Final Terms Document 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) or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the applicable Final Terms Document 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 |
| Scheduled Payment Date | In relation to payments under the Covered Bond Guarantee in respect of a Series of Covered Bonds, each Interest Payment Date or the Final Maturity Date as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date |
| Scheduled Principal | In relation to a Series of Covered Bonds, an amount equal to the amount in respect of principal which is or would have been due and repayable under such Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6.1 and Condition 6.5 (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 service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the Final Terms Document specified that an Extended Due for Payment Date is applicable to such relevant Covered Bonds) as if the maturity date of such Covered Bonds had been the Extended Due for Payment Date |
| Scottish Declaration of Trust | Each declaration of trust in relation to Scottish Loans and their Related Security made pursuant to the Mortgage Sale Agreement by means of which the transfer of the beneficial interest in such Scottish Loans and their Related Security by the Seller to the LLP is given effect |
| Scottish Loan | A Loan secured by a Scottish Mortgage |
| Scottish Mortgage | A Mortgage over a Property in Scotland |
| Scottish Sub-Security | Each standard security over any Scottish Mortgage (and the Loan secured thereby) granted by the LLP in favour of the Security Trustee pursuant to the Deed of Charge |
| Scottish Supplemental Charge | Each assignation in security of the LLP's interest under any Scottish Declaration of Trust governed by Scots law granted by the LLP in favour of the Security Trustee pursuant to the Deed of Charge |

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| Screen Rate Determination | If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(ii) |
| 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 Servicer, the Account Banks, the Stand-by Account Bank, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Secretarial Services Provider, the Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge |
| Securities Act | U.S. Securities Act of 1933, as amended |
| Securities and Exchange Law | The Securities and Exchange Law of Japan |
| Security | The meaning given on page 125 |
| Security Trustee | HSBC Corporate Trustee Company (UK) 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 Loan Offer Notice | A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount |
| Selected Loan Repurchase Notice | A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice |
| Selected Loans | Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement having in aggregate the Required Current Balance Amount |
| Selection Date | The meaning given in Condition 6.3 on page 82 |
| Seller | Alliance & Leicester plc |
| Seller Standard Variable Rate | The standard variable rate set by the Seller (which applies to the relevant Variable Rate Loans and Discount Loans) beneficially owned by the Seller on the Seller's residential mortgage book |
| 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 and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices |
| Series Reserved Matter | In relation to Covered Bonds of a Series: <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 other than in accordance with the terms thereof; (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 Guarantees or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the Covered Bondholders of any Series or an amendment which is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature or to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) proven or is to comply with mandatory provisions of law); |

- (e) the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds 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 or paragraph 6 of Schedule 4 to the Trust Deed

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| Servicer | Alliance & Leicester plc in its capacity as servicer under the Servicing Agreement (and any successor servicer) |
| Servicer Event of Default | The meaning given on page 113 |
| Servicer Termination Event | The meaning given on page 113 |
| Servicing Agreement | The servicing agreement entered into on the Programme Date between the LLP, the Servicer and the Security Trustee |
| Share Trustee | SFM Corporate Services Limited in its capacity as share trustee (and any successor share trustee) |
| 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 Document |
| Specified Denomination | The meaning given in the applicable Final Terms Document |
| Specified Interest Payment Date | In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the meaning (if any) given in the applicable Final Terms Document |
| Specified Period | In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the meaning (if any) given in the applicable Final Terms Document |
| Standard Documentation | The standard documentation, annexed as an exhibit to the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender |
| Standard Variable Rate | Seller Standard Variable Rate and/or LLP Standard Variable Rate, as the context may require |
| Stand-by Account Bank | The meaning given on page 124 |
| Stand-by Bank Account Agreement | The meaning given on page 124 |
| Stand-by GIC Account | The meaning given on page 124 |
| Stand-by Swap Account | The meaning given on page 124 |
| Stand-by Transaction Account | The meaning given on page 124 |
| Sterling Equivalent | In relation to a Term Advance or a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of Covered Bonds) which is denominated in (a) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance or the Term Advance applicable to such Series of Covered Bonds and (b) Sterling, the applicable amount in Sterling |
| Sterling LIBOR | LIBOR for sterling deposits having the relevant maturity |

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| Subsidiary | Any company which is for the time being a subsidiary (within the meaning of Section 736 of the Companies Act 1985) |
| Substitution Assets | <p>Each of:</p> <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 at least P-1/Aa3 by Moody's, A-1+/AA- by S&P and F1+/AA- by Fitch; (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, AAA by S&P and AAA by Fitch; and (d) Sterling denominated residential mortgage backed securities provided that such investments have a remaining period to maturity of one year or less, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's, AAA by S&P and AAA by Fitch <p>provided that such Substitution Assets comply the requirements of Regulation 2(1)(a) of the RCB Regulations</p> |
| sub-unit | In accordance with Condition 4.7(i), 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 |
| Swap Agreements | The Covered Bond Swap Agreements together with the Interest Rate Swap Agreement, and each a Swap Agreement |
| 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 in respect of the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed |
| Swap Collateral Accounts | Any account in the name of the LLP held with Alliance & Leicester plc (or any other Account Bank from time to time) into which collateral in respect of an Interest Rate Swap or a Covered Bond Swap may be deposited in accordance with the terms of any such Swap |
| Swap Collateral Available Amounts | At any time, the amount of Swap Collateral which under the terms of the relevant Swap Agreement may be applied in satisfaction of the relevant Swap Provider's obligations to the LLP following termination of a Swap to the extent that such obligations relate to payments made in connection with the Pre-acceleration Priority of Payments or the Guarantee Priority of Payments |
| Swap Collateral Excluded Amounts | At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the LLP, including Swap Collateral which is to be returned to the relevant Swap Provider upon termination of the relevant Swap Agreement |
| Swap Payments Accounts | Any account in the name of the LLP held with Alliance & Leicester plc (or any other Account Bank from time to time) through which payments under the Interest Rate Swap or the Covered Bond Swaps will be made |
| Swap Provider Default | The occurrence of an Event of Default (as defined in the relevant Swap Agreement) with respect to the relevant Swap Provider, where the relevant |

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| | Swap Provider is the Defaulting Party (as defined in relevant Swap Agreement) |
| Swap Provider Downgrade Event | The occurrence of an Additional Termination Event (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 Covered Bond Swap Providers and the Interest Rate Swap Provider, and each a Swap Provider |
| Swaps | The Covered Bond Swaps together with the Interest Rate Swap, and each a Swap |
| Talons | Talons for further Coupons in respect of interest-bearing Bearer Definitive Covered Bonds |
| TARGET System | In accordance with Condition 4.7(a)(ii), the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System |
| Tax Credit | The meaning given in the relevant Swap Agreement |
| Taxes | All present and future taxes, levies, imposts, duties (other than stamp duty), fees, deductions, withholdings or charges of any nature whatsoever and wheresoever imposed, including, without limitation, income tax, corporation tax, VAT or other tax in respect of added value and any franchise, transfer, sales, gross receipts, use, business, occupation, excise, personal property, real property or other tax imposed by any national, local or supranational taxing or fiscal authority or agency together with any penalties, fines or interest thereon and Tax and Taxation shall be construed accordingly |
| Temporary Global Covered Bond | A temporary bearer global covered bond without receipts and interest coupons attached initially representing each Tranche of Bearer Covered Bonds, unless otherwise specified in the applicable Final Terms Document |
| Term Advance | Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement |
| Terms and Conditions or Conditions | The terms and conditions of the Covered Bonds (as set out in Schedule 1 to the Trust Deed) |
| Third Party Amounts | Amounts under a direct debit which are repaid to the bank making the payment if such a bank is unable to recoup that amount itself from the customer's account, which amounts shall be paid on receipt by the LLP to the Seller from monies on deposit in the GIC Account |
| Title Deeds | In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents (if any) 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 |
| Tranche | An issue of Covered Bonds which are identical in all respects (including as to listing and admission to trading) |
| Transaction Documents | <ul style="list-style-type: none"> (a) Mortgage Sale Agreement (b) each Scottish Declaration of Trust (c) Servicing Agreement (d) Asset Monitor Agreement (e) Intercompany Loan Agreement (f) LLP Deed (g) Cash Management Agreement (h) Interest Rate Swap Agreement (i) each Covered Bond Swap Agreement |

- (j) Bank Account Agreement
- (k) Stand-by Bank Account Agreement
- (l) Corporate Services Agreement
- (m) Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including without limitation each Scottish Supplemental Charge and Scottish Sub-Security)
- (n) Trust Deed
- (o) Agency Agreement
- (p) Programme Agreement
- (q) each of the Final Terms Documents (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)
- (r) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)
- (s) Master Definitions and Construction Schedule
- (t) Secretarial Services Agreement

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| Transfer Agent | HSBC Bank plc, in its capacity as transfer agent (and any successor transfer agent) |
| Transfer Certificate | The meaning given in Condition 2.5(a) on page 68 |
| Trust Deed | The trust deed entered into on the Programme Date between the Issuer, the LLP, the Bond Trustee and the Security Trustee (as amended and/or supplemented and/or restated from time to time) |
| U.K. Listing Authority | The FSA in its capacity as competent authority under the FSMA |
| Unfair Practices Directive | The meaning given on page 38 |
| UTCCR | Unfair Terms in Consumer Contracts Regulations 1994 and 1999, as amended |
| Valuation Report | The valuation report or reports for mortgage purposes, in the form of the proforma report contained in the Standard Documentation, obtained by the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation of a Property made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the Director of Group Property and Survey of the Seller (or his successor) |
| Valuer | An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant time either a member of a firm which was on the list of Valuers approved by or on behalf of the Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the Seller acting for the Seller in respect of the valuation of a Property |
| Variable Interest Covered Bonds | Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Dual Currency Interest Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable |
| Variable Rate Loan | A Loan which is subject to the Standard Variable Rate which may at any time be varied in accordance with the relevant Mortgage Terms (including Discount Loans but excluding Fixed Rate Loans and Base Rate Loans) |
| WAFF | Weighted average foreclosure frequency in respect of the Portfolio determined in accordance with the methodologies prescribed by S&P and Fitch |

WALS

Weighted average loss severity in respect of the Portfolio determined in accordance with the methodologies prescribed by S&P and Fitch

Yield Shortfall Test

The meaning given on page 113

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

ISSUER

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