

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus attached to this electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the prospectus. In accessing the prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF THE ISSUER. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 AS AMENDED (THE **SECURITIES ACT**) OR THE SECURITIES LAWS OF OTHER STATES IN THE US OR ANY OTHER JURISDICTIONS. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

This prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia and (d) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of The Co-operative Bank p.l.c., Barclays Bank PLC, BNP Paribas, London Branch, HSBC Bank plc, J.P. Morgan Securities plc, The Royal Bank of Scotland plc, UBS Limited, or any person who controls any of them nor any of their directors, officers, employees or agents or affiliates of any such person accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC, BNP Paribas, London Branch, HSBC Bank plc, J.P. Morgan Securities plc, The Royal Bank of Scotland plc or UBS Limited.



THE CO-OPERATIVE BANK P.L.C.
(incorporated in England and Wales with limited liability under registered number 990937)

£4 billion Global Covered Bond Programme
Unconditionally and irrevocably guaranteed as to payments of principal and interest by
Moorland Covered Bonds LLP
(a limited liability partnership incorporated in England and Wales with partnership number OC343979)

Under this £4 billion covered bond programme (the **Programme**), The Co-operative Bank p.l.c. (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). The price and amount of the Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

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

Covered Bonds may be issued in bearer or registered form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed £4 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under "*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 in relation to a specific issue or on an ongoing basis. References in this Prospectus (as defined below) to the "relevant Dealers" shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

See "**Risk Factors**" on page 26 of this Prospectus for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds.

This Prospectus constitutes a Base Prospectus for the purposes of Directive 2003/71/EC as amended, which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant member state (the **Prospectus Directive**). Application has been made to the Financial Services Authority (the **FSA**) which is the United Kingdom competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the **UK Listing Authority**), for approval of this Prospectus as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK 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 regulated market of the London Stock Exchange which is a "regulated market" for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**) (the **regulated market of the London Stock Exchange**). Admission to the Official List together with admission to the regulated market of the London Stock Exchange constitutes official listing on the London Stock Exchange. References in this Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the regulated market of the London Stock Exchange and have been admitted to the Official List. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or regulated or unregulated markets as may be agreed between the Issuer, the LLP, the Bond Trustee (as defined below) and the relevant Dealer(s). The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any regulated or unregulated market.

On 12 October 2011 the Issuer and the Programme were admitted to the register of issuers, under the Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714) and the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) (the **RCB Regulations**).

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

The Issuer and the LLP may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds admitted to the Official List only) a supplementary prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

Each Series of Covered Bonds issued under the Programme will have the rating set out in the applicable Final Terms document. 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. Fitch Ratings Ltd. (**Fitch**) and Moody's Investors Service Limited (**Moody's**) (and together, the **Rating Agencies**) will rate the Covered Bonds issued under the Programme.

As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and is registered under Regulation (EU) No 1060/2009 (the **CRA Regulation**).

Where this Prospectus contains a reference to a credit rating of the Issuer, such credit rating has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Arrangers for the Programme

UBS Investment Bank

The Royal Bank of Scotland

The date of this Prospectus is 31 October 2012

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

The Issuer and the LLP (each a Responsible Person) each accept responsibility for the information contained in this Prospectus (the Prospectus) and the Final terms for each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge and belief of each of the Issuer and the LLP (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as the Issuer and the LLP are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Prospectus shall, save as specified herein, 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 and other sources, but no assurance can be given by the Arrangers, the Dealers, the Bond Trustee or the Security Trustee as to the accuracy or completeness of this information. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the 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 and the LLP in connection with the Programme. None of the Arrangers, the Dealers, the Bond Trustee or the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer and the LLP in connection with the Programme. Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms as the relevant Dealer(s).

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

Neither this Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the LLP, the Seller, 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 and/or the LLP. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, the LLP, the Seller, 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, the LLP or the Seller during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Covered Bonds.

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

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the LLP, the 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 LLP, the Arrangers, the Dealers, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds or distribution of this 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 or sale of Covered Bonds in the United States, the European Economic Area, the United Kingdom and the Republic of Italy, 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 the applicable Final Terms in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer, any Arranger 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. None of the Issuer, the Arrangers or 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, any Arranger or any Dealer to publish or supplement a prospectus for such offer.

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

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

In making an investment decision, investors must rely on their own examination of the Issuer and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved. The Covered Bonds 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, any applicable supplement and the applicable Final Terms;**
- 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.

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

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

US INFORMATION

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

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

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

CIRCULAR 230 DISCLOSURE

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE US INTERNAL REVENUE SERVICE, ANY TAX DISCUSSION HEREIN WAS NOT WRITTEN AND IS NOT INTENDED TO BE USED AND CANNOT BE USED BY ANY TAXPAYER FOR PURPOSES OF AVOIDING US FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES DESCRIBED HEREIN. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" within the meaning of the Securities Act, each of the Issuer and the LLP has undertaken in the Trust Deed (as defined under "Terms and Conditions of the Covered Bonds") 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, any of the Covered Bonds remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and each of the Issuer and the LLP is neither a reporting company 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.

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

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

FORWARD-LOOKING STATEMENTS

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

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE	1
PRINCIPAL CHARACTERISTICS OF THE COVERED BOND PROGRAMME	3
STRUCTURE OVERVIEW	4
OVERVIEW OF THE PROGRAMME	13
OVERVIEW OF RIGHTS OF COVERED BONDHOLDERS	20
RISK FACTORS	26
GENERAL RISK FACTORS	26
RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF COVERED BONDS	37
RISK FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH COVERED BONDS ISSUED UNDER THE PROGRAMME	44
RISK FACTORS RELATING TO THE LLP	57
FORM OF THE COVERED BONDS	84
FORM OF FINAL TERMS	89
TERMS AND CONDITIONS OF THE COVERED BONDS	97
USE OF PROCEEDS	141
THE ISSUER	142
THE LLP	156
INITIAL INTEREST RATE SWAP PROVIDER	158
INITIAL INTEREST RATE SWAP GUARANTOR	159
SUMMARY OF THE PRINCIPAL DOCUMENTS	160
CREDIT STRUCTURE	208
CASHFLOWS	213
THE PORTFOLIO	229
DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME	230
DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS	232
BOOK-ENTRY CLEARANCE SYSTEMS	233
TAXATION	237
SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS	239
GENERAL INFORMATION	247
GLOSSARY	250

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:

- (a) the audited consolidated annual financial statements of the Issuer for the years ended 31 December 2010 and 31 December 2011 and the auditors report thereon;
- (b) the audited annual financial statements of the LLP for the years ended 31 December 2010 and 31 December 2011 and the auditors report thereon;
- (c) the interim consolidated financial statements of the Issuer for the 26 weeks ended 30 June 2012; and
- (d) the section entitled "Terms and Conditions of the Covered Bonds" on pages 100 - 145 (inclusive) of the base prospectus dated 13 October 2011 and prepared by the Issuer and the LLP in connection with the Programme,

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

The Issuer and the LLP will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed either to the Issuer, The Co-operative Bank p.l.c., 1 Balloon Street, Manchester, M60 4EP, and marked for the attention of Treasury or (as applicable) the LLP, at its office set out at the end of this Prospectus.

Each of the Issuer and the LLP has applied International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board and as adopted by the European Union (the **EU**) in the financial statements incorporated by reference above. A summary of the significant accounting policies for the Issuer is included in each of the 2010 audited consolidated annual accounts of the Issuer and the 2011 audited consolidated annual accounts of the Issuer.

The LLP was incorporated in England and Wales on 12 March 2009 under the name Britannia Covered Bonds LLP. It should be noted that LLP changed its name from Britannia Covered Bonds LLP to Moorland Covered Bonds LLP on 20 October 2010.

The Issuer and the LLP have each undertaken to the Dealers in the Programme Agreement to comply with Section 81 of the FSMA. In the event that a supplementary prospectus is produced pursuant to such undertaking, a copy of such supplementary prospectus will accompany this Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

Where documents are incorporated by reference and such documents themselves incorporate by reference further information or documents, such further information or documents do not form part of this Prospectus.

Any website and its contents which is referred to in this Prospectus does not form part of this Prospectus,

Copies of the documents incorporated by reference in this Prospectus will be available for viewing (i) at the offices of the Issuer at The Co-operative Bank p.l.c., 1 Balloon Street, Manchester, M60 4EP and (ii) on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html. 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.

If the terms of the programme are modified or amended in a manner which would make this prospectus inaccurate or misleading or, in the event of any material mistake or inaccuracy which is capable of affecting the assessment of any covered bonds, a supplement to this prospectus or a new prospectus will be prepared for use in connection with any subsequent issue of covered bonds.

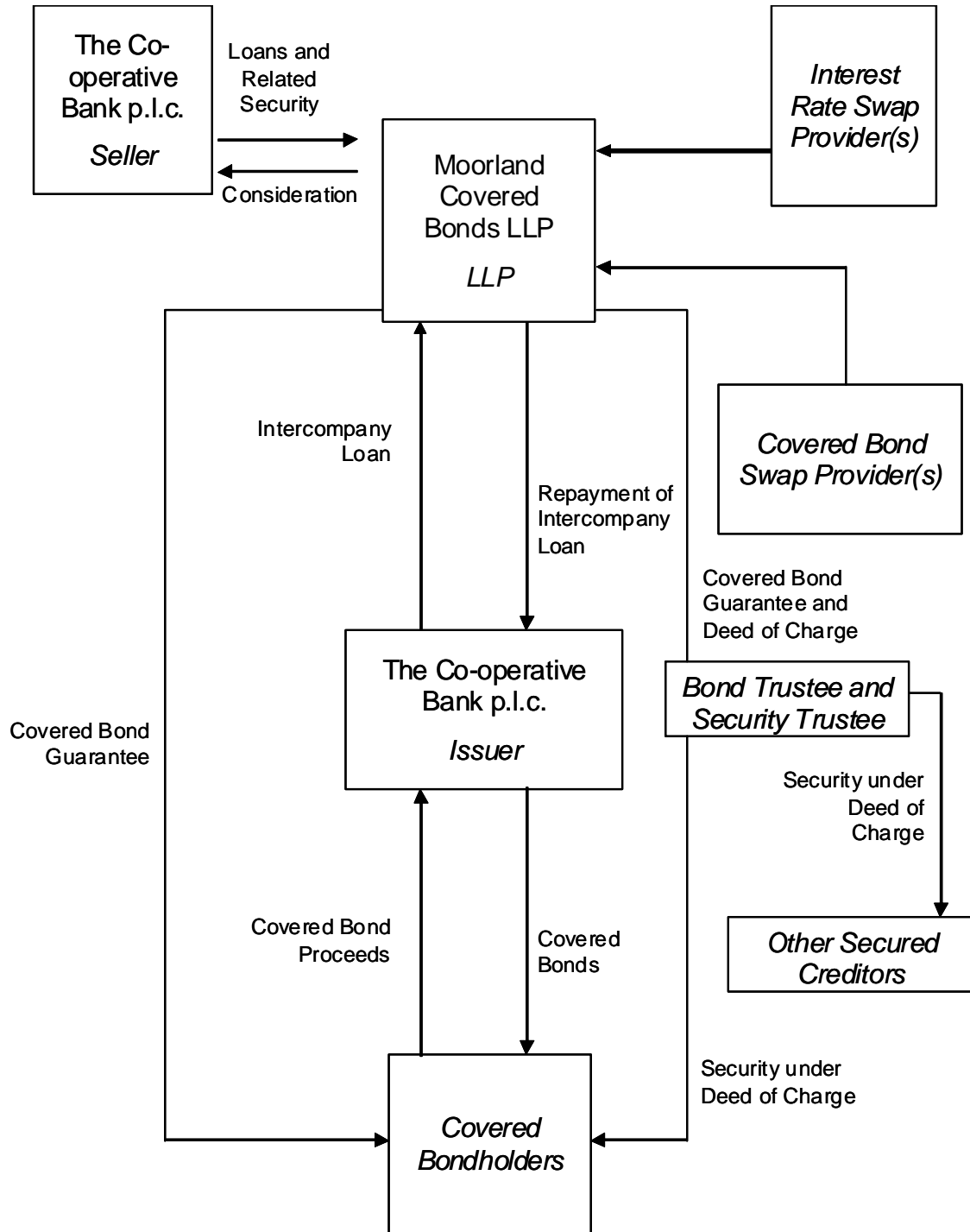
PRINCIPAL CHARACTERISTICS OF THE COVERED BOND PROGRAMME

Issuer:	The Co-operative Bank p.l.c. (the Co-operative Bank)
Guarantor:	Moorland Covered Bonds LLP
Regulated Covered Bonds:	On 12 October 2011, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations
Nature of eligible cover pool property:	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
Compliant with the Banking Consolidation Directive:	Yes, the Programme is intended to be compliant with the Banking Consolidation Directive
Location of eligible residential property underlying Mortgages:	England, Wales, Northern Ireland and Scotland
Maximum Loan to Value Ratio given credit under the Asset Coverage Test:	75 per cent.
Maximum Asset Percentage:	93.5 per cent.
Asset Coverage Test:	See page 186-190
Amortisation Test:	See pages 191-192
Reserve Fund:	A Reserve Fund has been established in the Deposit Accounts to capture Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount on each LLP Payment Date prior to the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice on the Issuer and a Notice to Pay on the LLP.
Extendable Maturities:	Available
Hard Bullet Maturities:	Available
Asset Monitor:	PricewaterhouseCoopers LLP
Asset Segregation:	Yes
Namenschuldverschreibungen option:	Not Available

STRUCTURE OVERVIEW

The information set out below is an overview of various aspect of the transaction. This overview is not purported to be complete, should be read in conjunction with, and is qualified in its entirety by references to, the detailed information presented elsewhere in this Prospectus.

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



Structure Overview

- *Programme*: Under the terms of the Programme, the Issuer will issue Covered Bonds to the Covered Bondholders on each Issue Date. The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.
- *Intercompany Loan Agreement*: Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to the Principal Amount Outstanding of the Covered Bonds on the Issue Date of each Series or, as applicable, Tranche of Covered Bonds. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP under the Intercompany Loan Agreement will be subordinated to amounts owed by the LLP to the Covered Bondholders under the Covered Bond Guarantee.
- *Covered Bond Guarantee*: Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following the service of an Issuer Acceleration Notice on the Issuer and a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional obligations of the LLP, secured as provided in the Deed of Charge. 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 thereupon immediately becomes due and repayable.
- If an LLP Acceleration Notice is served, the Covered Bonds will become immediately due and payable as against the Issuer (if they have not already become so as the result of the service of an Issuer Acceleration Notice) and the LLP's obligations under the Covered Bond Guarantee will be accelerated. An LLP Acceleration Notice may be served by the Bond Trustee on the Issuer and the LLP following the occurrence of an LLP Event of Default. Payments made by the LLP under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee will be limited to the assets of the LLP from time to time.
- *The proceeds of Term Advances*: The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, after swapping the same into Sterling under the relevant Covered Bond Swap Agreement):
 - (a) to purchase, from the Seller, Loans and their Related Security selected by the Seller on a random basis from an eligible pool 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 23 and 24(1)(a) 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 the Seller (in its capacity as 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 appropriate Deposit Account (including, without limitation, to fund the Reserve Fund in an amount not exceeding the Reserve Fund Required Amount).

To protect the value of the Portfolio under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) will be obliged to ensure that the Asset Coverage Test (as described below) will be satisfied on each Calculation Date.

- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the LLP on any Transfer Date will be a combination of (i) a cash payment paid by the LLP to the Seller and/or (ii) the Seller being treated as having made a Capital Contribution in Kind to the LLP (in an amount up to the difference between the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP on the Issue Date corresponding to the relevant Transfer Date) and (iii) the covenant by the LLP (in its capacity as All Moneys Mortgages Trustee) to hold the trust property under each applicable All Moneys Mortgage Trust on trust for the Beneficiaries and (iv) Deferred Consideration.
- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the portfolio of Loans and their Related Security, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.
- *Cashflows:* Prior to service of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice on the LLP and/or realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:
 - (a) apply Available Revenue Receipts to pay interest due on the Term Advances (the proceeds of which the Issuer may apply to pay interest due on the Covered Bonds) and to pay Deferred Consideration to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses and amounts due to the Interest Rate Swap Provider(s) and the Covered Bond Swap Provider(s) and funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following breach of the Pre-Maturity Test). For further details of the Pre-Acceleration Revenue Priority of Payments, see "*Cashflows*" below; and
 - (b) apply Available Principal Receipts towards making payments of principal due on the Term Advances and Capital Distributions to the Members but only after payment of certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, but not limited to, funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following breach of the Pre-Maturity Test and acquiring New Loans and their Related Security offered by the Seller to the LLP and acquiring Substitution Assets).

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

- (a) in respect of Available Revenue Receipts, no further amounts will be paid to the Issuer under the Intercompany Loan Agreement, into the Reserve Fund, towards any indemnity amount due to the Members pursuant to the LLP Deed or any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, towards any Deferred Consideration or towards any profit for the Members' respective interests in the LLP (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements); and
- (b) in respect of Available Principal Receipts, no payments will be made other than into the appropriate Deposit Account after exchange (if required) in accordance with the relevant Covered Bond Swap (see "*Cashflows*" below).

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

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the Covered Bonds will become immediately due and repayable (if not already due and repayable following the occurrence of an Issuer Event of Default) and the Bond Trustee will then have a claim against the LLP under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds other than additional amounts payable by the Issuer under Condition 7 (Taxation) and thereafter the security created by the LLP over the Charged Property will become enforceable. Any moneys received or recovered by the Security Trustee following enforcement of the Security created by the LLP in accordance with the Deed of Charge, realisation of such Security and/or the commencement of winding-up proceedings against the LLP will be distributed according to the Post-Enforcement Priority of Payments as to which, see "*Cashflows*" below.

The Cash Manager will, on each LLP Payment Date, prior to the service on the LLP and the Issuer of an Asset Coverage Test Breach Notice which is outstanding, 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, credit Available Principal Receipts, applied in accordance with the Pre-Acceleration Principal Priority of Payments, to the Retained Principal Ledger. Amounts standing to the credit of the Retained Principal Ledger will be applied by the Cash Manager 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, provided that any amount standing to the credit of the Retained Principal Ledger and not applied towards the purchase of New Loans and their Related Security during any Interest Period, will form part of Available Principal Receipts to be applied on the immediately following LLP Payment Date.

- *Asset Coverage:* The Programme provides that the assets of the LLP are subject to an Asset Coverage Test in respect of the Covered Bonds. Accordingly, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on that Calculation Date. The Asset Coverage Test will be tested by the Cash Manager on each Calculation Date. A breach of the Asset Coverage Test on a Calculation Date which is not remedied on the immediately succeeding Calculation Date will require the Bond Trustee to serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served on the LLP.

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

- (a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted;
- (b) the LLP will be required to sell Selected Loans; and
- (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

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

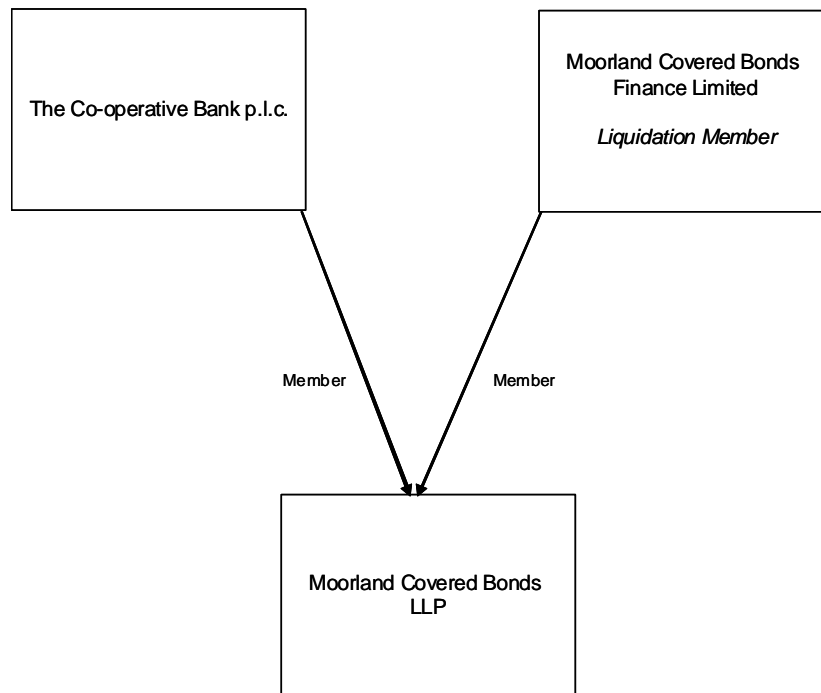
- *Amortisation Test:* In addition, following service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Amortisation Test will be tested by the Cash Manager on each Calculation Date following an Issuer Event of Default and service of a Notice to Pay on the LLP. A breach of the Amortisation Test will constitute an LLP Event of Default, which will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP declaring the Covered Bonds and all amounts due under the Covered Bond Guarantee immediately due and repayable and entitle the Security Trustee to enforce the Security over the Charged Property.
- *Pre-Maturity Test:* The Programme provides that the Hard Bullet Covered Bonds are subject to a Pre-Maturity Test on each Business Day prior to the occurrence of an Issuer Event of Default and/or an LLP Event of Default which is intended to provide liquidity for such Covered Bonds if the Issuer's Credit Ratings fall below a certain level within a certain period prior to the maturity of such Series of Bullet Covered Bonds. If the Pre-Maturity Test is breached within such specified period and certain actions are not taken, the Bond Trustee (subject to the Bond Trustee having actual knowledge or express notice of such breach and/or failure to take any such actions) will (following the service of an Issuer Acceleration Notice) serve a Notice to Pay on the LLP to require to sell and/or refinance the Selected Loans.

- Extendable obligations under the Covered Bond Guarantee:* An Extended Due for Payment Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms. This means that if the Issuer or, following service of a Notice to Pay, the LLP fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the Final Maturity Date (subject, in the case of the Issuer, to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following the service of a Notice to Pay on the LLP, the LLP has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds) then payment of the unpaid amount pursuant to the Covered Bond Guarantee will be automatically deferred (without an LLP Event of Default occurring as a result of such non payment) and will be due and payable on the Extended Due for Payment Date (subject to any applicable grace period). However, any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Due for Payment Date. Interest will continue to accrue on any unpaid amount during such extended period and be payable on the Original Due for Payment Date and on the Extended Due for Payment Date in accordance with Condition 6 (Redemption and Purchase).
- Coupon Payments:* The LLP will be required to establish a deposit account in its name with BNP Paribas Securities Services, London Branch (**BNPP**) (the **Collateral Account**). In the event that the Cash Manager does not have a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa1 and by Fitch of at least BBB+ and a short-term unsecured, unguaranteed and unsubordinated debt obligation rating by Fitch of at least F2 (which will be a **Cash Manager Relevant Event**), the Seller will be required (a) within 4 London Business Days after such downgrade and (b) thereafter, within 4 London Business Days after each Loan Interest Payment Date for each Term Advance, make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for such Term Advance. The LLP will, within one London Business Day of receipt of a Cash Capital Contribution from the Seller, deposit an amount equal to the lesser of the Required Coupon Amount for such Series and the amount of such Cash Capital Contribution in the Collateral Account. The Required Coupon Amount will be an amount equal to the aggregate of the Sterling Equivalent of (i) (in the case of each Term Advance where a Covered Bond Swap is not in place), interest due from the LLP on a relevant Term Advance for the next following Loan Interest Payment Date and (ii) (in the case of each Term Advance where a Covered Bond Swap is in place) an amount equal to the net amount due from the LLP under a Covered Bond Swap Agreement for the next following relevant LLP Payment Date (other than those amounts due in respect of an Interim Exchange Date or Final Exchange Date) (as each of those terms is defined in the relevant Covered Bond Swap Agreement). The LLP will, on the direction of the Issuer, on the date of each deposit referred to above deliver an irrevocable payment instruction to the Account Bank to transfer an amount equal to the Required Coupon Amount for each Series to the account of the Principal Paying Agent on the next Interest Payment Date for such Series. The payment instruction will be irrevocable and the LLP will not be able to vary the payment instruction once the instruction has been sent without the consent of the Security Trustee. BNPP will, on a timely basis, effect the transfer of such coupon payment from the Collateral Account to the Principal Paying Agent. The Issuer will notify BNPP and the Principal Paying Agent within 3 London Business Days of the occurrence of a Cash Manager Relevant Event.
- Advance Payments under Interest Rate Swaps:* If the Issuer is acting as the Cash Manager and a Cash Manager Relevant Event occurs and is continuing, the Seller will (a) notify each Interest Rate Swap Provider within 3 London Business Days of the occurrence of a Cash Manager Relevant Event, (b) within 3 London Business Days after the occurrence of such Cash Manager Relevant Event and (c) thereafter, within 3 London Business Days after each LLP Payment Date, make a Cash Capital Contribution to the LLP in an aggregate amount equal to the net amounts (if any) due by the LLP to each Interest Rate Swap Provider on the immediately following LLP Payment Date. Within 1 London Business Day of receipt of the Cash Capital Contribution, the LLP shall pay the lesser of the net

amount due to each Interest Rate Swap Provider and the amount of such Cash Capital Contribution to each relevant Interest Rate Swap Provider.

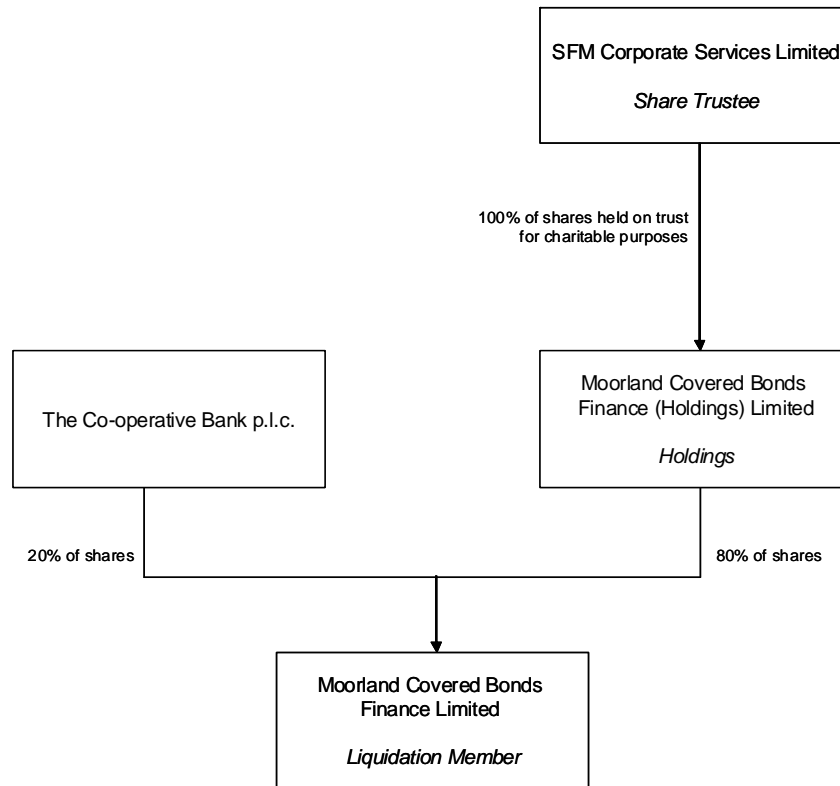
- *Co-operative Bank Event*: If an event occurs, including but not limited to, a non payment event in relation to any back-to-back hedge transaction connected with an Interest Rate Swap Agreement (the **Relevant Interest Rate Swap**):
 - the ability to alter the portfolio of Loans allocated to the Relevant Interest Rate Swap may be restricted;
 - the LLP may become obliged to make a mark-to-market payment to the relevant Interest Rate Swap Counterparty, to reflect any changes to the notional amount of the Relevant Interest Rate Swap; and/or
 - the Seller may be restricted from repurchasing Loans from the LLP which would cause a change to the notional amount of the Relevant Interest Rate Swap, unless such Loan is in breach of the representations and warranties and the repurchase price for the Loan is equal to its True Balance.
- *Servicing*: In its capacity as Servicer, The Co-operative Bank p.l.c. has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which the Servicer has agreed to provide certain services in respect of the Loans and their Related Security sold by The Co-operative Bank p.l.c. (in its capacity as Seller) to the LLP.
- *The Regulated Covered Bonds Regulations 2008*: On 12 October 2011, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations.
- *Further Information*: For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Prospectus, "*Overview of the Programme*", "*Terms and Conditions of the Covered Bonds*", "*Summary of the Principal Documents*", "*Credit Structure*", "*Cashflows*" and "*The Portfolio*", below.

Ownership Structure of Moorland Covered Bonds LLP



- As at the Programme Date, the Members of the LLP are the Seller and the Liquidation Member.
- A New Member may be admitted to the LLP, subject to meeting certain conditions precedent including, but not limited to, satisfaction of the Rating Condition.
- Other than in respect of those decisions reserved to the Members, the LLP Management Committee (comprised of, as at the Programme Date, directors and/or employees of the Seller and one director of the Liquidation Member) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP.

Ownership Structure of the Liquidation Member



- As at the Programme Date, 80 *per cent.* of the issued share capital of the Liquidation Member is held ^{A9.10.1(G)} by Moorland Covered Bonds Finance (Holdings) Limited (**Holdings**) and 20 *per cent.* of the issued share capital of the Liquidation Member is held by The Co-operative Bank p.l.c.
- The entire issued capital of Holdings is held by SFM Corporate Services Limited as share trustee on trust for charitable purposes.

OVERVIEW OF THE PROGRAMME

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

Transaction Parties

Party	Name	Address	Document under which appointed / Further Information
Issuer	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester, M60 4EP	N/A; see the section of this Prospectus entitled " <i>The Issuer</i> " for further information.
LLP	Moorland Covered Bonds LLP	Newton House, Leek, Staffordshire ST13 5RG	N/A; see the section of this Prospectus entitled " <i>The LLP</i> " for further information.
Seller/Originator	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester, M60 4EP	N/A; see the section of this Prospectus entitled " <i>The Issuer</i> " for further information.
Servicer	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester, M60 4EP	Appointed under the Servicing Agreement; see the section of this Prospectus entitled " <i>Summary of the Principal Documents – Servicing Agreement</i> " for further information.
Back-Up Servicer Facilitator	Structured Finance Management Limited	35 Great St. Helen's, London, EC3A 6AP	Appointed under the Servicing Agreement; see the section of this Prospectus entitled " <i>Summary of the Principal Documents – Servicing Agreement</i> " for further information.
Cash Manager	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester, M60 4EP	Appointed under the Cash Management Agreement; see the section of the Prospectus entitled " <i>Summary of the Principal Documents – Cash Management Agreement</i> " for further information.
Back-up Cash Manager Facilitator	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Appointed under the Cash Management Agreement; see the section of this Prospectus entitled " <i>Summary of the Principal Documents – Cash Management Agreement</i> " for further information.

Party	Name	Address	Document under which appointed / Further Information
Initial Interest Rate Swap Provider	J.P. Morgan Securities plc	25 Bank Street, Canary Wharf, London E14 5JP	Appointed under the Initial Interest Rate Swap Agreement; see the section of this Prospectus entitled " <i>Interest Rate Swap Provider</i> " and " <i>Summary of the Principal Documents – Interest Rate Swap</i> " for further information. The Initial Interest Rate Swap Provider's obligations under the Initial Interest Rate Swap Agreement will be guaranteed by JPMorgan Chase Bank, N.A.
Covered Bond Swap Provider(s)	To be a suitably rated third party entity as appointed at the time of the relevant issuance	Not applicable	Appointed under the Covered Bond Swap Agreement; see the section of the Prospectus entitled " <i>Summary of the Principal Documents – Covered Bond Swap Agreements</i> " for further information.
Account Banks	BNP Paribas Securities Services, London Branch	55 Moorgate, London EC2R 6PA	Appointed under the BNPP Bank Account Agreement; see the section of this Prospectus entitled " <i>Summary of the Principal Documents – BNPP Bank Account Agreement</i> " for further information.
	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester, M60 4EP	Appointed under the Co-op Bank Account Agreement; see the section of this Prospectus entitled " <i>Summary of the Principal Documents – Co-op Bank Account Agreement</i> " for further information.
Security Trustee	HSBC Corporate Trustee Company (UK) Limited	8 Canada Square, London E14 5HQ	Appointed under the Deed of Charge; see the section of this Prospectus entitled " <i>Summary of the Principal Documents – Deed of Charge</i> " for further information.
Bond Trustee	HSBC Corporate Trustee Company (UK) Limited	8 Canada Square, London E14 5HQ	Appointed under the Trust Deed; see the section of this Prospectus entitled " <i>Summary of the Principal Documents – Trust Deed</i> " for further information.
Registrar	HSBC Bank plc	8 Canada Square, London E14 5HQ	Appointed under the Agency Agreement.
Principal Paying Agent	HSBC Bank plc	8 Canada Square, London E14 5HQ	Appointed under the Agency Agreement.

Party	Name	Address	Document under which appointed / Further Information
Exchange Agent and Transfer Agent	HSBC Bank plc	8 Canada Square, London E14 5HQ	Appointed under the Agency Agreement.
Asset Monitor	PricewaterhouseCoopers LLP	1 Embankment Place, London WC2N 6RH	Appointed under the Asset Monitor Agreement; see this section of the Prospectus entitled " <i>Summary of the Principal Documents –Asset Monitor Agreement</i> " for further information.
Liquidation Member	Moorland Covered Bonds Finance Limited	35 Great St. Helen's, London EC3A 6AP	Appointed under the LLP Deed; see the section of the Prospectus entitled " <i>Summary of the Principal Documents – LLP Deed</i> " for further information.
Corporate Services Provider	Structured Finance Management Limited	35 Great St. Helen's London EC3A 6AP	Appointed under the Corporate Services Agreement; see the section of this Prospectus entitled " <i>Summary of the Principal Documents – Corporate Services Agreement</i> " for further information.

Overview of the Covered Bonds

Programme Size	Up to £4 billion outstanding at any time (or its equivalent in other currencies as set out in the Programme Agreement). The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in " <i>Subscription and Sale and Transfer and Selling Restrictions</i> ".
Specified Currencies	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
Certain Restrictions	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale and Transfer and Selling Restrictions</i> ").
Issue Price	Covered Bonds may be issued at par or at a premium or discount to par on a fully-paid basis, in each case as specified in the applicable Final Terms.
Form of Covered Bonds	<p>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>.</p> <p>The types of Covered Bonds that can be issued under the Programme include the following:</p> <ul style="list-style-type: none">• Fixed Rate Covered Bonds: Fixed Rate Covered Bonds will bear interest at a fixed rate which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms);• Floating Rate Covered Bonds: Floating Rate Covered Bonds will bear interest at a rate determined:<ul style="list-style-type: none">• on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or• on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or• on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms.

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

- Other provisions in relation to Floating Rate Covered Bonds may also provide for a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms); and
- **Zero Coupon Covered Bonds:** Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment unless otherwise specified in the applicable Final Terms.

Ratings

Covered Bonds to be issued under the Programme will have the ratings specified in the applicable Final Terms.

Listing and admission to trading

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

Redemption

The applicable Final Terms relating to each Series of Covered Bonds will indicate that the relevant Covered Bonds of such Series:

- may not be redeemed prior to their Final Maturity Date as specified in the relevant Final Terms (other than in specified instalments, if applicable); or
- may be redeemed for taxation reasons, if applicable; or
- may be redeemed in the case of illegality, if applicable; or
- may be redeemed at the option of the Issuer/Covered Bondholder upon giving notice to the Covered Bondholders/Issuer (as the case may be), on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s),

in each case as set out in the applicable Final Terms.

Final Redemption

If not previously redeemed or purchased and cancelled, on the Final Maturity

Date as specified in the relevant Final Terms.

Maturities

Covered Bonds may be issued with any maturity as may be agreed between the Issuer and the relevant Dealer(s) and as specified in the relevant Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Extendable obligations under the Covered Bond Guarantee

The applicable Final Terms may also specify that the Final Maturity Date in relation to the applicable Series of Covered Bonds may be deferred until an Extended Due for Payment Date as set out in Condition 6(a) (*Redemption and Purchase*).

Hard Bullet Covered Bonds:

Hard Bullet Covered Bonds may be offered and will be subject to a Pre-Maturity Test. The intention of the Pre-Maturity Test is to provide liquidity for the Hard Bullet Covered Bonds if the Issuer's credit ratings have fallen below a certain level.

Denomination of Covered Bonds

Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms save that, except in the case of Covered Bonds which are intended to be admitted to trading on a regulated market of a European Economic Area stock exchange or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive, the minimum denomination of each Covered Bond will be at least €100,000 and in integral multiples of €1,000 in excess thereof (or, if the Covered Bonds are denominated in a currency other than euro, at least the equivalent amount in such currency) or such other higher amount as may be required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

It is intended that all Covered Bonds denominated in Sterling will have a denomination of £100,000 and in integral multiples of £1,000 in excess thereof.

Unless otherwise stated in the applicable Final Terms, the minimum denomination of each Definitive IAI Registered Covered Bond will be U.S.\$500,000 or its approximate equivalent in other Specified Currencies and the minimum denomination of each Definitive Rule 144A Covered Bond will be U.S.\$250,000 and in integral multiples of \$1,000 in excess thereof or its approximate equivalent in other Specified Currencies.

Selling Restrictions

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

Risk Factors

There are certain risks related to any issue of Covered Bonds under the Programme, which investors should ensure they fully understand, a non-exhaustive overview of which is set out under the section of this Prospectus entitled "*Risk Factors*" from page 26.

Taxation	All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of United Kingdom tax, subject as provided in Condition 7 (<i>Taxation</i>). In the event that any such withholding or deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7 (<i>Taxation</i>), be required to pay additional amounts to cover the amounts so withheld or deducted. Under the Covered Bond Guarantee, the LLP is not required to pay any additional amounts in respect of any withholding or deduction from payments, and will not be liable to make guarantee payments in respect of any such additional amounts.
Cross Default	<p>If an Issuer Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligations of the Issuer to pay interest and principal due in respect of all Series of Covered Bonds then outstanding will be accelerated.</p> <p>If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated.</p>
Status of the Covered Bonds	The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, from time to time outstanding.
Covered Bond Guarantee	In addition to the obligations of the Issuer under the Covered Bonds, payment of interest and principal on the Covered Bonds (such amounts, the Guaranteed Amounts) 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 occurrence of an Issuer Event of Default, the service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP or, if earlier, the occurrence of an LLP Event of Default and the service of an LLP Acceleration Notice on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon the service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.
Governing Law	The Covered Bonds will be governed by, and construed in accordance with, English law.

OVERVIEW OF RIGHTS OF COVERED BONDHOLDERS

Please refer to the section entitled "Terms and Conditions of the Covered Bonds" for further detail in respect of the rights of Covered Bondholders, conditions for exercising such rights and relationship with other Secured Creditors.

Prior to an Issuer Event of Default and LLP Event of Default Covered Bondholders holding more than 5 per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding are entitled to convene a Covered Bondholders' meeting.

However, so long as no Issuer Event of Default has occurred, the Covered Bondholders are not entitled to instruct or direct the Issuer to take any actions, either directly or through the Bond Trustee, without consent of the Issuer and, if applicable, certain other transaction parties, unless the Issuer has an obligation to take such actions under the relevant Transaction Documents.

Following an Issuer Event of Default or an LLP Event of Default No Covered Bondholder will be entitled to proceed directly against the Issuer or the LLP, including against the Covered Bonds or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound to proceed against the Issuer or the LLP, fail so to do within a reasonable time.

Following an Issuer Event of Default, Covered Bondholders may, by extraordinary resolution of all the Covered Bondholders or written resolution of the holders of more than 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding, direct the Bond Trustee to serve an Issuer Acceleration Notice against the Issuer **provided that** the Bond Trustee has been indemnified and/or secured to its satisfaction. The Bond Trustee also has a general discretion to take such action following an Issuer Event of Default.

Following an Issuer Event of Default, the Covered Bondholders may, by Extraordinary Resolution of all the Covered Bondholders or written resolution of the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding (which for this purpose means the Covered Bonds of a 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 Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate)), direct the Bond Trustee to give notice (an Issuer Acceleration Notice) in writing to the Issuer that as against the Issuer (but not against the LLP under the Covered Bond Guarantee), each Covered Bond of each Series is immediately due and repayable provided that the Bond Trustee has been indemnified and/or secured to its satisfaction. The Bond Trustee also has a general discretion to take such action following an Issuer Event of Default.

Following an LLP Event of Default, the Covered Bondholders may, by Extraordinary Resolution of all the Covered Bondholders or written resolution of the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the holders of the Covered Bonds then

Outstanding (which for this purpose means the Covered Bonds of a Series together with the Covered Bonds of any other Series constituted by the Trust Deed) as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate), direct the Bond Trustee to give notice (an LLP Acceleration Notice) in writing to, *inter alios*, the LLP and the Issuer that each Covered Bond of each Series is, as against the Issuer, immediately due and repayable and all amounts payable by the LLP under the Covered Bond Guarantee are immediately due and repayable provided that the Bond Trustee has been indemnified and/or secured to its satisfaction. The Bond Trustee also has a general discretion to take such action following an LLP Event of Default.

Covered Bondholder Meeting Notice Periods provisions

Initial Meeting: 21 clear days for the initial meeting (exclusive of the day on which the notice is given and the day on which the meeting is to be held).

Adjourned Meeting: Meetings shall reconvene without notice the same day in the next week, except for in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case the notice period is no less than 13 clear days and no more than 42 clear days for the adjourned meeting (exclusive of the day on which the notice is given and the day on which the meeting is to be held).

Quorum for Extraordinary Resolution

Initial Meeting: *Ordinary Resolution*

Not less than one-twentieth of the aggregate Principal Amount Outstanding (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) of the Covered Bonds of the relevant Series for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution or a Programme Resolution) form a quorum for the transaction of business at the meeting.

Extraordinary Resolution (other than a Series Reserved Matter or a Programme Resolution)

A clear majority of the aggregate Principal Amount Outstanding (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) of the relevant Series of Covered Bonds shall form a quorum of the transaction of business at the meeting.

Programme Resolution

A clear majority of the aggregate Principal Amount Outstanding (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) of all the Series of Covered Bonds then outstanding shall form a quorum of the transaction of business at the meeting.

Series Reserved Matter

At least two-thirds of the aggregate Principal Amount Outstanding (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) of the relevant Series of Covered Bonds shall form a quorum of the transaction of business at the meeting.

Adjourned Meeting:

One or more persons present holding Bearer Definitive Covered Bonds or voting certificates or being proxies or representatives form a quorum provided that at any adjourned meeting the quorum for the transaction of business comprising any Series Reserved Matter shall be one or more persons present holding Bearer Definitive Covered Bonds or voting certificates or being proxies and holding or representing in the aggregate not less than one-third of the aggregate Principal Amount Outstanding of the Bearer Covered Bonds of such Series for the time being outstanding.

Required Majorities

Ordinary Resolution: At least 50 per cent. of votes cast for matters requiring Ordinary Resolution.

Extraordinary Resolution: At least 75 per cent. of votes cast for matters requiring Extraordinary Resolution.

Written Resolution: At least 75 per cent. of the Principal Amount Outstanding of the relevant class of Covered Bonds. A Written Resolution has the same effect as an Extraordinary Resolution.

Programme Resolution At least 25 per cent. of votes cast for matters requiring a Programme Resolution.

Matters requiring

Broadly speaking, the following matters require an Extraordinary

Extraordinary Resolution

Resolution:

- Series Reserved Matter;
- power to sanction any compromise or arrangement proposed to be made between the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Covered Bondholders and Couponholders or any of them;
- power to sanction any abrogation, modification, compromise or arrangement in respect of the rights of the Bond Trustee, the Security Trustee, the Covered Bondholders, the Couponholders, or the Issuer or the LLP or against any other or others of them or against any of their property whether such rights shall arise under the Trust Deed or the other Transaction Documents or otherwise;
- power to assent to any modification of the provisions of the Trust Deed or the other Transaction Documents which shall be proposed by the Issuer, the LLP, the Bond Trustee, the Security Trustee or any Covered Bondholder;
- power to give any authority or sanction which under the provisions of the Trust Deed is required to be given by Extraordinary Resolution;
- power to appoint any persons (whether Covered Bondholders or not) as a committee or committees to represent the interests of the Covered Bondholders and to confer upon such committee or committees any powers or discretions which the Covered Bondholders could themselves exercise by Extraordinary Resolution;
- power to approve of a person to be appointed a trustee and power to remove any trustee or trustees for the time being of the Trust Deed and/or the Deed of Charge;
- power to discharge or exonerate the Bond Trustee from all liability in respect of any act or omission for which the Bond Trustee may have become responsible under the Trust Deed and/or the Deed of Charge;
- power to authorise the Bond Trustee to concur in and execute and do all such deeds, instruments, acts and things as may be necessary to carry out and give effect to any Extraordinary Resolution;
- power to sanction any scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into or the cancellation of the Covered Bonds in consideration of shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or

into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the Covered Bondholders to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and

- power to approve the substitution of any entity for the Issuer or the LLP (or any previous substitute) as principal debtor or guarantor under the Covered Bonds.

Relationship between Series of Covered Bondholders

In connection with the exercise by it of any of its trusts, powers and discretions, the Bond Trustee and the Security Trustee shall have regard to the general interests of the holders of the Covered Bonds of each Series as a class. An Extraordinary Resolution passed at any meeting of the holders of the Covered Bonds of a Series shall, subject as provided above, be binding on all the holders of the Covered Bonds of such Series, whether or not they are present at the meeting. 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.

Relationship between Covered Bondholders and other Secured Creditors

In exercising any of its powers, trusts, authorities and discretions under the Trust Deed, the Covered Bonds or the Coupons or any other Transaction Document, the Bond Trustee shall only have regard to the interests of the holders of the Covered Bonds while any Covered Bonds are outstanding and shall not have regard to the interests of any other Secured Creditors.

Provision of Information to the Covered Bondholders

The Issuer provides monthly Investor Reports detailing, among other things, compliance with the Asset Coverage Test and certain characteristics of the underlying Portfolio. Investor Reports shall be posted on the Co-operative Bank website at www.britannia.co.uk/bts. The Investor Reports will not form part of the Prospectus.

Communication with Covered Bondholders

Any notice to be given by the Issuer or the Bond Trustee to Covered Bondholders shall be given while the Covered Bonds are held in their entirety in global form by delivery of the relevant notice to the relevant Clearing System(s) for communication by that Clearing System to Covered Bondholders and any such notice shall be deemed to have been given to the Covered Bondholders on the day on which the said notice was given to the relevant Clearing System.

Other rules may apply for Bearer Definitive and Registered Definitive Covered Bonds.

Outstanding

Those Covered Bonds of a Series (if any) which are for the time being held by or on behalf of or for the benefit of the Issuer, the LLP, any holding company of any of them or any other Subsidiary of any such holding company, in each case as beneficial owner, will (unless and until ceasing to be so held) be deemed not to remain outstanding except in the case where the Issuer, the LLP, any holding company of the Issuer, the

LLP and/or any other Subsidiary of any such holding company (the **Relevant Persons** and each a **Relevant Person**) holds alone or with one or more other Relevant Persons all of the Covered Bonds then outstanding or, in respect of a Series of Covered Bonds holds all Covered Bonds of such Series, for the following purposes:

- (a) the right to attend and vote at any meeting of the holders of the Covered Bonds of any Series, to give instruction or direction to the Bond Trustee;
- (b) the determination of how many and which Covered Bonds of any Series are for the time being outstanding for the purposes of, *inter alia*, Conditions 9 (Events of Default and Enforcement) and 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution);
- (c) any discretion, power or authority (whether contained in the Trust Deed or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Covered Bonds of any Series; and
- (d) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series.

RISK FACTORS

Introduction

Any investment in the Covered Bonds issued under the Programme will involve risks including those described in this section. All principal or material risks in relation to the Issuer, the LLP and any investment in the Covered Bonds are included in this section. The risks and uncertainties described below are not the only ones that the Issuer and the LLP may face. Additional risks and uncertainties that the Issuer and the LLP are unaware of, or that they currently deem to be immaterial, may also become important risk factors that affect them. Prospective investors should carefully consider the following discussion of the risk factors and the other information in this Prospectus before deciding whether an investment in the Covered Bonds is suitable for them.

As at the date of this Prospectus, the Issuer and the LLP believe that the following risk factors may affect the Issuer's ability to fulfil its obligations, or the LLP's ability to perform its obligations, and could be material for the purpose of assessing the market risks associated with the Covered Bonds.

If any of the listed or unlisted risks actually occurs, the Issuer's or the LLP's business, operations, financial condition or reputation could be materially adversely affected, with the result that the trading price of the Covered Bonds of the Issuer could decline and an investor could lose all or part of its investment. These factors are contingencies that may or may not occur and none of the Issuer or the LLP are in a position to express a view on the likelihood of any such contingency occurring. 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.

GENERAL RISK FACTORS

Issuer liable to make payments when due on the Covered Bonds

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

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

Obligations under the Covered Bonds

The Covered Bonds will not represent an obligation or be the responsibility of any of the Dealers, the Arrangers, 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 capacities for their obligations in respect of the Covered Bonds and such

obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

Covered Bonds issued under the Programme

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

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the security granted by the LLP under the Deed of Charge. If an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds, the Covered Bonds of all Series outstanding will accelerate at the same time against the Issuer (following service of an Issuer Acceleration Notice) but will be subject to, and have the benefit of, payments made by the LLP under the Covered Bond Guarantee (following service of a Notice to Pay). If an LLP Event of Default occurs, following service of an LLP Acceleration Notice, the Covered Bonds of all Series outstanding will accelerate against the Issuer (if not already accelerated following an Issuer Event of Default) and the obligations of the LLP under the Covered Bond Guarantee will accelerate. In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect the existing Covered Bondholders:

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after swapping the same into Sterling under the applicable Covered Bond Swap) as consideration for (i) the acquisition of Loans and their Related Security and/or (ii) to acquire Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:
 - (a) to purchase Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
 - (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
 - (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or
 - (d) if an existing Series or Tranche, or part of an existing Series and/or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series and/or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
 - (e) to make a deposit of all or part of the proceeds in the appropriate Deposit Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the Reserve Fund Required Amount);
- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain a Rating Agency Confirmation (addressed to the Issuer, the Bond Trustee and the Security Trustee) that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

For further information on Rating Agency Confirmations in respect of the Programme see the section of this Prospectus entitled "*Risk Factors – Rating Agency Confirmations in respect of Covered Bonds*" below.

Security Trustee's and Bond Trustee's powers

In the exercise of its duties, powers, trusts, authorities and discretions the Security Trustee will only have regard to the interests of the Covered Bondholders. In the exercise of its duties, powers, trusts, authorities and discretions, the Security Trustee will not act on behalf of the Seller. In having regard to the interests of the Covered Bondholders, the Security Trustee will be entitled to rely solely on a written confirmation from the Bond Trustee as to whether, in the opinion of the Bond Trustee, any matter, action or omission is or is not in the interests of, or is not prejudicial or materially prejudicial to the interests of, the Covered Bondholders. The Bond Trustee will have sole responsibility for resolving conflicts of interest as between the Covered Bondholders or any Series of them, subject to and in accordance with the provisions of the Trust Deed and the Conditions.

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

Extendable obligations under the Covered Bond Guarantee

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

To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient moneys available to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds, the LLP may make such partial or full payment in accordance with the Guarantee Priority of Payments and as described in Condition 6(a) on any Interest Payment Date up to and including the relevant Extended Due for Payment Date. The due date for payment of the unpaid amount will be deferred automatically until the applicable Extended Due for Payment Date (where the relevant Series of Covered Bonds are subject to an Extended Due for Payment Date). The Extended Due for Payment Date will be the date specified in the applicable Final Terms. Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 (Interest) and the LLP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date. In these circumstances, except where the LLP has failed to apply money in accordance with the Guarantee Priority of Payments, failure by the LLP to make payment in respect of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) will not constitute an LLP Event of Default. However, failure by the LLP to pay Guaranteed Amounts corresponding to the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date and/or pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date will (subject to any applicable grace period) be an LLP Event of Default.

The Extended Due for Payment Dates for different Series of Covered Bonds may differ. The Guarantee Priority of Payments provides that Covered Bonds with an Extended Due for Payment Date falling one year or less from the relevant LLP Payment Date will be paid in priority to Covered Bonds with an Extended Due for Payment Date falling more than one year after the relevant LLP Payment Date. As a result, to the extent the LLP has insufficient funds, Covered Bonds with an Extended Due for Payment Date falling more than one year

from the LLP Payment Date are more likely to be paid less than they are due (or not at all) than Covered Bonds with an Extended Due for Payment Date falling one year or less after the relevant LLP Payment Date.

The Banking Act has conferred substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of the Covered Bonds

The Banking Act 2009 (the **Banking Act**), which came into effect on 21 February 2009, includes (amongst other things) provision for a special resolution regime (the **SRR**) pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank (such as the Issuer) or building society.

The orders which may be made under the Banking Act in respect of relevant deposit-taking institutions relate to share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances including between group companies, and/or disapplication or modification of laws (with possible retrospective effect)) and two new special insolvency procedures (bank insolvency and bank administration) which may be commenced by UK authorities.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial systems of the United Kingdom. It is a condition to the exercise of a stabilisation power under the Banking Act that the FSA must be satisfied that the relevant bank or building society is failing or likely to fail to meet the FSA's threshold conditions for authorisation and that, having regard to timing and other relevant circumstances, it is not reasonably likely that action would be taken that would have enabled such bank or building society to satisfy the threshold conditions. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it.

If an instrument or order were to be made under the Banking Act in respect of the Issuer, such instrument or order may (amongst other things) (i) result in a transfer to another issuer via the modified tools described above, and/or (ii) affect the Issuer's ability to satisfy its obligations under the Transaction Documents and/or result in (iii) the de-listing and/or conversion of the Covered Bonds from "one form or class to another" (the scope of which is not clear) and/or (iv) modifications to the Terms and Conditions of the Bonds and/or the Transaction Documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified. In addition, the Banking Act contains particular powers for provisions to be included in an instrument or order that such instrument or order (and possibly certain related events) be disregarded in determining whether certain widely defined "default events" have occurred (which default events could include certain trigger events included in the Transaction Documents in respect of the Issuer, including trigger events in respect of perfection of legal title to the Loans and the Issuer Events of Default) and provides for the disapplication of laws (with possible retrospective effect) and/or fiscal consequences in connection with the exercise of powers under the Banking Act.

Moreover, other than in the context of certain partial property transfers, modifications may be made to contractual arrangements between the relevant institution and certain group companies (such as the LLP). If an instrument or order were to be made under the Banking Act in respect of the Principal Paying Agent, the Bond Trustee, the Security Trustee, the Covered Bond Swap Providers or the Interest Rate Swap Providers, such action may affect various other aspects of the transaction, including resulting in modifications to the Transaction Documents such that the relevant instrument or order (and certain related events) is required to be disregarded as described above with respect to default events linked to the relevant entity and, more generally, the ability of such entities to perform their obligations under the Transaction Documents. As a result, the making of an instrument or order in respect of the Issuer, the Principal Paying Agent, the Bond

Trustee, the Security Trustee, the Covered Bond Swap Providers or the Interest Rate Swap Providers may 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. While there is provision for compensation in certain circumstances under the Act, there can be no assurance that Covered Bondholders would recover compensation promptly and equal to any loss actually incurred.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the entities referred to above and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such instrument or order if made.

In 2011, the European Commission consulted on Technical Details of a Possible EU Framework for Bank Recovery and Resolution which, if implemented, could:

- require changes to the scope of powers and tools available to the UK authorities under the Banking Act, including by allowing “bail-in” of debt (potentially including the Covered Bonds), generally understood as a forced write-off or write-down of debt, most likely with compensation provided in the form of equity in the relevant institution;
- provide the UK authorities with power to intervene in the management, or to require changes to the legal or operational structure, of an affected financial institution, including the Issuer, prior to the point at which it is considered to be failing or likely to fail; and/ or
- otherwise impact the business of the Issuer in ways that may affect its ability to satisfy its obligations under the Covered Bonds and/or result in modifications to the terms of the Covered Bonds.

The following paragraphs set out some of the possible consequences of the exercise of those powers under the SRR.

The SRR may be triggered prior to insolvency of the Issuer

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may only be exercised if (a) the FSA is satisfied that a relevant entity (such as the Issuer) is failing, or is likely to fail, to satisfy the conditions that a relevant entity must satisfy in order to retain its authorisation to accept deposits, (b) following consultation with the other authorities, the FSA determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those conditions, and (c) the UK authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the United Kingdom financial systems, public confidence in the United Kingdom banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

A partial transfer of the Issuer’s business may result in a deterioration of its creditworthiness

If the Issuer were made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Covered Bonds) may result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that it may be unable to meet its obligations in respect of the Covered Bonds and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Covered Bondholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no

assurance that Covered Bondholders would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Prospectus, the UK authorities have not made an instrument or order under the Banking Act in respect of the Issuer and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such order or instrument if made.

Various actions may be taken in relation to the Covered Bonds without the consent of the Covered Bondholders

If the Issuer were made subject to the SRR, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities) in respect of the Issuer. Exercise of these powers could involve taking various actions in relation to any securities issued by the Issuer (including the Covered Bonds) without the consent of the covered Bondholders, including (among other things):

- transferring the Covered Bonds notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance;
- delisting the Covered Bonds;
- converting the Covered Bonds into another form or class (the scope of this power is unclear, although it may include, for example, conversion of the Covered Bonds into equity securities);
- modifying or disapplying certain terms of the Covered Bonds, including disregarding any termination or acceleration rights or events of default under the terms of the Covered Bonds which would be triggered by the transfer and certain related events; and/or
- where property is held on trust, removing or altering the terms of such trust.

There can be no assurance that the taking of any such actions would not adversely affect the rights of Covered Bondholders, the price or value of their investment in the Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds. In such circumstances, Covered Bondholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Covered Bondholders would thereby recover compensation promptly or equal to any loss actually incurred.

The European Commission has published proposals for a crisis management directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive and its impact on the Issuer is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Covered Bonds.

On 6 June 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Crisis Management Directive** or **CMD**). The stated aim of the draft CMD is to provide authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The powers provided to authorities in the draft CMD are divided into three categories: (i) preparatory steps and plans to minimise the risks of potential problems (preparation and prevention); (ii) in the event of incipient problems, powers to arrest a firm's deteriorating situation at an early stage so as to avoid insolvency (early intervention); and (iii) if insolvency of a firm presents a concern as regards the general public interest, a clear means to reorganise or wind down

the firm in an orderly fashion while preserving its critical functions and limiting to the maximum extent any exposure of taxpayers to losses.

The draft CMD currently contains four resolution tools and powers: (i) sale of business - which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a “bridge bank” (a public controlled entity); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time; and (iv) bail-in - which gives resolution authorities the power to write down the claims of unsecured creditors of a failing institution and to convert debt claims to equity (subject to certain parameters as to which liabilities would be eligible for the bail-in tool).

The draft CMD currently contemplates that it will be implemented in Member States with effect from 1 January 2015 except for the bail in tool which is currently proposed to be implemented by 1 January 2018.

The powers currently set out in the draft CMD would impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. However, the proposed directive is not in final form and changes may be made to it in the course of the legislative process. In addition, many of the proposals contained in the draft CMD have already been implemented in the Banking Act and it is currently unclear as to what extent, if any, the provisions of the Banking Act may need to change once the draft CMD is implemented. See *“The Banking Act has conferred substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Covered Bonds.”* Accordingly, it is not yet possible to assess the full impact of the draft CMD on the Issuer and there can be no assurance that, once it is implemented, the fact of its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights of Covered Bondholders, the price or value of their investment in the Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 (the **FSMA**) established the Financial Services Compensation Scheme (the **FSCS**), which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. An institution’s FSCS levy is linked to its share of the UK deposit market, and therefore its FSCS levy may have a material impact on its profits. As at the date of this Prospectus, a number of claims against the FSCS have been triggered. Claims on the FSCS are funded by loans from the Bank of England, and until such loans are repaid, increased levies on UK deposit-taking institutions fund interest payments on such loans. As a result of the various claims under the FSCS, the Issuer, in common with all regulated UK deposit takers, has recently been subject to significantly increased FSCS levies. In certain circumstances, regulated UK deposit takers may further be required to fund, by way of a further increase in the FSCS levy, the capital repayment to the Bank of England of such loans. There can also be no assurance that there will be no actions taken under the Banking Act that may lead to future claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer (and other regulated UK deposit takers), which may have a material adverse effect on its results of operations.

While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants, which levies may be in significant amounts that may have a material impact on the Issuer's profits. Historically, FSCS levies have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will be no actions taken under the Banking Act that may lead to further claims against the FSCS and concomitant increased FSCS levies payable by the Issuer. Any such increases in the Issuer's costs and liabilities related to the levy may have a material adverse effect on its results of operations. Further costs and risks to the Issuer may also

arise from discussions at national and European Union levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

As of 3 October 2011, the FSA recommenced work on the FSCS Funding Model Review (the **FFMR**) and published a consultation paper on 25 July 2012 with the deadline for responses being 25 October 2012. The FFMR will concentrate on issues such as the composition of the nine funding classes, the levy thresholds applicable to each and their tariff bases.

As a result of the structural reorganisation and reform of the UK financial regulatory authorities, it is proposed that the FSCS will become the responsibility of one of the successor regulatory authorities to the FSA. It is possible that future policy of the FSCS and future levies on the Issuer may differ from those at present, and such reforms could lead the Issuer to incur additional costs and liabilities, which may adversely affect its business, financial condition and/or results of operations.

The Issuer has provided £25.8 million as at 30 June 2012 (31 December 2011: £25.0 million) for its share of the levies that will be raised by the FSCS including the interest on the loan from the HM Treasury in respect of the levy years 1 April 2011 to 31 March 2012 and 1 April 2012 to 31 March 2013. The provision includes estimates for the interest the FSCS will pay on the loan and of the Issuer's market participation in the relevant years. In this regard, the Issuer has made provision for fees for the 31 March 2012 levy year (using an interest rate of 12 month Sterling LIBOR plus 30 basis points) and the 31 March 2013 levy year (using the expected interest rate of 12 month Sterling LIBOR plus 100 basis points). Although the liabilities are considered to be material to the Issuer, and they have been recognised, as mentioned, and duly disclosed, the ultimate cost to the industry in respect of increased FSCS levies remains uncertain.

The FSCS announced in March 2012 that it expects an additional capital levy totalling £802 million to be charged to the industry proportionally, in three roughly equal instalments beginning in 2013/2014. In line with regulatory guidance as at the date of this Prospectus, the Issuer has not provided for this additional levy.

Absence of secondary market

There is not, at present, an active and liquid secondary market for the Covered Bonds, and there can be no assurance that a secondary market for the Covered Bonds will develop. The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". If a secondary market does develop, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield. Consequently a Covered Bondholder must be able to bear the economic risk of an investment in a Covered Bond for an indefinite period of time. Illiquidity may have a severely adverse effect on the market value of the Covered Bonds.

General volatility in the wholesale funding markets

Since the second half of 2007, disruption in the global markets, coupled with the re-pricing of credit risk and the deterioration of the housing markets in the United States and elsewhere, have created difficult conditions in the financial markets. These conditions have resulted in historic volatility, less liquidity or no liquidity, widening of credit spreads and a lack of price transparency in certain markets, both primary and secondary, including with respect to the mortgage-backed securities and covered bond markets. These adverse market conditions have resulted in the failures of a number of financial institutions in the United States and Europe. While central banks and governments around the world have taken coordinated efforts to increase liquidity in the financial markets by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements (or "swap lines") as well as introducing schemes aimed at providing short and long-term funding and/or

liquidity, while such market conditions have shown signs of improvement in certain sectors of the global credit markets, it is difficult to predict whether, or to what extent, such market improvement will continue and/or how long the adverse market conditions will continue to exist or whether they will worsen or how long such central bank and government schemes will continue to be available or on what terms. Any worsening of market conditions and the uncertainty as to the continued availability of central bank and government schemes to provide liquidity and/or funding could have a material adverse effect on the Issuer's liquidity and funding.

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

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

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

Increased Regulation

Recent developments in the global markets have led to an increase in the involvement of various governmental and regulatory authorities in the financial sector and in the operations of financial institutions. In particular, governmental and regulatory authorities in the United Kingdom, the United States and elsewhere have provided additional capital and funding and are implementing other measures including increased regulatory control in their respective banking sectors including by imposing enhanced capital requirements. It is uncertain how the more rigorous regulatory climate will impact financial institutions including the Issuer.

Ratings of the Covered Bonds

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

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. In addition, at any time any Rating Agency may revise its relevant rating methodology with the result that, amongst other things, any rating assigned to the Covered Bonds may be lowered. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension or withdrawal (or, as noted above, revision) at any time. A credit rating may not reflect the potential impact of all of the risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds. Any downgrade in the rating of the Issuer by the Rating Agencies may have a negative impact on the ratings of the Covered Bonds.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances

whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

Rating Agency Confirmation and Rating Condition in respect of Covered Bonds

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

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 or satisfaction of the Rating Condition, whether any action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not materially prejudicial to, some or all of the Covered Bondholders. In being entitled to have regard to the fact that the Rating Agencies have confirmed that the then current ratings of the Covered Bonds would not be adversely affected or withdrawn (with respect to a Rating Agency Confirmation only) in connection with the exercise of any power, trust, authority, duty or discretion, each of the Issuer, the LLP, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.

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

Certain Rating Agencies have indicated that they will no longer provide Rating Agency Confirmations as a matter of policy. To the extent that a Rating Agency Confirmation cannot be obtained, whether or not a proposed action will ultimately take place will be determined in accordance with the provisions of the relevant Transaction Documents and specifically the relevant modification and waiver provisions.

Moody's rating of UK banks and building societies

Moody's consider that, since September 2008, the UK banking system and the UK mutual sector has benefited from extraordinary support provided by both the UK government and the Bank of England and

these support assumptions were factored into its debt and deposit ratings. Due to the systemic nature of the crisis, whereby the failure of any bank or building society had implications for the overall system, Moody's increased its assumptions for the probability of the provision of government support for a number of UK institutions during the crisis, including, in the context of this transaction, the Issuer.

In December 2010 Moody's announced that it expected to reduce the level of support incorporated in senior debt ratings over the next one to two years from the date of that announcement. In April 2011, Moody's announced that it would begin its reassessment of the systemic support assumptions that it currently incorporates into debt ratings for UK financial institutions (and in May 2011 announced that in light of this reassessment the credit ratings of 14 UK financial institutions, including the Issuer, had been placed on review for possible downgrade). Such reassessment focused on the high systemic support assumptions currently incorporated in the senior debt ratings of small to medium-sized UK financial institutions, as well as, on a case-by-case basis, the level of systemic support incorporated in the large, complex financial institutions. Moody's stated that it intended to continue to assume some level of systemic support for senior debt issued by larger financial institutions. On 7 October 2011, Moody's announced the result of its reassessment of the systemic support assumptions in respect of 12 UK financial institutions including the Issuer and announced the downgrade of the deposit rating and senior debt ratings of the Issuer by one notch to A-3 long-term. See "*Downgrading by Moody's and Fitch as a result of the Bid by the Co-operative Group for the sale of bank branches by the Lloyds Banking Group*". See also *The Issuer – The Co-operative Bank P.L.C.* The LLP has mitigated the risk of certain transaction counterparties being downgraded through the downgrade provisions in the Transaction Documents – see "*Summary of the Principal Documents – Servicing Agreement – Servicer Ratings*" and "*Summary of the Principal Documents - Cash Management Agreement*".

Rating downgrade and market sentiment with respect to the sector

If the ratings analysis of other agencies that rate the Issuer's credit is updated to reflect lower forward-looking assumptions of systemic support in the current economic environment or high assumptions of the risks in the financial sector, or is otherwise modified, it could result in a further downgrade to the outlook or to the credit ratings of UK financial institutions, including the Issuer, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including the Issuer. See also "*Moody's ratings of UK bank and building societies*" and "*Downgrading by Moody's and Fitch as a result of the Bid by the Co-operative Group for the sale of bank branches by the Lloyds Banking Group*".

Covered Bonds not in physical form

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

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

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

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

If the Issuer has the right to redeem any Covered Bonds at its option, this may limit the market value of the Covered Bonds and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

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

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

Fixed Rate Covered Bonds

Investment in Fixed Rate Covered Bonds involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Covered Bonds, this will adversely affect the value of the Fixed Rate 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 market rates.

Covered Bonds issued at a substantial discount or premium

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

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

Pursuant to Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution), and the terms of the Trust Deed and the Deed of Charge, the Bond Trustee (for so long as any Covered Bonds are

outstanding) has the ability to agree or direct the Security Trustee to agree to certain modifications, waivers and authorisations (save for modifications in relation to a Series Reserved Matter under (a) below) under the Covered Bonds and the Transaction Documents, without the consent or sanction of any of the Covered Bondholders or any of the other Secured Creditors (including that any Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default will not be treated as such), **provided that**:

- (a) the Bond Trustee is of the opinion that such modification, waiver, determination and/or authorisation will not be materially prejudicial to the interest of any of the Covered Bondholders of any Series; or
- (b) the Bond Trustee is of the opinion that such modification is made to correct a manifest error or is of a formal, minor or technical nature or is made to comply with mandatory provisions of law.

Subject to Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution) and the Trust Deed, the Bond Trustee must, or must direct the Security Trustee to, agree to modifications, waivers and authorisations as referred to above if so directed by (a) an Extraordinary Resolution of the Covered Bondholders of the relevant one or more Series or (b) the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Covered Bonds of the relevant one or more Series.

In the case of the waiver of an Issuer Event of Default or an LLP Event of Default, the relevant one or more Series will be all Series taken together as a single Series. In all other cases referred to above, the relevant one or more Series will be those Series which, in the opinion of the Bond Trustee, are affected by the modification, waiver or authorisation, taken together as a single Series if, in the opinion of the Bond Trustee, there is no conflict between the interests of the Covered Bondholders of the affected Series, but otherwise taken separately.

In respect of any proposed modification, waiver, authorisation or determination prior to the Bond Trustee agreeing to any such modification, waiver, authorisation or determination, the Issuer must send written confirmation to the Bond Trustee:

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

See further Condition 14 for more particulars of the modification, waiver and authorisation provisions applicable to the Covered Bonds.

Any amendments to the Transaction Documents that affect the amount, timing or priority of any payments due between an Interest Rate Swap Provider or a Covered Bond Swap Provider and the LLP may, if so specified in the relevant Swap Agreement, constitute an additional termination event under that Swap Agreement unless the prior consent of the Interest Rate Swap Provider or Covered Bond Swap Provider is sought by the LLP to the proposed amendments. In addition, in relation to any amendments that affect the amount, timing or priority of any payments due between an Interest Rate Swap Provider or any Covered Bond Swap Provider, the LLP may, if so specified in the Swap Agreement, have a positive obligation to obtain the consent of the Swap Provider to such amendments prior to such amendments being effected.

Certain decisions of the Covered Bondholders taken at Programme level

The Bond Trustee may be directed to serve an Issuer Acceleration Notice following an Issuer Event of Default, to serve an LLP Acceleration Notice following an LLP Event of Default, to take any enforcement action or to direct the Security Trustee to take any enforcement action only by an Extraordinary Resolution passed at a single meeting of all the Covered Bondholders of all Series then outstanding or by the holders of not less than 25 per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding subject, in each case, to being indemnified and/or secured to its satisfaction.

See further Condition 9 for more particulars of the acceleration and enforcement provisions applicable to the Covered Bonds.

The Covered Bonds may be subject to withholding taxes in the circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Covered Bonds

Withholding under the European Monetary Union

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

It is possible that prior to the maturity of the Covered Bonds the United Kingdom may become a participating member state in the European Monetary Union and that the euro may become the lawful currency of the United Kingdom. In that event: (a) all amounts payable in respect of any Covered Bonds denominated in Sterling may become payable in euro; (b) the law may allow or require the Covered Bonds to be re-denominated into euro and additional measures to be taken in respect of such Covered Bonds; and (c) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Covered Bonds or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Covered Bonds.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-European Union countries and territories (including Switzerland) have adopted similar measures in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

U.S. Foreign Account Tax Compliance Withholding

Sections 1471 through 1474 (inclusive) of the U.S. Internal Revenue Code (**FATCA**) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments by any non-U.S. financial institution (a foreign financial institution, or "FFI" (as defined by FATCA)) that (i) does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders or (ii) is not otherwise exempt from or in deemed-compliance with FATCA. The new withholding regime will be phased in beginning in 2014 for payments received from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 2017.

After consultation with a number of potential partner countries, the United States has recently released a model intergovernmental agreement ("model IGA") to facilitate the implementation of FATCA. Pursuant to FATCA and the model IGA, an FFI in a signatory country could be treated as a deemed-compliant FFI, an exempt FFI or a "Reporting FFI" not subject to FATCA withholding on any payments it receives and, with respect to payments it makes from sources within the United States, would not be required to withhold. It is not yet certain whether a Reporting FFI would be required to withhold on foreign passthru payments that it makes. A Reporting FFI would, however, be required to report certain information on its account holders to its home government. On 12 September 2012, the United States and the United Kingdom entered into an agreement (the "US-UK IGA") based largely on the model IGA.

The Issuer and the LLP each expect to be treated as a deemed-compliant FFI or as a Reporting FFI pursuant to the US-UK IGA and do not anticipate being obliged to withhold any amounts under FATCA from payments they make. There can be no assurance, however, that the Issuer will be treated as a deemed-compliant FFI or as a Reporting FFI or that they would not be required to withhold under FATCA or pursuant to the US-UK IGA. Accordingly, the Issuer, the LLP and financial institutions through which payments on the Covered Bonds are made may be required to withhold amounts under FATCA if (a) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FFI, or otherwise exempt from or in deemed-compliance with FATCA or (b) an investor (other than an exempt investor) does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account". This withholding would apply to (i) any Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after 31 December 2012 or are materially modified after that date and (ii) any Covered Bonds characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Covered Bonds are issued before 1 January 2013 and additional Covered Bonds of the same series are issued on or after that date, the additional Covered Bonds may not be treated as exempt from FATCA withholding, which may have negative consequences to any existing Covered Bonds, including a negative impact on market price.

If an amount in respect of FATCA withholding were to be deducted or withheld from interest, principal or other payments on the Covered Bonds, neither the Issuer, the LLP nor any paying agent nor any other person would, pursuant to the conditions of the Covered Bonds, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS or as a result of the US-UK IGA, receive less interest or principal than expected. If any FATCA withholding is imposed, a beneficial owner of Covered Bonds that is not a foreign financial institution generally will be entitled to a refund of any amounts withheld by filing a U.S. federal income tax return, which may entail a significant administrative burden. A beneficial owner of Covered Bonds that is a foreign financial institution will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles it to an exemption from, or reduced rate of, tax on the payment that was subject to withholding under FATCA.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations, official guidance and the model IGA, all of which are subject to change or may be implemented in a materially different form.

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 respect of Scottish Loans and 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 (including any change in regulation which may occur without a change in primary legislation) or administrative practice or tax treatment in the United Kingdom after the date of this Prospectus, nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Covered Bonds or the ability of the LLP to make payments under the Covered Bond Guarantee.

UK regulated covered bond regime

On 12 October 2011, the Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds.

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 (but pursuant to the RCB Regulations, a regulated covered bond may not be removed from the relevant register prior to the expiry of the whole period of validity of the relevant bond), directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP and/or restricting the ability of the Seller to transfer further loans to the LLP. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the Asset Pool). There is a risk that any such regulatory actions by the FSA may adversely affect the ability of the Issuer to meet its obligations under the Covered Bonds and/or the ability of the LLP to make payments under the Covered Bond Guarantee and this may reduce the amounts available to pay the Covered Bondholders.

With respect to the risks referred to above, see also "*Cashflows*" and "*Description of the UK Regulated Covered Bond Regime*"

Expenses of insolvency officeholders

Under the RCB Regulations (assuming such regulations apply to the LLP), following the realisation of any asset pool security (excluding circumstances where there is a concurrent winding-up of the LLP) certain costs and expenses are payable out of the fixed and floating charge assets of the LLP in priority to the claims of other Secured Creditors (including the Covered Bondholders). Such costs and expenses are also payable out of the floating charge assets of the LLP (but it would appear not out of the fixed charge assets) in priority to the claims of the other Secured Creditors in a winding-up of the LLP and/or an administration of the LLP. Such costs and expenses include costs incurred by the officeholder (including an administrative receiver, liquidator or administrator) in respect of costs in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English and Scots law which provides that expenses of any administration (and, following the implementation of new Section 176ZA of the Insolvency Act 1986 on 6 April 2008, the expenses of any liquidation) only rank ahead of unsecured debts and the claims of a holder of a floating charge (but not the claims of a fixed chargeholder).

It is intended that the LLP should be a bankruptcy-remote entity and a provision has been included in the Deed of Charge such that, in certain post-enforcement scenarios in circumstances where the regulations

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

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

Insolvency Act 2000

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. This also extends to Limited Liability Partnerships by virtue of the Limited Liability Partnership (Amendment) Regulations 2005.

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, Innovation and Skills 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 excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment" (also defined but generally a rated, listed or traded bond) and (b) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign currency) of at least £10 million. While the LLP is expected to fall within one of the exceptions there is no guidance as to how the legislation will be interpreted and the Secretary of State for Business, Innovation and Skills 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.

Security and insolvency considerations

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

Fixed charges may take effect under English law as floating charges

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

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

In addition, any administrative receiver, administrator or liquidator appointed in respect of the LLP will be required to set aside the prescribed percentage or percentages of the floating charge realisations in respect of the floating charges contained in the Deed of Charge.

An equivalent risk applies under Northern Irish law in relation to the Northern Irish Loans and their Related Security.

Under Scots law the concept of fixed charges taking effect as floating charges does not arise and accordingly there is no equivalent risk in relation to the Scottish Loans and their Related Security.

Liquidation Expenses

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

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

Insolvency proceedings and subordination provisions

There is uncertainty as to the validity and/or enforceability of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, recent cases have focused on provisions involving the subordination of a hedging counterparty's payment rights in respect of certain termination payments upon the occurrence of insolvency proceedings or other default on the part of such counterparty. Such provisions are similar in effect to the terms which will be included in the Transaction Documents relating to the subordination of payments.

The Supreme Court of the United Kingdom held in *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Limited and Lehman Brothers Special Financing Inc* [2011] UKSC 38 that a flip clause as described above is valid under English law provided that such provisions form part of a commercial transaction entered into in good faith which does not have as its predominant purpose, or one of its main purposes, the deprivation of the property of one of the parties on bankruptcy. However, the US Bankruptcy Court has held that such a subordination provision is unenforceable under US bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a US bankruptcy of the counterparty. The implications of this conflicting judgment are not yet known, particularly as the US Bankruptcy Court approved, in December 2010, the settlement of the case to which the judgement relates and subsequently the appeal was dismissed.

If a creditor of the LLP (such as a swap counterparty) or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the US), and it is owed a payment by the LLP, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed Transaction Documents (such as a provision of the Priorities of Payments which refers to the ranking of the swap counterparties' payment rights). In particular, based on the decision of the US Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under US bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as swap counterparty, including US established entities and certain non-US established entities with assets or operations in the US (although the scope of any such proceedings may be limited if the relevant non-US entity is a bank with a licensed branch in a US state). In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Covered Bondholders, the market value of the Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the Transaction Documents will include terms providing for the subordination of payments under the Priorities of Payment, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts) may result in negative rating pressure in respect of the Covered Bonds. If any rating assigned to the Covered Bonds is lowered, the market value of the Covered Bonds may reduce.

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

Risk Factors relating to the Issuer

Economic activity in the United Kingdom

The Issuer's business activities are dependent on the level of banking, finance and financial services required by its customers. As the Issuer currently conducts the majority of its business in the United Kingdom, its performance is influenced by the level and cyclical nature of business activity in the United Kingdom, which is in turn affected by both domestic and international economic and political events. Adverse developments in the United Kingdom economy, such as the recent crisis in the global financial markets, recession, and further deterioration of general economic conditions, particularly in the United Kingdom, could cause the Issuer's earnings and profitability to decline.

In recent years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world that began in August 2007 and significantly worsened in 2008 has triggered widespread problems at many commercial banks, investment banks, insurance companies, building societies and other financial and related

institutions in the United Kingdom and around the world. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK government and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions aimed at both supporting the sector and providing confidence to the market.

Despite these actions, the volatility and disruptions in the financial markets have continued and recent developments, particularly in the eurozone in relation to, *inter alia*, the Greek debt crises, Italy, the Republic of Ireland, Portugal and Spain, and in the United States, have demonstrated that there continue to be significant dislocations and uncertainty. These market dislocations have also been accompanied by recessionary conditions and trends in the United Kingdom and many economies around the world. The outlook for the UK economy has also weakened over the last ten months, and prospects for the remainder of 2012 to 2013 are challenging. Uncertainty surrounding the future of the eurozone is increasing the risk of a significant slowdown in economic activity in the UK's principal export markets which would have a corresponding effect on the broader UK economy. Domestically, both public and household spending are being constrained by austerity measures, and the UK economy faces the risk of higher levels of unemployment combined with declines in real disposable incomes. Expectations are that the UK recovery continues to be maintained, but at a modest pace, and the downside risk of a return to recessionary conditions in 2012 cannot be ruled out. It is therefore expected that UK interest rates will remain at current levels for an extended period. In the meantime, the low interest rate environment and pressure on retail funding costs will continue to exert downward pressure on net interest income across the UK banking sector, which in turn has had and may continue to have a material adverse effect on the Issuer's business, operating results, financial condition and prospects.

A widespread and severe deterioration in the United Kingdom economy may reduce the level of demand for, and supply of, the Issuer's products and services, lead to lower asset and other realisations and increased negative fair value adjustments and impairments of investments and other assets and may materially and adversely impact the Issuer's operating results, financial condition and prospects.

United Kingdom housing and commercial property markets

One of the Issuer's principal activities is mortgage lending in the United Kingdom with loans secured against residential property. Residential mortgages constituted approximately 47.9 per cent. of the Issuer's assets as at 31 December 2011. There was a significant property and construction portfolio of £4.2 billion on the Issuer's corporate lending book as at 31 December 2011.

United Kingdom house prices have declined significantly over recent years, reflecting a correction of asset values, triggered by the economic downturn and lower availability of credit. Possible volatility in the current economic climate may lead to further corrections in mortgage valuations, with a risk of possible further decreases in house prices and/or increases in default rates. As a result of such a scenario, the Issuer's retail portfolios may generate increases in impairment losses which could materially affect its operations, financial condition and prospects.

Personal financial services market

Unsecured personal lending constituted approximately £1.5 billion of the Issuer's assets as at 31 December 2011. Increasing levels of consumer indebtedness and personal bankruptcies experienced market wide could have an adverse impact on the Issuer's financial position and reputation, via increased impairment losses and a reduction in demand for the Issuer's products.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Issuer's control, such as general economic conditions and the confidence of retail depositors. These or other factors could lead to a reduction in the Issuer's ability to access retail deposit funding on appropriate terms in the future.

Any loss in consumer confidence in the banking businesses of the Issuer could significantly increase the amount of retail deposit withdrawals in a short space of time. Should the Issuer experience an unusually high level of withdrawals, this may have an adverse effect on the Issuer's business, financial position and results of operations.

Margin compression

The industry has been experiencing pressure on net interest margins. The Issuer has experienced a reduction in net interest margin in the six months ended 30 June 2012 to 103 basis points (the six months ended 30 June 2011: 135 basis points). The main factors driving the pressure on margin has been the increased cost of retail funding, reflecting the competitive savings market and the progressive re-pricing of long-term wholesale funding. This has been offset by wider spreads on new mortgage pricing, the impact of which has been limited as liabilities continue to re-price faster than the asset side of the balance sheet due to low levels of re-mortgage activity. The Issuer does not expect these conditions to abate significantly in the near term and there remains the possibility of further downward pressure on profitability depending on a number of influences, such as the consequences of a more austere economic environment or further competition in both the savings and mortgage markets.

UK sovereign credit rating

Any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and the UK economy and have a material adverse effect on the Issuer's operating results, financial condition, prospects as well as on the marketability of the Covered Bonds. This might also have an impact on the Issuer's own credit ratings, borrowing costs and its ability to fund itself. A UK sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of a "double dip" recession. These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies in Italy, the Republic of Ireland, Greece, Portugal and Spain in particular. Further instability within these countries or others within the eurozone might lead to contagion which may have a material adverse effect on the Issuer's operating results, financial condition and prospects.

The exact nature and extent of these risks is difficult to predict and protect against in view of (i) the severity of the recent global financial crisis, (ii) difficulties in predicting whether any recovery will be sustained and at what rate, and (iii) the fact that many of the risks related to the business are totally, or in part, outside the control of the Issuer.

Business risk factors

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. The Issuer is also exposed to other risks. Failure to control these risks could result in material adverse effects on the Issuer's financial performance and reputation of the Issuer. The Issuer has implemented risk management methods to mitigate and control borrower and counterparty credit risk, market risk, operational risk and liquidity risk and other risks to which the Issuer is exposed, and exposures are rigorously measured and monitored.

Credit risk

Risks arising from changes in customer credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the businesses of the Issuer. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in the economic conditions in the United Kingdom, United States and/or globally, could affect the recoverability and value of the assets of the Issuer and require an increase in the allowance for its impairment losses on credit exposures and other

provisions. The Issuer is at risk to spread widening and ultimately defaults on its inter-bank exposures, mitigated through credit assessment, limits and monitoring procedures.

Recent market turmoil and reduction of available credit have contributed to decreasing consumer confidence, increased market volatility and reduced business activity. On-going market developments may result in a possible increase of commercial and consumer loan delinquencies and may further affect consumer confidence levels, possibly causing adverse changes in payment patterns, which may impact the Issuer's charge-offs and provision for credit losses. Demand for commercial and residential property may be weakened as tenants face pressure from reduced domestic and European market activity and the availability of property asset financing remains challenging. These market conditions could materially and adversely affect the Issuer's financial condition and results of operations.

The Issuer's Credit Risk Management Policies are approved annually by the Board's Risk Committee and specify credit management standards, including country, sector and counterparty limits, along with delegated authorities. There can be no guarantee that such Credit Risk Management Policies will be effective to identify credit risks.

Market risk

The Issuer's businesses are inherently subject to risks in financial markets and in the wider economy. Market movements have had and will have an impact on the Issuer in a number of key areas. Declines in housing markets over the past four years have negatively impacted the credit performance of real estate related loans and resulted in significant write-downs of asset values by many financial institutions. These write-downs, initially of asset-backed securities but spreading to other securities and loans, have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions.

As a result of these market forces, volatility in basis spreads has increased, which could have an adverse effect on the current market value of the Issuer's earnings and investment portfolio. In addition, the United Kingdom has recently experienced a period of historically low interest rates. This has adversely impacted net interest margins as a result of floors on liability pricing. Although the Issuer is undertaking measures to mitigate and control the effects of these conditions, there can be no guarantees that such controls will insulate the Issuer from deteriorating market conditions.

The Issuer has implemented risk management policies to mitigate and control the market risks to which it is exposed, and exposures are regularly measured and monitored. The Issuer's exposure to market risk is also limited in that it has only a small trading book from which it generates incremental income from proprietary trading within strict risk limits. However, it is difficult to predict changes in economic and market conditions accurately, and the effects that these changes could have on the Issuer's financial performance and business operations.

Systemic risk resulting from failures in the banking industry

Within the banking industry concerns about or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions. This risk is referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Issuer interacts on a daily basis, which could have an adverse effect on the Issuer's ability to raise new funding and on the Issuer's business, results of operations and financial position.

Fair value adjustment risk

Market conditions have resulted, and may continue to do so in the future, in changes to the estimated fair values of financial assets of the Issuer. Negative fair value adjustments may have a material adverse effect on the Issuer's operating results, financial condition and prospects. Furthermore, on the merger of the Issuer with Britannia Building Society (**Britannia**) in 2009 (the **Merger**), Britannia's net assets were restated to fair value. The majority of these Merger fair value adjustments unwind back through the income statement over the lives of the associated assets and liabilities. Although over time the impact is broadly neutral, the impact in any one year depends on the assumptions made about expected future arrears, interest rates, redemption rates and maturities. The timing of Merger fair value adjustment unwinds may have a material adverse effect on the Issuer's operating results, financial condition and prospects.

Additional risks related to the Merger

Transformation risks

As a result of the Merger, the Issuer expects to increase its revenues and reduce the operating expenses of the combined business. However, there is no assurance that the Issuer will be able to achieve the business growth opportunities, costs savings and other benefits it anticipates from the Merger. This may be because the assumptions upon which the Issuer assessed the Merger, including the anticipated benefits of the Merger, may prove to be incorrect. Unanticipated delays in the integration of operations may impact the Issuer's assumptions regarding the benefits it expects to derive from the Merger and may delay such benefits. In addition, the Issuer may incur greater costs than it has estimated in connection with integration.

If the Issuer fails to achieve the business growth, cost-savings and other benefits it anticipates from the Merger, or it incurs greater integration costs than it has estimated, its results of operations, financial condition and/or the price of its securities may be adversely affected.

Integration risks

The Issuer is still in a process of transition from the Merger and is continuing to integrate heritage systems and processes. There are risks associated with the integration of two organisations of the size of the Issuer and Britannia. Particular areas of risk include: difficulties or unexpected costs relating to the integration of technology platforms, financial and accounting systems, risk management systems and management systems of two organisations; difficulties or unexpected costs in realising synergies from the consolidation of head office and back office functions; higher than expected levels of customer attrition or market share loss arising as a result of the Merger; unexpected losses of key personnel during or following the integration of the two businesses; possible conflict in the culture of the two organisations and decrease in employee morale.

If the implementation of such projects is not delivered on time, and / or the costs of implementation rise significantly and the Issuer fails to exploit such projects once implemented, there is a risk that there could both be a delay to the future benefits, and an increased cost for the transformation process which may have an adverse effect on the Issuer's business, financial position and results of operations. Furthermore, senior management may be required to devote significant time to the process of integrating the businesses which may decrease the time they have to manage the Issuer's ongoing business. If any of these risks should occur, or if there are unexpected delays in the integration process, the anticipated benefits of the Merger may be delayed, achieved only in part, or not at all or at greater cost, which could have an adverse affect on the Issuer's results of operations or financial condition.

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

Bid by the Co-operative Group for the sale of bank branches by the Lloyds Banking Group

On 14 December 2011, the Co-operative Group, the ultimate parent of the Issuer, was named as preferred bidder in the sale of 632 bank branches, 4.8 million customers and 754 ATMs by the Lloyds Banking Group (together and at the date of this prospectus only, the **Verde Business**).

On 19 July 2012, the Co-operative Group announced that it and Lloyds Banking Group agreed non-binding heads of terms for the acquisition of the Verde Business. The description of the Verde Business contained herein represents the business as at the time of agreeing non-binding heads of terms and is subject to change. There can be no certainty that the transaction will be completed or the terms on which it may be concluded. Any transaction will be subject to regulatory approvals from the FSA, the Office of Fair Trading, HM Treasury and the European Commission.

Even if the transaction is completed, there are risks associated with the integration of two organisations of the size of the Co-operative Group and the Verde Business. Particular areas of risk include: difficulties or unexpected costs relating to separate technology platforms, financial and accounting systems, risk management systems and management systems of two organisations; difficulties or unexpected costs in realising synergies from the consolidation of operational functions; higher than expected levels of customer attrition or market share loss arising as a result of the acquisition of the Verde Business; unexpected losses of key personnel during or following the integration of the two businesses and possible conflict in the culture of the two organisations and decrease in employee morale.

If the transaction does not complete on time and the integration of the Verde Business is not delivered on time, and / or the costs of implementation rise significantly and the Co-operative Group fails to exploit the acquisition of the Verde Business once completed, there is a risk that there could both be a delay to the future benefit, and an increased cost for the integration process which may have an adverse effect on the Co-operative Group's business, financial position and results of operations.

Furthermore, senior management of the Co-operative Group may be required to devote significant time to the process of integrating the businesses which may decrease the time they have to manage the Co-operative Group's ongoing business. If any of these risks should occur, or if there are unexpected delays in the integration process, the anticipated benefits of the acquisition of the Verde Business may be delayed, achieved only in part, or not at all or at greater cost, which could have an adverse affect on the Co-operative Group's results of operations or financial condition.

Downgrading by Moody's and Fitch as a result of the Bid by the Co-operative Group for the sale of bank branches by the Lloyds Banking Group

On 16 December 2011, and as a consequence of the announcement that the Co-operative Group was named as a preferred bidder for the Verde Business, Fitch placed the Issuer's long and short-term Issuer Default Ratings and Viability Rating on Rating Watch Negative. There is no certainty as to the likelihood, or magnitude of any Issuer downgrade by Fitch or any other credit rating agencies as a consequence of the progress of the purchase of the Verde Business. Fitch confirmed on 19 July 2012 that the Issuer's long and short-term Issuer Default Ratings and Viability Rating on Rating Watch Negative status would be maintained, reflecting the likelihood of a further downgrade by the agency if the planned sale and purchase agreement for the Verde Business acquisition is finalised.

On 31 July 2012, Moody's placed the Issuer's long term and financial strength ratings on review for possible downgrade following the announcement that the Co-operative Group, agreed non-binding terms with Lloyds Banking Group to acquire the Verde Business.

ANY DOWNGRADE COULD HAVE A MATERIAL ADVERSE EFFECT ON THE BORROWING COSTS, LIQUIDITY AND FUNDING OF THE ISSUER. FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH COVERED BONDS ISSUED UNDER THE PROGRAMME

Operational risk

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

Operational risks associated with the integration of the businesses related to the Merger are discussed in the section headed "*Integration Risks*" below.

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

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

Liquidity risk and wholesale funding markets

Liquidity risk arises from the timing of cash flows generated from the Issuer's assets, liabilities and off-balance sheet instruments. The business has historically had a much lower reliance on wholesale funding than many of its competitors and this is expected to remain the case.

However any failure by the Issuer to anticipate and provide for unforeseen decreases or changes in funding sources, including deterioration in the wholesale funding markets, could have adverse consequences on its ability to meet its obligations under the Covered Bonds.

The Issuer's profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a sustained period of time. Whilst the Issuer expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances, a prolonged and severe restriction on the Issuer's access to liquidity (including government and central bank facilities and liquidity support) could affect the Issuer's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend, and in such extreme circumstances the Issuer may not be in a position to continue to operate without additional funding support, which it may be unable to access. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding (including, for example, securitisations, covered bonds, foreign markets and short-term and overnight money markets), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.

In order to continue to meet its funding obligations and to maintain or grow its businesses generally, the Issuer relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets and central bank liquidity facilities. The ability of the Issuer to access wholesale and retail funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and loss of confidence in the United Kingdom banking system, any of which could affect the Issuer's profitability or, in the longer term under extreme circumstances, its ability to meet its financial obligations as they fall due.

The Issuer from time to time avails itself of the Bank of England Sterling Money Market funding facilities. The Issuer may face refinancing risk as transactions under these facilities mature. While the Issuer expects that the impact of this refinancing risk can be mitigated by a combination of alternative funding and reductions in the Issuer's net wholesale funding requirement, there can be no assurance that these mitigation efforts will be successful, which could lead to serious liquidity constraints and adversely impact solvency.

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Issuer's ability to access capital and liquidity on financial terms acceptable to it, if at all. Whilst various governments, including the UK government, have taken substantial measures to ease the crisis in liquidity, there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks and building societies, including the Issuer, in the long term. In addition, the availability and the terms on which any such measures will continue to be made available to the Issuer in the longer term are uncertain. The Issuer does not have influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall concentration risk and cost of funding of the Issuer or otherwise adversely affect the Issuer.

In 2008, the Bank of England launched its Special Liquidity Scheme which allows banks to swap their high quality mortgage-backed and other securities for UK treasury bills for a defined period. The Issuer has used the 2008 Special Liquidity Scheme in common with many banks and building societies, and has used this facility as an efficient way of maintaining a high level of liquidity. By the end of 2011, the Issuer had fully repaid all outstanding Special Liquidity Scheme drawings. However, a number of other UK banks and building societies will be seeking to refinance their obligations under the Special Liquidity Scheme and/or the Credit Guarantee Scheme (which the Issuer did not utilise) in 2012. Accordingly, this may have an impact on the liquidity of the wholesale funding markets generally and affect the Issuer's ability to access wholesale funding arrangements on competitive and satisfactory market terms in order to meet its continuing funding requirements and could have a material impact on its liquidity.

The Issuer's liquidity management policies are reviewed and approved annually by the Board Risk Committee and compliance is reviewed against these policies monthly by the Asset and Liability Committee (**ALCO**).

Concentration Risk

The lending book of the Issuer has exposure to a range of clients, assets, industries and geographies which in isolation or combination could result in concentration risk, including in relation to United Kingdom residential mortgage lending. For further information on United Kingdom residential mortgage lending please refer to "*Risk Factors – United Kingdom housing and commercial property markets*".

Group risk

The Issuer is part of the Co-operative Group Limited (the **Co-operative Group**), which contains a diverse range of trading companies whose businesses include amongst other things, financial services, food and non-food retailing, farming, funerals, travel and pharmacy. The Co-operative Group faces risks associated with each of these operating subsidiary activities. For the avoidance of doubt the Co-operative Group is not a guarantor of any debt or obligation of the Issuer. Nor is the Issuer a guarantor of any debt or obligation of the Co-operative Group.

From the beginning of 2012, the Issuer and the Co-operative Group trading business came together under a new group executive structure as one element (**Project Unity**).

Project Unity is a Co-operative Group programme seeking to maximise the customer and commercial benefits of belonging to the UK's largest consumer co-operative, and the Co-operative Banking Group, of which the Issuer is a subsidiary, is a key participant in the project. At the beginning of 2012 a new group senior management structure was announced, reinforcing the common culture, purpose and strategic goals

that unite its family of businesses. Project Unity began to roll out in depth in 2011. The Co-operative Banking Group now benefits from the economies of scale arising from a single procurement function, with further efficiency gains to be delivered as more enterprise functions are managed on a group basis.

The Issuer governance structure for the regulated financial services entities continues as before and the regulated financial services continue to maintain their own Executive Team, Boards, and Board Committees and operate within the FSA's Approved Persons regime.

If the implementation of Project Unity is not delivered on time, and / or the costs of implementation rise significantly and the Issuer fails to realise any benefits from Project Unity once implemented, there is a risk that there could both be a delay to the future benefits, and an increased cost for the transformation process which may have an adverse effect on the Issuer's business, financial position and results of operations.

Reputational risk

As part of the Co-operative Group, the established ethical stance of the Issuer and the integrity of the Issuer's reputation are important factors in attracting and retaining a significant percentage of the Issuer's customers. Any adverse perception of the image of any member of the Co-operative Group by its customers, or more widely by its counterparties, shareholders, investors or regulators could have an adverse impact on the capital, earnings and balance sheet of the Issuer.

Regulatory compliance and litigation risk

The Issuer operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory compliance risks. Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry. Non compliance could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate. It is not possible for the Issuer to predict what regulatory proceedings may arise in the future.

The Issuer may from time to time be involved in various disputes and legal proceedings including litigation and regulatory investigations. Such cases are subject to many uncertainties and their outcome is often difficult to predict. Industry wide regulatory actions in respect of payment protection insurance may expose the Issuer to compensatory claims from customers.

In 2011, the British Bankers' Association decided not to proceed with its appeal regarding Payment Protection Insurance (PPI) complaints. The Issuer has made provision of £90 million (2010: £4.3 million) in its 2011 accounts to cover the cost of redress and administration of PPI complaints, principally in relation to PPI sold with unsecured credit offerings. A further PPI provision of £40.0 million was made in the first six months ended 30 June 2012. These provisions follow legal proceedings brought by the British Bankers' Association against the FSA and the Financial Services Ombudsman (the **Ombudsman**), in which the High Court gave a decision, which became final on 10 May 2011, that intervention by the FSA and the Ombudsman on PPI complaints handling is lawful. The provisions were based on the FSA's policy statement and industry claims experience. Its calculation required significant judgment in determining appropriate assumptions, which include the level of complaints, uphold rates, proactive contact and response rates, and Ombudsman referral rates.

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

Credit rating risks

The Issuer's borrowing costs and access to the capital markets depend significantly on the Issuer's credit ratings. Reduction in the credit ratings of the Issuer could significantly increase its borrowing costs, limit its

access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. In turn this could materially adversely affect the Issuer's access to liquidity and competitive position, increase its funding costs and, hence, have a material adverse effect on the Issuer's business, financial position and results of operations.

If sentiment towards the banks, building societies and/or other financial institutions operating in the United Kingdom residential mortgage market (including the Issuer) were to further deteriorate, or if the Issuer's ratings and/or the ratings of the sector were to be further adversely affected, this may have a materially adverse impact on the Issuer. In addition, such change in sentiment or further reduction in ratings could result in an increase in the costs and a reduction in the availability of wholesale market funding across the financial sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, including the Issuer.

Capital resources

Effective management of the Issuer's capital is critical to its ability to operate its businesses, and to grow organically. The Issuer is required by the FSA to maintain adequate capital resources. The maintenance of adequate capital is also necessary for the Issuer's financial flexibility in the face of continuing turbulence and uncertainty in the global economy. The FSA's liquidity policy statement issued in October 2009 states that UK regulated firms must hold sufficient eligible securities to survive a liquidity stress and that liquidity policy statement, together with the developments described below, has resulted in the Issuer holding a greater amount of government securities to ensure that it has adequate liquidity in times of financial stress.

On 16 December 2010, the Basel Committee published the Basel III rules (as defined below on page 81) in documents entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" (containing the reforms relating to capital) (revised in June 2010) and "Basel III: International framework for liquidity risk measurement, standards and monitoring" (containing the reforms relating to liquidity).

The Basel Committee's package of reforms includes increasing the minimum common equity requirement from 2 per cent. (before the application of regulatory adjustments) to 4.5 per cent. (after the application of stricter regulatory adjustments). The total Tier 1 capital requirement, which includes common equity and other qualifying financial instruments, will increase from 4 per cent. to 6 per cent. The total capital requirement (which comprises Tier 1 capital and Tier 2 capital) remains at 8 per cent. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer of 2.5 per cent. to withstand future periods of stress, bringing the total common equity requirements to 7 per cent. If there is excess credit growth in any given country resulting in a system-wide build up of risk, a countercyclical buffer within a range of 0 per cent. to 2.5 per cent. of common equity (or possibly other fully loss absorbing capital) is to be applied as an extension of the conservation buffer. In addition, a leverage ratio will be introduced, together with a liquidity coverage ratio and a net stable funding ratio. The liquidity coverage ratio is intended to promote resilience to potential liquidity stress scenarios lasting for a 30-day period. The net stable funding ratio is intended to limit over reliance on short-term wholesale funding and has been developed to provide a sustainable maturity structure of assets and liabilities.

The implementation of the Basel III reforms will begin on 1 January 2013, however the requirements are subject to a series of transitional arrangements and will be phased in over a period of time, to be fully effective by 2019.

A perceived or actual shortage of capital could result in actions or sanctions, which may have a material adverse effect on the Issuer's business, including its operating results, financial condition and prospects. This, in turn, may affect the Issuer's capacity to continue its business operations, pay future distributions or pursue acquisitions or other strategic opportunities, impacting future growth potential. The circumstances which could give rise to shortages of capital and force the Issuer to raise additional capital include the following:

- The Issuer may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section.
- The Issuer may experience an increased demand for capital. The Issuer currently meets, and expects to continue to meet, all regulatory capital requirements. However, the FSA could, for example, impose new or revised minimum and buffer capital requirements, apply increasingly stringent stress case scenarios and/or change the manner in which it applies existing regulatory requirements to the Issuer.
- The Basel III proposals include increased minimum levels of, and quality standards for, capital, increased risk weighting of assets and the introduction of a minimum leverage ratio and additional capital buffers. The final details of these reforms and the impact on the cost of capital are still to be clarified, and could impact the Issuer more severely than currently forecast. For example, the extent to which certain of the Issuer's existing capital instruments will cease to qualify as capital (if at all) under the new Basel III rules is still to be finalised.
- The Issuer may also experience pressure to increase its capital ratios as a result of market expectations arising from increased capital levels or targets amongst its peer banks or through the views of rating agencies or investors.

The Issuer cannot predict the precise effects of the potential changes that might result from implementation of the proposals on both its own financial performance or the impact on the pricing of its Covered Bonds issued under the Programme.

Risks relating to impacts of regulatory change

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

Future legislative and regulatory changes could force the Issuer to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Issuer's expenses and/or otherwise adversely effect the Issuer's business results, financial condition or prospects, those minimum regulatory requirements may increase in the future and/or the FSA may change the manner in which it applies existing regulatory requirements.

The Issuer conducts its business subject to ongoing regulation by the FSA, which oversees the sale of residential mortgages, commercial lending, banking and general insurance products. The regulatory regime requires the Issuer to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to be compliant with relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities. This is particularly the case in the current market environment, which is witnessing increased levels of government intervention in the banking, personal finance and real estate sectors. Future changes in regulation, fiscal or other policies are unpredictable and beyond the Issuer's control and could materially adversely affect its business or operations.

There are a number of business risks associated with the UK personal finance sector that alone or cumulatively could have a material adverse effect on the Issuer's operations. These risks include:

- if the United Kingdom were to adopt the euro as its currency. The Issuer has incurred costs preparing its business for the potential adoption of the euro, and these costs will continue. Additionally, the

adoption of the euro could destabilise the United Kingdom's economy, which may have an adverse effect on the Issuer's business; and

- the FSA (and, in the future, its successor regulatory bodies) and other bodies such as the Ombudsman, could impose additional regulations on current and past dealings with retail customers. As a result, the Issuer may be required to incur costs to apply these regulations to its business.

In July 2009, the UK government issued a White Paper (the **White Paper**) which builds on and responds to the previously published Turner Review (March 2009) and the Bank of England Financial Stability Report (June 2009), both of which contained proposals for reform of the structure and regulation of the banking system. Proposals in the White Paper included: enhanced regulatory powers for the FSA; introducing pre-funding for the UK's deposit protection scheme by 2012; requiring banks to develop and maintain detailed plans for winding down (or resolution); and more stringent capital and liquidity requirements for systemically significant firms.

In October 2009, the second Turner Review was published, which developed some issues highlighted for further discussion from the March review. In November 2009, the Financial Services Bill was presented to Parliament and in April 2010 the Financial Services Act (the **FS Act**) was passed. The FS Act amends the FSMA to provide the FSA with a new financial stability statutory objective, gives the FSA significant new powers to make rules on remuneration arrangements, short selling, recovery and resolution plans to reduce systemic risks associated with the failure of financial institutions, consumer redress schemes, to gather information relevant to financial stability and extends its enforcement powers.

The UK government announced a range of structural reforms to UK financial regulatory bodies to be implemented with respect to the following matters:

- the existing tripartite regulatory regime in the UK will be abolished;
- the FSA will cease to exist in its current form;
- a new Financial Policy Committee will be established in the Bank of England which will be responsible for macroprudential regulation, or regulation of stability and resilience of the financial system as a whole;
- an independent subsidiary of the Bank of England, the Prudential Regulation Authority, will be established which will be responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the Financial Conduct Authority (the **FCA**), previously referred to as the Consumer Protection and Markets Authority, will be established and will have the responsibility for conduct of business and markets regulation. The FCA will also represent the UK's interests in markets regulation at the new European Securities and Markets Authority.

In June 2010, the UK Government created the Independent Commission on Banking (the **ICB**) to consider and make recommendations on structural and related non-structural reforms to the UK banking sector to promote, among other things, financial stability and competition. The ICB released its Final Report to the Cabinet Committee on Banking Reform on 12 September 2011, which sets out the ICB's recommendations on reforms. These recommendations included (amongst other things): (i) that the UK and EEA retail banking services of UK banks or building societies should be placed in a legally distinct operationally separate and economically independent entity (so called "ring fencing"); (ii) that a power be introduced for the UK authorities to bail-in debt issued by UK banks and building societies (such as the Issuer) (iii) increasing UK banks' and building societies' loss-absorbing capacity (including by way of bail-in bonds) to levels higher than those required by the Basel III proposals; (iv) increasing the ranking of insured depositors on a winding-up to rank ahead of all other unsecured creditors; and (v) promoting competition in UK retail

banking. The ICB has indicated that the reforms will require an extended implementation period and has recommended that implementation should be completed at the latest by the start of 2019. If implemented, the ICB's recommendations would have an impact on the manner in which the Issuer conducts its business and may affect its ability to satisfy its obligations under the Covered Bonds and/or may result in modifications to the terms of the Covered Bonds, which may have certain tax implications. The United Kingdom Government published a white paper setting out its proposals for taking forward implementation of the ICB's recommendations on 14 June 2012 and indicated that primary and secondary legislation will be completed by May 2015, with UK banks and building societies required to be compliant by 1 January 2019. Changes to the structure of UK banks and building societies and an increase in the amount of loss-absorbing capital issued by UK banks and building societies may have a material adverse impact on the Issuer's results and financial condition. It is also not possible to predict the detail of the implementation legislation or the ultimate consequences for the Issuer.

A bank levy was introduced on 1 January 2011. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but only to the extent that the relevant aggregate liabilities (subject to certain exclusions, including for Tier 1 capital instruments, insured retail deposits and repos secured on sovereign debt) of such institutions amount to £20 billion or more. The UK government announced in the 2011 Budget that it intends that the bank levy should raise at least £2.5 billion each year. The current rate of the bank levy is 0.088 per cent. As the Issuer is currently below the threshold, however, the levy does not apply to the Issuer.

From 1 January 2011, an updated FSA remuneration code (the **FSA Remuneration Code**) came into effect which applies to the UK's largest banks and building societies (including the Issuer) and sets forth certain remuneration principles affecting fixed and variable remuneration of employees of covered institutions. Although the Issuer's management does not believe the FSA Remuneration Code has historically affected or presently affects its ability to recruit or retain personnel, there can be no assurance that the aforementioned restrictions will not adversely affect the Issuer's business, financial condition or results of operations.

It was also announced in connection with the 2010 UK Government Budget that the UK Government would consult on a remuneration disclosure scheme. The Issuer is not aware of any developments with the remuneration disclosure scheme since the original announcement.

At this point it is impossible to predict how and the extent to which the foregoing recently announced changes will impact on the Issuer's operations, business results, financial condition or prospects.

Accordingly, there can be no assurance that any changes to the existing regulatory regime arising from the implementation of any of the foregoing matters or any other regulatory changes that may be proposed will not have a material adverse effect on the Issuer's operations, business, results, financial condition or prospects.

Regulation

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

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

One of the current issues in this area is the Office of Fair Trading (the **OFT**) investigation into unarranged overdraft fees on personal current accounts. This specific issue applies to the Issuer, as the Issuer is a personal current account provider. In March 2010, the OFT announced that it is not recommending legislative change specific to overdraft fees at the present time, but expects to conduct a review of the personal current account market in 2012. Should the investigation ever expand to include an investigation into fees in general, as opposed to the present focus on overdraft fees, this may then impact upon the Issuer.

RISK FACTORS RELATING TO THE LLP

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

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

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

Subject to any grace period, if the LLP fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other LLP Event of Default occurs, then the Bond Trustee may (but is not obliged to unless requested or directed by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single Series or if directed by an Extraordinary Resolution of all the Covered Bondholders in accordance with Condition 9(b) and indemnified and/or secured to its satisfaction) accelerate the obligations of the LLP under the Covered Bond Guarantee by service of an LLP Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 7 (Taxation)), although in such circumstances the LLP will not be obliged to gross up in respect of any withholding which may be required in respect of any payment. Following service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement and realisation of the Security will be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the Deed of Charge, and the Covered Bondholders will receive amounts from the LLP on an accelerated basis.

Excess Proceeds received by the Bond Trustee

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and will be held by the LLP in the Deposit Accounts and the Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the Deposit Accounts. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds and Coupons (subject to restitution of the same if such Excess Proceeds will be required to be repaid by the LLP). However, the obligations of the LLP under the Covered

Bond Guarantee are unconditional and irrevocable (following service on the LLP of a Notice to Pay) and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

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

Limited Resources of the LLP to make payments due under the Covered Bond Guarantee

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice on the Issuer, all amounts payable under the Covered Bonds will be accelerated by the Bond Trustee as against the Issuer following which a Notice to Pay will be served by the Bond Trustee on the LLP. The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on: (i) the realisable value of Selected Loans and their Related Security in the Portfolio; (ii) the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof; (iii) amounts received from the Swap Providers; (iv) the realisable value of Substitution Assets held by it; and (v) the receipt by it of credit balances and interest on credit balances on the Deposit Accounts, and the interest element of Authorised Investments purchased from amounts credited to the Deposit Accounts, as applicable. Recourse against the LLP under the Covered Bond Guarantee is limited to the aforementioned assets and the LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

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

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

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

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

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

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

If, following enforcement of the Security constituted by or pursuant to the Deed of Charge or the Security Trustee having determined that there is no reasonable likelihood of there being further realisation in respect of the Charged Property, the Secured Creditors have not received the full amount due to them from the LLP pursuant to the terms of the Transaction Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Loan Amount is equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount

Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this – in particular, the sale of further Loans and Related Security by the Seller to the LLP may be required to avoid or remedy a breach of the Asset Coverage Test). The LLP and the Seller (in its capacity as Member) must ensure that following the occurrence of an Issuer Event of Default, the Amortisation Test is met on each Calculation Date and a breach of the Amortisation Test will constitute an LLP Event of Default and will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP (see "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*" and "*Credit Structure – Asset Coverage Test*"). The Asset Coverage Test and the Interest Rate Shortfall Test have in the aggregate been structured to ensure that the Asset Pool is sufficient to pay amounts due on the Covered Bonds and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. However no assurance can be given that the Asset Pool will yield sufficient amounts for such purpose.

The LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the proposed percentage (used in the computation of the Adjusted Aggregate Loan Amount and the Asset Percentage) selected by it, being the difference between 100 *per cent.* and the amount of credit enhancement required to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology. However, there is no obligation on the LLP to ensure that an Aaa rating is maintained by Moody's and the LLP is under no obligation to change the figure selected by it and notified to Moody's and the Security Trustee in line with such level of credit enhancement. If the LLP does not send further notification to Moody's and the Security Trustee, the Asset Percentage may not be reduced and may be insufficient to ensure the maintenance of an Aaa rating by Moody's and the Covered Bonds may be downgraded, even though the Asset Coverage Test is not breached. For the avoidance of doubt, merely notifying Moody's and the Security Trustee of the amended Asset Percentage does not ensure that an Aaa rating will be maintained. An Issuer Event of Default and/or an LLP Event of Default will not occur solely as a result of a downgrade of the Covered Bonds.

Reliance of the LLP on third parties

The LLP has entered into agreements with a number of third parties, who have agreed to perform services for the LLP. In particular, but without limitation, the Servicer has been appointed to service Loans in the Portfolio sold to the LLP, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test, the Amortisation Test and the Pre-Maturity Test and to provide cash management services to the LLP and the Deposit Accounts will be held with the Account Banks. 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 fails to adequately administer the Loans, this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described below.

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement, then the LLP with the prior written consent of the Security Trustee, will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. Such risk is mitigated by the provisions of the Servicing Agreement pursuant to which the Back-Up Servicer Facilitator, in certain circumstances, will assist the LLP in appointing a substitute servicer.

In addition, as described below, any substitute servicer will be required to be authorised under the FSMA. The ability of a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Portfolio or any part thereof, and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, if the Servicer ceases to be assigned a

long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by Fitch of at least BBB- (a **Back-Up Servicer Event**), it will use reasonable efforts (with the assistance of the Back-Up Servicer Facilitator) to enter, within 60 days, into a back-up servicing agreement with a third party with suitable experience and credentials. If the Servicer does not appoint a Back-Up Servicer within 60 days of being required to do so by the LLP, the Servicer will immediately upon notice from the LLP appoint as Back-Up Servicer such person as may be specified by the LLP.

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

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

Reliance on Swap Providers

To provide a hedge in respect of a proportion of the Fixed Rate Loans in the Portfolio and LIBOR for one month Sterling deposits, the LLP will enter into the Initial Interest Rate Swap on or prior to the first issue of a Series of Covered Bonds after the date of this Prospectus. In addition, the LLP may enter into New Interest Rate Swaps from time to time in connection with the issue of subsequent Series of Covered Bonds and/or the inclusion of New Loans in the Portfolio, each with a New Interest Rate Swap Provider.

In addition, to provide a hedge against interest rate, currency and/or other risks in respect of amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay or LLP Acceleration Notice) or Due for Payment under the Covered Bond Guarantee in respect of the Covered Bonds (following service on the LLP of a Notice to Pay or LLP Acceleration Notice), the LLP may enter into one or more Covered Bond Swaps in respect of each Series of Covered Bonds.

If the LLP fails to make timely payments of amounts due under any Swap Agreement or the relevant Swap Provider fails to make timely payments of amounts due under any Swap Agreement, then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated by the relevant Swap Provider or the LLP, as the case may be. Further, 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 a Swap Agreement terminates or the Swap Provider is not obliged to make payments thereunder or if the Swap Provider defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on any payment date under the Swap Agreements, the LLP will be exposed to changes in the relevant currency exchange rates to Sterling (where relevant) and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the Intercompany Loan Agreement or Covered Bond Guarantee.

If a Swap Agreement terminates (including any partial termination), then the LLP may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the LLP will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the LLP will be able to find a replacement swap counterparty willing to act and/or which has sufficiently high ratings as may be set out in the criteria of the Rating Agencies as necessary to support the ratings on the Covered Bonds. If such events occur, then the Covered Bondholders will be exposed to interest rate movements and/or currency movements between Sterling and the currency of a particular Series of Covered Bonds and/or the aggregate yield received on the Portfolio and the interest basis of a particular Series of Covered Bonds. This may reduce the amounts available to the LLP to meet its obligations under the Intercompany Loan Agreement and (following service of a Notice to Pay on the LLP) the Covered Bond Guarantee.

If the LLP is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank (A) ahead of amounts due on the relevant Term Advance or Series of Covered Bonds in respect of the

Interest Rate Swap(s) prior to the service of an LLP Acceleration Notice, the commencement of winding-up proceedings against the LLP and/or realisation of the Security and (B) *pari passu* with amounts due on the Covered Bonds in respect of the Covered Bond Swaps and in respect of the Interest Rate Swap(s) following service of a Notice to Pay or an LLP Acceleration Notice, the commencement of winding-up proceedings against the LLP and/or realisation of the Security, in each case except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate. Following the service of a Notice to Pay on the LLP, the Adjusted Required Redemption Amount will take into account any amounts payable to an Interest Rate Swap Provider. The obligation to pay a termination payment may adversely affect the ability of the LLP to meet its obligations under the Intercompany Loan Agreement and (following service of a Notice to Pay on the LLP) the Covered Bond Guarantee.

If the relevant Swap Provider posts any Swap Collateral, such collateral will be utilised solely in returning collateral and making payments directly to the relevant Swap Provider (and not in accordance with the relevant Priorities of Payments) in accordance with the terms of the relevant Swap Agreement and the credit support annex entered into in connection with such agreement. Following the termination of any Interest Rate Swap Agreement, any Swap Collateral which is not returned to the relevant Swap Provider as a termination payment shall constitute Available Revenue Receipts.

An Interest Rate Swap Agreement may include the provision that the fixed rate payable under it may be revised by the agreement of the relevant Interest Rate Swap Provider, the Issuer and the LLP subject to certain conditions being met, including satisfaction of the Rating Condition. Such change may result in an adjustment of the Asset Percentage in accordance with various Rating Agency methodologies which may result in the Members (other than the Liquidation Member) being required to transfer further assets to the LLP. If the Members (other than the Liquidation Member) fail to comply with their obligation to comply with the Asset Coverage Test it may result in an Issuer Event of Default.

As at the date of this Prospectus, the LLP has not entered into any Interest Rate Swap or other hedging transaction in relation to Loans other than Fixed Rate Loans, and as a result there is no hedge in respect of the risk of any variances in the standard variable rate charged on any Loans, or any interest rates charged on any Loans where interest is charged on a variable basis.

The Interest Rate Swaps will each relate to a proportion of the Fixed Rate Loans in the Portfolio, however there is no guarantee that all Fixed Rate Loans in the Portfolio will be hedged at any one time. If not all Fixed Rate Loans in the Portfolio are allocated to an Interest Rate Swap or Interest Rate Swap(s) there will not be a perfect hedge between the fixed rates payable on the Fixed Rate Loans and LIBOR which may expose the Covered Bondholders to an interest rate mismatch. The Seller in its capacity as a member of the LLP may make Cash Capital Contributions, or Capital Contributions in Kind to the LLP to ensure that the LLP has sufficient funds to meet its interest payment obligations under the Intercompany Loan Agreement and (following service of a Notice to Pay on the LLP) the Covered Bond Guarantee; however, it is not obliged to do so.

It should be noted that the LLP may (but is not obliged to) in the future enter into New Interest Rate Swaps with New Interest Rate Swap Providers which hedge the risk of any variances in the standard variable rate charged on any Loans and/or any interest rates charged on any Loans where interest is charged on a variable basis in the Portfolio (or a portion thereof) and LIBOR for one month Sterling deposits.

Each of the payments made by the LLP to the Interest Rate Swap Providers will rank *pari passu* and without preference or priority between them and (A) ahead of amounts due on the relevant Term Advance or Series of Covered Bonds in respect of the Interest Rate Swap(s) prior to the service of an LLP Acceleration Notice, the commencement of winding-up proceedings against the LLP and/or realisation of the Security and (B) *pari passu* with amounts due on the Covered Bonds in respect of the Covered Bond Swaps and in respect of the Interest Rate Swap(s) following service of a Notice to Pay or an LLP Acceleration Notice, the commencement of winding-up proceedings against the LLP and/or realisation of the Security, in each case except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate. As a

result, a default by one or more Interest Rate Swap Provider(s) in its (or their) obligation to make a payment to the LLP or to make a termination payment that has become due from it (or them) to the LLP may (after the service of a Notice to Pay on the LLP) mean that the LLP will have a shortfall in the amount available to it to make payment of the Guaranteed Amounts on all Series of Covered Bonds then outstanding.

There can be no assurance that the Interest Rate Swap Agreement(s) and/or the Covered Bonds Swap Agreement(s) will hedge all interest rate, exchange rate or other risks associated with a Series of Covered Bonds.

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

If the LLP enters into a Covered Bond Swap and the dates on which the LLP is obliged to make payments thereunder differ from the dates on which the relevant Covered Bond Swap Provider is obliged to make corresponding payments to the LLP, then should such Covered Bond Swap Provider fail to meet its payment obligations to the LLP under the relevant Covered Bond Swap and such Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with LLP's payment obligations under the Covered Bond Guarantee. Hence, the difference in timing between the obligations of the LLP and those of the Covered Bond Swap Providers under any 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 moneys pursuant to the terms of such documents (such as the Account Banks) are required to satisfy certain criteria in order that they can continue to receive and hold moneys.

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

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

Limited description of the Portfolio

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

- the Seller selling Loans and their Related Security (or New Loan Types and their Related Security or Loans originated by entities other than the Seller) to the LLP;
- New Sellers acceding to the Transaction and selling Loans and their Related Security (or New Loan Types and their Related Security) to the LLP; and

- the Seller repurchasing Loans and their Related Security in accordance with the Mortgage Sale Agreement.

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

Interest Only Loans

The Portfolio may contain Loans which may be repayable on an interest-only basis. Where the Borrower is only required to pay interest during the term of the Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term. Whilst the Seller does not verify or does not require proof that such repayment mechanism is in place and does not take security over any investment policies taken out by Borrowers, the Seller will review the repayment mechanism in line with the size of the Loan, the applicant's age, income and likelihood of the repayment mechanism accumulating sufficient value to repay the Loan and will decline the application if this repayment mechanism is deemed to be unacceptable.

Borrowers may not have been making payment in full or on time of the premiums due on any relevant investment or life policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases, the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the Borrower may not have been applied in paying amounts due under the Loan. Thus the ability of such a Borrower to repay an interest-only loan at maturity without resorting to the sale of the underlying property depends on such Borrower's responsibility in ensuring that sufficient funds are available from a given source such as pension policies, PEPs, ISAs or endowment policies, as well as the financial condition of the Borrower, tax laws and general economic conditions at the time. If a Borrower cannot repay an interest-only loan and a loss occurs, this may affect repayments on the Covered Bonds. However, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is an amount equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding and the Cash Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

Maintenance of the Portfolio

Asset Coverage Test: Pursuant to the terms of the Mortgage Sale Agreement, the Seller will agree to use all reasonable endeavours to transfer Loans and their Related Security to the LLP in order to ensure that the Portfolio is in compliance with the Asset Coverage Test. The consideration payable to the Seller for the sale of the Loans and Related Security to the LLP will be a combination of: (i) a cash payment paid by the LLP; and/or (ii) the Seller being treated as having made a Capital Contribution to the LLP (in an amount equal to the difference between the True Balance of the Loans sold by the Seller to the LLP as at the relevant Transfer Date and the cash payment (if any) paid by the LLP for such Loans); and (iii) the covenant by the LLP (in its capacity as the All Moneys Mortgage Trustee) to hold the All Moneys Mortgage Trust Property under each applicable All Moneys Mortgage Trust upon trust for itself and the Seller (as holder of the Associated Debt) each as beneficiaries of each such All Moneys Mortgage Trust; and (iv) Deferred Consideration.

Alternatively, the Issuer (in its capacity as Member of the LLP) may make a Cash Capital Contribution to the LLP pursuant to the LLP Deed in order to ensure that the LLP is in compliance with the Asset Coverage Test. If a breach of the Asset Coverage Test occurs which is not cured on the next Calculation Date, an Asset Coverage Test Breach Notice will be served on the LLP, which will result in the consequences set out in "*Summary of Principal Documents – LLP Deed – Asset Coverage Test*". There is no specific recourse by the LLP to the Seller in respect of the failure to sell Loans and their Related Security to the LLP nor is there any specific recourse to the Issuer if it does not make Cash Capital Contributions to the LLP.

Co-operative Bank Event: Following the occurrence of a Co-operative Bank Event in respect of an Interest Rate Swap Agreement:

- the ability to alter the Portfolio of Loans allocated to the Relevant Interest Rate Swap may be restricted;
- the LLP may become obliged to make a mark-to-market payment to the relevant Interest Rate Swap Provider to reflect any changes to the notional amount of the Relevant Interest Rate Swap; and/or
- the Seller may be restricted from repurchasing Loans from the LLP which would cause a change to the notional amount of the Relevant Interest Rate Swap, unless such Loan is in breach of the representations and warranties and the repurchase price for the Loan is equal to its True Balance;

Any limitation on the Seller's ability to allocate Loans to an Interest Rate Swap may fetter its ability to sell particular product types (including Fixed Rate Loans) to the LLP as any such sales are dependant upon the Eligibility Criteria being met (which includes the requirement that the weighted average yield on the Loans in the Portfolio (including the loans which it is proposed will be New Loans) is at least 0.10% greater than LIBOR for one month Sterling deposits after taking into account, *inter alia*, the yield on the Loans, the margin on the Interest Rate Swaps and the amount available to be withdrawn from the Yield Reserve taking into account amounts credited to the Yield Reserve on or before the next following Calculation Date) at the relevant Transfer Date. This may affect the Seller's ability to comply with the Asset Coverage Test.

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

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

In addition, Covered Bondholders should be aware that the FSA may take certain action in relation to the Seller, including prohibiting the Seller from transferring further Loans to the LLP. Any such action by the FSA may have an adverse effect on the ability of the Issuer and the LLP to meet their obligations under the Covered Bonds and the Covered Bond Guarantee, as applicable.

Prior to the occurrence of an Issuer Event of Default, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the

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

Neither the Bond Trustee nor the Security Trustee will be responsible for monitoring compliance with, or the monitoring of, the Asset Coverage Test, the Amortisation Test, the Pre-Maturity Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

Sale of Selected Loans and their Related Security following the Service of an Asset Coverage Test Breach Notice failure of the Pre-Maturity Test (in relation to any Hard Bullet Covered Bonds) or the Service of a Notice to Pay

If an Asset Coverage Test Breach Notice or a Notice to Pay is served on the LLP, then the LLP (and, in the case of an Asset Coverage Test Breach Notice, for as long as such notice remains outstanding) will be obliged to sell Selected Loans and their Related Security (selected on a random basis) in order to make payments to the LLP's creditors including payments under the Covered Bond Guarantee. See further "*Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice*" and "*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 buy Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee. If the Selected Loans are sold as a result of the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their True Balance plus, after the occurrence of a Substitution Event, any termination payments due and payable by the LLP under the Interest Rate Swap Agreement(s), the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the LLP Payment Date immediately following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date). Following the service of a Notice to Pay on the LLP, 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 Covered Bonds which are not subject to any Extended Due for Payment Date; or
- the Extended Due for Payment Date under the Covered Bond Guarantee in respect of Covered Bonds which are subject to an Extended Due for Payment Date.

In the six months prior to, as applicable, the Final Maturity Date (in respect of Covered Bonds which are not subject to an Extended Due for Payment Date) or Extended Due for Payment Date (in respect of Covered Bonds which are subject to an Extended Due for Payment Date), the LLP is obliged to sell the Selected Loans for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount. If Selected Loans are not sold for an amount equal to or in excess of the Adjusted Required Redemption Amount, the LLP may have insufficient funds available to pay the Covered Bonds.

On the Final Maturity Date of a Series of Covered Bonds or, as applicable on each Interest Payment Date (as specified in the Final Terms applicable to each Series) up to and including the Extended Due for Payment Date, the LLP will apply all proceeds standing to the credit of the Deposit Accounts after payment of certain items ranking higher in the Guarantee Priority of Payments, to redeem the relevant Series of Covered Bonds. Such proceeds will include the sale proceeds of Selected Loans (including any excess sale proceeds resulting from the sale of Selected Loans sold in respect of another Series of Covered Bonds) and all principal repayments received on

the Loans in the Portfolio generally. This may adversely affect later maturing Series of Covered Bonds if the Selected Loans sold to redeem an earlier maturing Series of Covered Bonds are sold for less than the Adjusted Required Redemption Amount and accordingly the LLP is required to apply other assets in the Portfolio (i.e. Principal Receipts) to redeem that earlier maturing Series of Covered Bonds.

Sale of Selected Loans and their Related Security prior to maturity of Hard Bullet Covered Bonds where the Pre-Maturity Test is failed or following the occurrence of an Issuer Event of Default

If the Pre-Maturity Test is failed, the LLP is obliged (unless the Seller (in its capacity as a Member of the LLP) chooses to make sufficient Cash Capital Contributions) to sell Selected Loans and their Related Security (selected on a random basis) to seek to generate sufficient cash to enable the LLP to pay the Final Redemption Amount, on any Hard Bullet Covered Bond, should the Issuer fail to pay such amounts (see the section of this Prospectus entitled "*Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security if the Pre-Maturity Test is failed*").

There is no guarantee that a buyer will be found to acquire Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee.

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

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

- representations or warranties not being given by the LLP or (unless otherwise agreed with the Seller) the Seller;
- default by Borrowers of amounts due on their Loans;
- the Loans of New Sellers being included in the Portfolio;
- changes to the Lending Criteria of the Seller;
- the LLP not having legal title to the Loans in the Portfolio;
- set-off risks in relation to some types of Loans which may adversely affect the value of Portfolio or any part thereof;
- limited recourse to the Seller under the Mortgage Sale Agreement;
- possible regulatory changes by the OFT, the FSA and other regulatory authorities; and
- regulations in the United Kingdom that could lead to some terms of the Loans being unenforceable.

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

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

Following the service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay on the LLP or the failure of the Pre-Maturity Test (in relation to the Hard Bullet Covered Bonds) (but in each case prior to the service of a LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement (see "*Summary of the Principal Documents – LLP Deed – Method of Sale of Selected Loans and their Related Security*"). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee, acting on the instructions of the Bond Trustee, itself acting on advice of a financial or other adviser (selected or approved by it) opining or confirming that the provision of any such warranties and/or indemnities is appropriate in the circumstances and in accordance with market practice and neither the Security Trustee nor the Bond Trustee will have any liability or be liable to any other person for acting upon such advice, opinion or confirmation). The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to release of the Security as set out in Clause 4 of the Deed of Charge are satisfied. There is no assurance that the Seller would give any warranties or representations in respect of Selected Loans and their Related Security. Any Representations or Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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

Default by Borrowers in paying amounts due on their Loans

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

The downturn in the United Kingdom economy has had a negative effect on the housing market. The fall in property prices resulting from the deterioration in the housing market and increased unemployment leading to borrowers defaulting on their mortgage loans could result in losses being incurred by lenders where the net

recovery proceeds are insufficient to redeem the outstanding loan. If deterioration occurs in the quality of the Portfolio, this could have an adverse effect on the LLP's ability to make payment under the Covered Bond Guarantee. There can be no assurance that the housing market will not continue to deteriorate.

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

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

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

The Loans of New Sellers may be included in the Portfolio

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

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

Additionally, even in circumstances where a New Seller has not acceded to the Programme, Co-operative Bank may (in its capacity as Seller) sell and assign Loans (provided that the Rating Condition is satisfied) originated by a third party member of the Co-operative Bank Group to the LLP. This could have a similar effect to the accession of such party as a New Seller.

Changes to the Lending Criteria of the Seller

As at the date of this Prospectus, the Loans in the Portfolio comprise loans originated by the former Britannia Building Society (the **Heritage Britannia Loans**) and Loans originated by the Issuer under the "Britannia" brand name. In future, loans previously originated by the Issuer under the "Co-operative Bank" brand (the **Heritage Co-op Loans**) and new originations by the Issuer under a brand other than the "Britannia" brand may be included in the portfolio. The consent of the Covered Bondholders to the sale of Heritage Co-op Loans and new originations by the Issuer under a brand other than the "Britannia" brand will not be obtained nor will a Rating Confirmation be required to be obtained, provided that the Loans do not constitute New Loan Types. Each of the Loans originated by the Seller (other than the Heritage Britannia Loans) will have been originated in accordance with its Lending Criteria at the time of origination. The Heritage Britannia Loans will have been originated in accordance with the lending criteria of the Britannia Building Society applicable at the time of their origination. Britannia Building Society's lending criteria considered type of

property, term of loan, age of applicant, the loan-to-value ratio, status of applicants and credit history and the Seller's Lending Criteria generally considers the same matters (and it is expected that this will continue to be the case). In the event of the sale or transfer of any Loans and Related Security to the LLP, the Seller will warrant only that such Loans and Related Security were originated in accordance with the Seller's or Britannia Building Society's Lending Criteria applicable at the time of origination. The Seller retains the right to revise its Lending Criteria from time to time. If the Lending Criteria change in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

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

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

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

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

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

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

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

As described above, the sale by the Seller to the LLP of English Loans and Northern Irish Loans has been or 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, 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 which occur in relation to transactions or deposits made between the Borrowers and the Seller existing prior to notification to the Borrowers of the assignment or assignation (as appropriate) 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 may occur if 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 or third parties on behalf of the Borrower.

For instance, if the Seller fails to advance a Flexible Loan Drawing in accordance with the terms of the relevant Loan, then the relevant Borrower may set-off any damages claim (or analogous rights in Scotland) 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) 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 are unenforceable by virtue of non-compliance with the Consumer Credit Act 1974 (as amended, the **CCA**); or
- certain Flexible Loan Drawings may rank behind security created by a Borrower after the date upon which the Borrower entered into its Mortgage with the Seller.

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). The exercise of set-off rights by Borrowers may nevertheless adversely affect the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

Limited recourse to the Seller under the Mortgage Sale Agreement

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

If any Loan sold by the Seller does not materially comply with any of the Representations and Warranties made by the Seller as at the Transfer Date of that Loan, then the Seller will be required to notify the LLP and the Security Trustee as soon as reasonably practical after becoming aware of the fact and upon receipt of a request to do the same from the LLP, remedy the breach within 90 days of receipt by it of the request.

If the Seller fails to remedy the breach of a Representation and Warranty within 90 days, then the Seller will be required (but only prior to the occurrence of an Issuer Event of Default and after the service of a Loan Repurchase Notice) to repurchase on or before the last Business Day of the month in which the Loan Repurchase Notice was served (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 True Balance as of the date of repurchase.

There can be no assurance that the Seller, in the future, will have the financial resources to repurchase a Loan or Loans and its or their Related Security. However, if the Seller does not repurchase those Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) which are in breach of the Representations and Warranties then the True Balance of those Loans will be excluded from the calculation of the Asset Coverage Test. There is no further recourse to the Seller or the Issuer in respect of a breach of a Representation or Warranty.

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

FSMA

In the United Kingdom regulation of residential mortgage business by the FSA under the FSMA came into force on 31 October 2004 (the date known as **N(M)**). Subject to certain exemptions, entering into, arranging or advising in respect of or administering regulated mortgage contracts (or agreeing to do any of these things) are regulated activities under the FSMA requiring authorisation and permission from the FSA.

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 or, in Northern Ireland, a first ranking, legal charge or a first ranking legal mortgage) on land (other than timeshare accommodation) in the UK 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 the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

The Seller holds authorisation and permission to enter into and to administer and (where applicable) to advise in respect of regulated mortgage contracts. Subject to certain exemptions, brokers will 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. 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 regulated mortgage contracts by having them administered pursuant to a servicing agreement by an entity having the required FSA authorisation and permission. If such a servicing 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.

The LLP will not itself be an authorised person under the FSMA. However, if a mortgage is varied, such that a new contract is entered into and that contract constitutes a regulated mortgage contract, then the arrangement of advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. In addition, on and after N(M), no variation has been or will be made to the Loans and no 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.

If the lender or any broker did not hold the required authorisation at the relevant time, the regulated mortgage contract is unenforceable against the borrower except with the approval of a court. If the financial promotion was not issued or approved by an authorised person, the regulated mortgage contract and any other "qualifying credit" is unenforceable against the borrower except with the approval of a court. An unauthorised person who administers a regulated mortgage contract 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 a regulated mortgage contract and (b) changes to credit agreements.

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

A borrower who is a private person may be 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 with the lender (or exercise analogous rights in Scotland or Northern Ireland). Any such set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

So as to avoid dual regulation, it is intended that regulated mortgage contracts are not regulated by the CCA. Certain 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 (including, in Scotland, a standard security) securing a regulated mortgage contract to the extent that the credit agreement would, apart from the exemption referred to above, be regulated by the CCA or treated as such.

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

Credit agreements that were entered into before N(M), but are subsequently changed such that a new contract is entered into on or after N(M), are regulated under the FSMA where they fall within the definition of "regulated mortgage contract".

In June 2010, the FSA made changes to MCOB which effectively convert previous guidance on the policies and procedures to be applied by authorised firms (such as the Seller) with respect to forbearance in the context of regulated mortgage contracts into formal mandatory rules. Under these rules, a firm is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given the borrower's circumstances, it is appropriate to take certain actions. Such actions refer to (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments. While the FSA has indicated that it does not expect each forbearance option referred to in the rules to be explored at every stage of interaction with the borrower, it is clear that these rules impose mandatory obligations on firms without regard to any relevant contractual obligations or restrictions which the relevant Loan may be subject to as a result, *inter alia*, of such Loan being contained within a covered bond transaction. As a result, the rules may operate in certain circumstances to require the Servicer to take certain forbearance-related actions which do not comply with the Transaction Documents (and, in particular, the asset servicing arrangements contemplated by such Transaction Documents) in respect of one or more Loans. No assurance can be made that any such actions will not reduce the amounts available to meet the payments due in respect of the Covered Bonds, although the impact of this will depend on the number of Loans that involve a Borrower who experiences payment difficulties.

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

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

- (a) the borrower is liable to repay the principal and any other sums paid by the originator 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 originator receiving notice of cancellation;

- (b) 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
- (c) any security is treated as never having had effect for the cancelled agreement.

If a significant portion of the Loans are characterised as being cancellable under these regulations, then there could be an adverse effect on the Issuer's ability to make payments to Covered Bondholders.

Financial Ombudsman Service

Under the FSMA, the Financial Ombudsman Service (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 Mortgage Code, the "**CML Code**" issued by the Council of Mortgage Lenders, occurring before N(M) may be dealt with by the Ombudsman.

Complaints properly 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 a complaining borrower, it is not possible to predict how any future decision of the Ombudsman would affect the value at which the Loans in the Portfolio could be realised and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

Consumer Credit Act 1974

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

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

Any credit agreement that is wholly or partly regulated by the CCA or treated as such must comply with requirements under the CCA as to licensing of lenders and brokers, documentation and origination procedures of credit agreements, and (in so far as applicable) pre-contract disclosure. If it does not comply with those requirements, then to the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower (a) without an order of the OFT, if the lender or any broker does not hold the required licence at the relevant time (b) totally, if the credit agreement was made before 6 April 2007 and if the form of such credit agreement was 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 (as defined above) under the FSMA, or unregulated, might instead be wholly or partly regulated by the CCA or treated as such, 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 any credit under the CCA arises, or whether any applicable financial limit of the CCA is exceeded; (b) determining whether the credit agreement is an exempt agreement under the CCA; and (c) changes to credit agreements.

A court order under section 126 of the CCA is necessary to enforce a land mortgage (including, 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 the credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under section 75 of the CCA, in certain circumstances the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement that is wholly or partly regulated by the CCA or treated as such, where the 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. The lender may also be entitled to a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the loan or under any other loan agreement that the borrower has taken with the lender (or exercise analogous rights in Scotland or Northern Ireland). Any such set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

Consumer Credit Act 2006

The Consumer Credit Act 2006 (the **CCA 2006**) which amends and updates the CCA, was enacted on 30 March 2006 and was fully implemented by 31 October 2008.

Under the CCA the "extortionate credit" regime has been replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except regulated mortgage contracts under the FSMA. If the court makes a determination that the relationship between a lender and a borrower is unfair, then it may make an order, among other things, requiring a lender such as the Seller, or any assignee such as the LLP, to repay amounts received from such borrower. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair" as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in UK legislation due to the UTCCR (as defined below). The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA's principle of "treating customers fairly", and guidance published by the FSA on that principle and by the OFT on the unfair relationship test, may also be relevant. Once the debtor alleges that an unfair relationship exists, the burden of proof is on the creditor to prove the contrary.

An alternative dispute resolution scheme for consumer credit matters was established on 6 April 2007 and is run by the Ombudsman (as described below). The scheme is mandatory for all businesses licensed under the CCA. The OFT is given far broader powers under the CCA 2006 from 6 April 2008. For example, it can apply civil penalties, has far greater powers of investigation and can issue indefinite standard licences. For appeals against such decisions by the OFT, the CCA 2006 introduced an independent Consumer Credit Appeals Tribunal, whose functions were transferred to the General Regulatory Chamber in the First-tier Tribunal on 1 September 2009.

The financial limit of £25,000 for CCA regulation has been removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements, and except for buy-to-let loans made before 31

October 2008. Buy to let loans made on or after 31 October 2008 are, irrespective of amount, exempt agreements under the CCA. Regulations define buy to let loans for these purposes as being credit agreements secured on land where less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. A court order under section 126 of the CCA is, however, necessary to enforce a land mortgage (including, 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 treated as such.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) the credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower is not liable to pay interest or, in certain cases, default fees for any period in which the lender fails to comply with further requirements as to post-contract disclosure, and (c) interest upon default fees is restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. Early repayment charges are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies generally to all such credit agreements made on or after 11 June 2010.

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

The Seller 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 will be required to repurchase or procure the repurchase of such Loan and its Related Security from the LLP.

EU proposals on mortgage credit

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

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

EU proposal for a directive on credit agreements relating to residential property

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposed directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a member state of the European Union (a **Member State**) on residential immovable property, or secured by a right relating to

residential immovable property; (b) credit agreements the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building; and (c) credit agreements the purpose of which is to renovate residential immovable property and which are outside the Consumer Credit Directive (Directive 2008/48/EC). The proposed directive does not apply to credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The proposed directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The proposed directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

On 23 May 2012, the Presidency of the Council of the European Union announced its compromise proposal for the general approach to its negotiations with the European Parliament on the proposed directive. The European Parliament has announced a revised indicative date of 10 to 13 December 2012 for its first plenary session on the proposed directive. It is currently proposed that Member States will be required to implement the directive into national law within two years after the directive enters into force. Until the proposed directive is considered and adopted by the European Parliament and the Council, and implemented into UK law, it is not possible to tell what effect the directive and the implementation of the directive into UK law would have on the Loans, the Seller, the LLP, the Servicer and their respective businesses and operations.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 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.

The UTCCR provide that a consumer (which would include a Borrower under all or almost all of the Loans) may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

The UTCCR will not generally affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal, or price terms, provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention. The UTCCR may affect terms that are not considered to be terms which define the main subject matter of the contract or price terms, such as the lender's power to vary the interest rate, and certain terms imposing early repayment charges and mortgage exit administration fees. For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the LLP, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan agreement that the borrower has taken with the lender (or exercise analogous rights in Scotland or Northern Ireland). Any such set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

Under agreements between the FSA and the OFT most recently in November 2009, the division of responsibility for the enforcement of the UTCCR in loan agreements was agreed to be allocated by them generally, to the FSA in relation to regulated contracts under the FSMA originated by lenders authorised by the FSA and to the OFT in relation to other mortgages. 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 (i.e. where the

borrower is required to give advance notice, pay a cost or give up a benefit in order to terminate the contract), a lender 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 fees, the OFT in April 2006 issued a statement of its view of the principles that credit card issuers should follow in setting default fees, and that the principles are likely to apply to analogous default fees in other contracts such as mortgages. The principles are in essence that terms imposing default fees should not have the object of raising more in revenue than is reasonably expected to be necessary to recover certain limited administrative costs incurred as a result of a borrower's default.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges.

The FSA's MCOB requires that, for regulated mortgage contracts: (a) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the borrower being in arrears, and (b) from 25 June 2010, the borrower's payments are allocated first towards paying off the balance of any payment shortfall, excluding any interest or charges on that balance. In October 2010, the FSA issued a statement that in its view, early repayment charges are likely to amount to the price paid by the borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR, provided that they are written in plain and intelligible language and are adequately drawn to the borrower's attention. In January 2012, the FSA issued a further statement intended to raise awareness of issues that it commonly identifies under the UTCCR.

In July 2012, The Law Commission and The Scottish Law Commission published a consultation on proposals to reform the UTCCR. The Commissions propose, among other things, that the UTCCR will not generally affect a term that defines the main subject matter of the contract, or price terms, only if the term is transparent and prominent, and that, once the consumer alleges that a term is unfair under the UTCCR, the burden of proof is on the business to prove to the contrary. The Commissions propose that such reforms could be included in the Consumer Bill of Rights, expected to be introduced to Parliament in 2013 to 2014.

Whilst the OFT and FSA have powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of such loans. If any term of the Loans is found to be unfair for the purpose of the UTCCR, this may adversely affect the ability of the LLP to make payments under the Covered Bond Guarantee.

The guidance issued by the FSA and OFT has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the UTCCR or reform of the UTCCR, will not have a material adverse effect on the Seller and/or the LLP and their respective businesses and operations.

Consumer Protection from Unfair Trading Regulations 2008

On 11 May 2005, the European Parliament and the Council adopted a Directive (2005/29/EC) regarding 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 this directive. The Unfair

Practices 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 is implemented into UK law by the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), which came into force on 26 May 2008. The CPUTR prohibit certain practices which are deemed "unfair" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but the possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreements may result in irrecoverable losses on amounts to which such agreements apply. Breach of certain CPUTR provisions is a criminal offence.

In addition, the OFT addresses commercial practices in administering licences under the CCA, and the FSA has taken the Unfair Practices Directive into account in reviewing its rules. For example, the FSA's MCOB rules for regulated mortgage contracts from 25 June 2010 prevent the lender from (a) repossessing the mortgaged property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term or conversion to interest-only for a period or a product switch, and (b) automatically capitalising a payment shortfall.

The Unfair Practices Directive provides a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it relates. The Unfair Practices Directive provides for a report (expected imminently) on the application of the directive, including on the scope for further harmonisation in the fields of financial services and immovable property. No assurance can be given that the UK implementation of the directive and any further harmonisation will not have a material adverse effect on the Loans or on the manner in which they are serviced and accordingly on the ability of the LLP to make payments to Covered Bondholders.

UK Government Credit Guarantee Scheme, ABS Guarantee Scheme and Financial Services Compensation Scheme not applicable

On 8 October 2008, the UK government announced the introduction of a new credit guarantee scheme pursuant to which the government will make available to eligible institutions for an interim period a guarantee of new short and medium term debt issuance to assist in refinancing maturing, wholesale funding obligations as they fall due. The UK government has indicated that certain debt instruments including the Covered Bonds are not covered by the guarantee provided under the scheme and, as such, for the avoidance of doubt, the obligations of the Issuer in respect of the Covered Bonds are not guaranteed by the UK government under the above credit guarantee scheme. In addition, on 19 January 2009, the UK government announced the introduction of the asset backed securities guarantee scheme which closed on 31 December 2009. The Covered Bonds are not guaranteed by the UK government under the asset backed securities guarantee scheme. Also, any investment in the Covered Bonds does not have the status of a bank deposit in England and Wales and is not within the scope of the UK Financial Services Compensation Scheme.

Mortgage Repossession

A protocol for mortgage repossession cases in England and Wales came into force on 19 November 2008, and a revised protocol for mortgage repossession cases in Northern Ireland came into force on 5 September 2011. Both protocols set out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders have confirmed that they will delay the initiation of repossession action for at least three months after a borrower who is an owner-occupier is in arrears. The application of such moratorium is subject to the wishes of the borrower and may not apply in cases of fraud.

The Mortgage Repossession (Protection of Tenants etc) Act 2010 came into force on 1 October 2010. This Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. The lender has to serve notice at the property before enforcing a possession order.

Part I of the Home Owner and Debtor Protection (Scotland) Act 2010 came into force on 30 September 2010 and relates to the enforcement of standard securities over residential property in Scotland. Under Part I of the Act, the heritable creditor (the Scottish equivalent to a mortgagee and which may be the Seller or the LLP) has to obtain a court order to exercise its power of sale, unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor also has to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, and comply with further procedural requirements.

These protocols and these Acts may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may affect the ability of the LLP to make payments under the Covered Bond Guarantee.

Homeowner mortgage support scheme and general impact of further regulations or guidance on the Seller

On 3 December 2008, the UK Government released a preliminary announcement on the Homeowner Mortgage Support Scheme (**HMSS**). Further details on the HMSS were published on 10 December 2008 and the final scheme documentation was published on 21 April 2009. The terms of the HMSS provide that, subject to certain conditions, eligible mortgage borrowers suffering a significant and temporary loss of income will be allowed to defer up to 70 per cent. of interest payments for up to two years, with a percentage of the deferred interest payments being guaranteed by the UK government should the borrower default. The Seller does not currently participate in the HMSS. If it were to do so in the future, this may have an adverse effect on the collection of interest payments on the Loans, the timing of enforcement of the Loans by the Seller and 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.

UK proposals for changes to mortgage regulation and to the regulatory framework

In January 2011, HM Treasury announced proposals to enhance consumer protection in the mortgage market. Forthcoming legislation is expected to provide for consumer protection when a mortgage book is sold by a regulated mortgage lender to an unregulated entity. In this regard, it is proposed that the definition of the regulated activity of administering a regulated mortgage contract will be expanded so that any entity which exercises specified rights in relation to a regulated mortgage contract, such as changing interest rates or taking action to repossess a property against a borrower, will be required to be authorised and regulated under the FSMA.

In June 2011, HM Treasury published a consultation paper, including a draft Financial Services Bill, that reiterates proposals to replace the FSA with a new Prudential Regulation Authority (the **PRA**), which will be responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets, and a new Financial Conduct Authority (the **FCA**), which will be responsible for conduct of business. These proposals include that consumer credit regulation (which includes new and existing second charge residential mortgages) will be transferred from the OFT to the FCA. These proposals also include that the FCA will have power to render unenforceable contracts made in contravention of its product intervention rules, and that formalised cooperation will exist between the FCA and the Ombudsman (as described above), particularly where issues identified potentially have wider implication, with a view to the FCA requiring affected firms to operate consumer redress schemes. The Financial Services Bill was introduced to Parliament in January 2012. HM Treasury has announced that, subject to the Parliamentary timetable, the UK Government's aim is for the Financial Services Bill to become law by the end of 2012, and the FSA to be replaced by the PRA and FCA in early 2013, and consumer credit regulation to be transferred to the FCA in 2014.

In December 2011, the FSA published a consultation paper that consolidates proposals arising out of its wide-ranging mortgage market review, which was launched in October 2009 to consider strengthening rules and guidance on, *inter alia*, affordability assessments, product regulation, arrears charges and responsible

lending. The FSA aims to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovers. The FSA has announced that it intends to publish a feedback statement and final rules in 2012, and that implementation of any of its proposals is unlikely to occur before summer 2013 except some proposals could be implemented earlier if they command widespread support among interested parties.

Any further changes to MCOB arising from the FSA's mortgage market review, or to MCOB or the FSMA arising from HM Treasury's proposals to change mortgage regulation or the regulatory structure, may adversely affect the Loans, the Seller, the LLP, the Servicer and their respective businesses and operations.

General

No assurance can be given that additional regulatory changes by the OFT, the FSA, the Ombudsman 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 Seller, the LLP, the Servicer and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio or any part thereof in a timely manner and/or the realisable value of the Portfolio or any part thereof and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due.

Implementation of and/or changes to the Basel II Framework may affect the capital requirements and/or the liquidity of the Covered Bonds

The Basel II Framework has not been fully implemented in all participating jurisdictions. The implementation of the Framework in relevant jurisdictions may affect the risk-weighting of the Covered Bonds for investors who are or may become subject to capital adequacy requirements that follow the Framework.

It should also be noted that the Basel Committee has approved significant changes to the Basel II Framework (such changes being commonly referred to as **Basel III**), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and minimum leverage ratios for financial institutions. In particular, the changes include, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The Basel Committee is also considering introducing additional capital requirements for systemically important institutions from 2016. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Covered Bonds and/or on the incentives to hold the Covered Bonds for investors that are subject to requirements that follow the revised Framework and, as a result, they may affect the liquidity and/or value of the Covered Bonds.

The European authorities support the work of the Basel Committee on the approved changes in general and on 20 July 2011 the European Commission adopted a legislative package of proposals (known as **CRD IV**) to implement the changes through the replacement of the existing Capital Requirements Directive with a new Directive and Regulation. As with Basel III, the proposals contemplate the entry into force of the new legislation from January 2013, with full implementation by January 2019; however the proposals allow individual Member States to implement the stricter definition and/or level of capital more quickly than is envisaged under Basel III.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Covered Bonds and as to the consequences for and effect on them of any changes to the Basel II Framework

(including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Investors who purchase Covered Bonds in denominations that are an integral multiple of the Specified Denomination may be adversely affected if definitive Covered Bonds are subsequently required to be issued

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

Limited Liability Partnerships

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

Pensions Act 2004

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

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.

It should be noted that the Court of Appeal in *Bloom & Ors v The Pensions Regulator (Nortel, Re)* [2011] EWCA (iv 1124) held that contribution notices and financial support directions issued after the commencement of a liquidation or an administration (by the Pensions Regulator pursuant to its "moral hazard" powers) should be treated by the companies in liquidation/administration as a liquidation/administration expense, not an ordinary unsecured debt. This means that any such payments will be required to be made in priority to the claims of the Security Trustee in respect of the floating charge

assets. The matter is, however, not yet settled and on 2 November 2011 permission to pursue an appeal to the Supreme Court was granted and such appeal is expected to be heard in the first half of 2013.

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

If an investor holds Covered Bonds which are not denominated in the investor's home currency, he will be exposed to movement in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

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. Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Covered Bonds. 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 interest coupons and/or talons attached, or registered form, without interest coupons and/or talons attached. Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Covered Bonds may be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States to, or for the benefit of, U.S. persons in reliance on Rule 144A or Regulation D under the Securities Act.

Bearer Covered Bonds

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

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

Whilst any Bearer Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bearer Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification to the effect that the beneficial owners of interests in such Bearer Covered Bond are not U.S. persons for U.S. federal income tax purposes or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

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

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

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, interest coupons and talons attached upon either: (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Principal Paying Agent as described therein; or (ii) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that: (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to the Covered Bondholders of each Series of Bearer Global Covered Bonds in accordance with Condition 13 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.

The applicable final terms will not specify that Temporary or Permanent Global Covered Bonds are exchangeable for definitive Covered Bonds where such Covered Bonds are issued having denominations consisting of a minimum Specified Denomination plus one or more higher integral multiple of a smaller amount.

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

The following legend will appear on all Bearer Covered Bonds which have an original maturity of more than one year and on all 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 or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Bearer Covered Bonds or interest coupons.

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

Registered Covered Bonds

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global covered bond in registered form (a **Regulation S Global Covered Bond**). Prior to expiry of the Distribution Compliance Period (as defined in Regulation S) applicable to each Tranche of Covered Bonds, beneficial interests in a Regulation S Global Covered Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer.

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

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

Registered Global Covered Bonds will either: (i) in the case of Registered Global Covered Bonds not to be held in the New Safekeeping Structure, be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg or be deposited with a common depository for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, the Common Depository or (ii) in the case of Registered Global Covered Bonds to be held in the New Safekeeping Structure, be registered in the name of the common safekeeper or its nominee for Euroclear and Clearstream Luxembourg and/or any other relevant clearing system, each as specified in the applicable Final Terms. In the case of a Regulation S Global Covered Bond registered in the name of a nominee of DTC, prior to the end of the distribution compliance period (as defined in Regulation S) applicable to the Covered Bonds represented by such Regulation S Global Covered Bond, interests in such Regulation S Global Covered Bond may only be held through the accounts of Euroclear and Clearstream, Luxembourg.

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

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

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

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5(d)) 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 interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that: (i) in the case of Covered Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act; (ii) in the case of Covered Bonds registered in the name of a nominee for a common depository or in the name of a nominee of the common safekeeper, as the case may be for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form. The Issuer will promptly give notice to the Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten 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.\$250,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

Transfer of Interests

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

General

Pursuant to the Agency Agreement (as defined under Conditions of the Covered Bonds), the Principal Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Covered Bonds of such Tranche.

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

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

The Issuer may agree with any Dealer that Covered Bonds may be issued in a form not contemplated by the Terms and the Conditions of the Covered Bonds, in which case (if such Covered Bonds are intended to be listed) a new Prospectus will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

The Issuer will notify the ICSDs and the Paying Agents upon issue whether the Covered Bonds are intended, or are not intended, to be held in a manner which would allow Eurosystem eligibility and deposited with one of the ICSDs as common safekeeper (and in the case of registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as common safekeeper). Where the Covered Bonds are not intended to be deposited with one of the ICSDs as common safekeeper upon issuance, should the Eurosystem eligibility criteria be amended in the future such as that the Covered Bonds are capable of meeting such criteria, the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper. Where the Covered Bonds are so deposited with one of the ICSDs as common safekeeper (and in the case of registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as common safekeeper) upon issuance or otherwise, this 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 at issuance or at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

FORM OF FINAL TERMS

Dated [●]

THE CO-OPERATIVE BANK P.L.C.

Issue of Regulated [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably and unconditionally guaranteed as to payment of principal and interest by Moorland Covered Bonds LLP under the £4 billion Global Covered Bond Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the **Conditions**) set forth in the prospectus dated [●][and the supplement[s] dated [●] [and [●]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (the **Prospectus Directive**) (the **Prospectus**). 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. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus. Copies of the Prospectus are available free of charge to the public at the principal office of the Issuer (1 Balloon Street, Manchester, M60 4EP) and from the specified office of each of the Paying Agents.]/

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the **Conditions**) set forth in the prospectus dated [●] which are incorporated by reference in the prospectus dated [●]. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) and must be read in conjunction with the prospectus dated [●][and the supplement[s] dated [●][and [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Prospectus**) , including the Conditions incorporated by reference in the Prospectus. 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 these Final Terms and the Prospectus. Copies of such Prospectuses and the supplemental Prospectus are available free of charge to the public at the principal office of the Issuer (1 Balloon Street, Manchester, M60 4EP) and from the specified office of each of the Paying Agents. The Prospectus has been published on the website of the London Stock Exchange.]

- | | | | |
|----|-------|----------------------------------------------------------------------------------------|-----------------------------------|
| 1. | (i) | Issuer: | The Co-operative Bank p.l.c. |
| | (ii) | Guarantor: | Moorland Covered Bonds LLP |
| 2. | (i) | Series Number: | [●] |
| | (ii) | Tranche Number: | [●] |
| | (iii) | Series which Covered Bonds will be consolidated and form a single Series with: | [●]/[Not Applicable] |
| | (iv) | Date on which the Covered Bonds will be consolidated and form a single Series with the | [●]/[Issue Date]/[Not Applicable] |

Series specified above:

3. Specified Currency or Currencies: [●]
4. Nominal Amount of Covered Bonds to be issued: [●]
5. Aggregate Nominal Amount of the Covered Bonds Admitted to trading:
- (i) Series: [●]
- (ii) Tranche: [●]
6. (i) Issue Price: [●] *per cent.* of the Aggregate Nominal Amount [plus accrued interest from [●]]
7. (i) Specified Denominations: [●] / [€100,000 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]
(in the case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be made)
- (ii) Calculation Amount: [●]
8. (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●]/[Issue Date]/[Not Applicable]
9. Final Maturity Date: [●]/[Interest Payment Date falling in or nearest to [●]]
10. Extended Due for Payment Date of the Guaranteed Amounts corresponding to Final Redemption Amount under the Covered Bond Guarantee: [●]/[Interest Payment Date falling in or nearest to [●]]/[Not Applicable]
11. Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate]
[Zero Coupon]
12. Redemption/Payment Basis: [100] per cent of the nominal value
13. Change of Interest Basis or Redemption/Payment Basis: [●]/[in accordance with paragraphs 18 and 19 below]
14. Call Options: [Issuer Call]/[Not Applicable]

15. [Date [Board] approval for issuance of [●] [and [●], respectively]]
Covered Bonds and Guarantee obtained:

16. Listing: [●] /[London]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17. Fixed Rate Covered Bond Provisions: [Applicable/Not Applicable]

(i) [Fixed Rate(s) of Interest: [●] per cent. per annum payable in arrear on each Interest Payment Date

(ii) Interest Payment Date(s): [●] in each year up to and including the [Final Maturity Date] [Extended Due for Payment Date, if applicable] (provided however that [after the Extension Determination Date, the Interest Payment Date shall be [monthly]])

(iii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]

(iv) Business Day(s): [●]

Additional Business Centre(s): [New York], [●]

(v) Fixed Coupon Amount (s): [●] per Calculation Amount

(vi) Initial Broken Amount(s): [[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]] [Not Applicable]

(vii) Final Broken Amount: [●]

(viii) Day Count Fraction: [30/360 or Actual/Actual (ICMA)]

(ix) Determination Date(s): [[●] in each year]/ [Not Applicable]

18. Floating Rate Covered Bond Provisions: [Applicable/Not Applicable]

(i) Specified Period(s)/Specified Interest Payment Date(s): [●] (provided however that [prior to the Extension Determination Date,][the Specified Interest Payment Date shall be no more frequent than quarterly][, and provided further that] [after the Extension Determination Date, the Interest Payment Date shall be [monthly][quarterly]]) The first Interest Payment Date shall be [●].

(ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]

(iii) Additional Business Centre(s): [New York], [●]

- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [●]
- (vi) Screen Rate Determination:
- Reference Rate and Relevant Financial Centre: [●] month [LIBOR/EURIBOR/STIBOR/HIBOR/SIBOR/TIBOR]
Relevant Financial Centre: [London/Brussels/Stockholm/Hong Kong/Singapore/Tokyo]
 - Interest Determination Date(s): [●]
 - Relevant Screen Page: [●]
- (vii) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (viii) Margin(s): [+/-] [●] *per cent.* per annum.
- (ix) Minimum Rate of Interest: [●] *per cent.* per annum
- (x) Maximum Rate of Interest: [●] *per cent.* per annum
- (xi) Day Count Fraction: [Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
360/360
Bond Basis
30E/360
Eurobond Basis
30E/360 (ISDA)]
19. Zero Coupon Covered Bond Provisions: [Applicable/Not Applicable]
- Accrual Yield: [●] *per cent.* per annum
- Reference Price: [●]
- (i) Business Day Convention: [Following Business Day Convention/Modified

Following Business Day Convention/Preceding Business Day Convention]

- (ii) Business Day(s):
- Additional Business Centre(s): [New York],
- (iii) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Condition 6(f) applies]

PROVISIONS RELATING TO REDEMPTION BY THE ISSUER

- 20. Issuer Call: [Applicable/Not Applicable]
 - (i) Optional Redemption Date(s):
 - (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [per Calculation Amount]
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount:
 - (b) Higher Redemption Amount:
- 21. Final Redemption Amount: [Nominal Amount]
- 22. Investor Put: [Applicable/Not Applicable]
 - (a) Optional Redemption Date(s):
 - (b) Optional Redemption Amount : per Calculation Amount
- 23. Early Redemption Amount payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default: per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

- 24. New Global Covered Bond: [Yes] [No]
- 25. Form of Covered Bonds: [Bearer Covered Bonds:
[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event /on not less than 60 days' notice]

[Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds on or after the Exchange Date]

[Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event [/on not less than 60 days' notice]]

[Registered Covered Bonds:

Regulation S Global Covered Bond (U.S.\$[•] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg] (that is held under the New Safekeeping Structure) /Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Covered Bond (specify nominal amounts)]

26. Additional Financial Centre(s): [●]/[Not Applicable]
27. Talons for future Coupons to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature): [Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupons payments are still to be made/No.]
28. Redenomination: [Not applicable/The provisions in Condition 5(f) apply]

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to Trading: [Application [is expected to/has] been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the London Stock Exchange's Regulated Market and to the Official List of the UK Listing Authority with effect from [●].]/[Not Applicable]
- (ii) Estimate of total expenses related to admission to trading: [●]

2. RATINGS

Ratings: The Covered Bonds to be issued have been rated:
Moody's: [●]
Fitch: [●]

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

[Save as discussed in "*Subscription and Sale and Transfer and Selling Restrictions*", so far as the Issuer and the LLP are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged and may in the future engage in investment banking and/or commercial banking transactions with and may perform other services for the Issuer and/or the LLP and/or it or their affiliates in the ordinary course of business.

4. OPERATIONAL INFORMATION

- (i) ISIN Code: [●]
- (ii) Common Code: [●]
- (iii) [(insert here any other relevant codes such as CUSIP AND CINS codes):] [Not Applicable/give name(s) and number(s)]
- (iv) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):
- (v) Names and addresses of additional Paying Agent(s) (if any): [●]

5. DISTRIBUTION

U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; TEFRA

D/TEFRA C/TEFRA not applicable]]

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.

Signed on behalf of the Issuer:

Signed on behalf of the LLP:

By:
Duly authorised

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, 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 (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond.

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by The Co-operative Bank p.l.c. (the **Issuer**) constituted by a supplemental trust deed which supplements the trust deed entered into by, *inter alios*, the Issuer, the Bond Trustee (as defined below) and the Security Trustee (as defined below) on 20 April 2009 (the **Initial Programme Date**), as modified and supplemented on or about 13 October 2011 (the **Programme Date**) and as further supplemented on or about 31 October 2012 (such trust deed as modified and/or supplemented and/or restated from time to time), (the **Trust Deed**) made between the Issuer, Moorland Covered Bonds LLP as guarantor (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:

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

The Covered Bonds and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated on or about the Initial Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee and HSBC Bank plc, as issuing and principal paying agent (in such capacity, the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), HSBC Bank plc, as exchange agent (in such capacity, the **Exchange Agent**, which expression shall include any additional or successor exchange agent), HSBC Bank plc, as registrar (in such capacity, the **Registrar**, which expression shall include any successor registrar) and as transfer agent (in such capacity, a **Transfer Agent** and together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents as amended and restated on the Programme Date, as further amended and restated on or about 31 October 2012 and as further amended and/or restated and/or supplemented from time to time. As used herein, **Agents** shall mean the Paying Agents, the Exchange Agent and the Transfer Agents).

Interest-bearing Bearer Definitive Covered Bonds have interest coupons (**Coupons**) and, in the case of Covered Bonds which when issued in definitive form, have more than 27 interest payments remaining, 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. Registered Covered Bonds and Global Covered Bonds do not have Coupons or Talons attached on issue.

The final terms for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Covered Bond which supplements these terms and conditions (the **Conditions**). References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

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

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

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

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

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

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours and upon reasonable notice at the specified office of each of the Paying Agents. Copies of the applicable Final Terms for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the specified office of each of the Paying Agents and any Covered Bondholder must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity. The Covered Bondholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents and the applicable Final Terms which are applicable to them and to have notice of each set of Final Terms relating to each other Series.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the applicable Final Terms and/or the master definitions and construction agreement made between the parties to the Transaction Documents on or about the Initial Programme Date (as the same may be amended and/or supplemented and/or restated and/or varied from time to time, the **Master Definitions and Construction Agreement**) as amended and restated on the Programme Date and as further amended and restated on or about 31 October 2012, a copy of each of which may be obtained as described above.

1. Form, Denomination and Title

The Covered Bonds are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of Definitive Covered Bonds (being Bearer Definitive Covered Bond(s) and/or, as the context may require, Registered Definitive Covered Bond(s)), serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*.

This Covered Bond may be denominated in any currency.

Subject to confirmation from each of the Rating Agencies prior to the issuance of this Covered Bond that the then current rating of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond, this Covered Bond may depending upon the Interest Basis shown in the applicable Final Terms be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a Zero Coupon Covered Bond or a combination of any of the foregoing.

Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds 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 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 depositary (in the case of a CGCB) or common safekeeper (in the case of a NGCB (as defined below) or a Registered Global Covered Bond held under the New Safekeeping Structure) for Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) or so long as a common safekeeper, a common depositary for Euroclear and Clearstream, Luxembourg or The Depository Trust Company (**DTC**) or its nominee is the registered holder of a Registered Global Covered Bond, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear or of 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 expression **Covered Bondholder** and related expressions shall be construed accordingly. Covered Bonds which are represented by a Global Covered Bond will be exchangeable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be.

References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits (but not in the case of any NGCB), be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. **Transfers of Registered Covered Bonds**

(a) *Transfers of interests in Registered Global Covered Bonds*

Transfers of beneficial interests in Rule 144A Global Covered Bonds (as defined below) and Regulation S Global Covered Bonds (as defined below) (together, the **Registered Global Covered Bonds**) will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

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

Subject as provided in Conditions 2(e), 2(f) and 2(g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer: (i) the holder or holders must: (A) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent; and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee, the Transfer Agent and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the

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

(c) ***Registration of transfer upon partial redemption***

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

(d) ***Costs of registration***

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

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

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

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

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

In the case of (A) above, such transferee may take delivery through a Legended Covered Bond (as defined below) in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Covered Bond in definitive form. Prior to the end of the applicable Distribution Compliance Period beneficial interests in Regulation S Covered Bonds registered in the name of a nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After expiry of the applicable

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

(f) *Transfers of interests in Legended Covered Bonds*

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

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Legended Covered Bond:
 - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
 - (B) where the transferee is an Institutional Accredited Investor,

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

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

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

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

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

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

(h) ***Definitions***

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

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

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

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

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

New Safekeeping Structure means the safekeeping structure for registered notes set out in the press release of the ECB dated 22 October 2008 and titled "Evolution of the custody arrangements for international debt services and their eligibility in Euro system credit operations";

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

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

Regulation S means Regulation S under the Securities Act;

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

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

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

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

3. **Status of the Covered Bonds and the Covered Bond Guarantee**

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

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

(b) Status of the Covered Bond Guarantee

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the LLP (the **Covered Bond Guarantee**) in the Trust Deed. However, the LLP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and service by the Bond Trustee on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee are (following an Issuer Event of Default, service of an Issuer Acceleration Notice and/or service of a Notice to Pay or an LLP Event of Default and service of an LLP Acceleration Notice) direct, unconditional and unsubordinated obligations of the LLP, which are secured and limited in recourse against the LLP 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 and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

As security for the obligations of the LLP 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

4. Interest

(a) Interest on Fixed Rate Covered Bonds

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

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

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

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

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

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

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

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

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement

Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

Original Due for Payment Date means, in respect of the payment of Guaranteed Amounts, prior to the occurrence of an LLP Event of Default and following service of a Notice to Pay on the LLP, the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the LLP in respect of such Guaranteed Amounts or if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date.

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

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

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

(i) ***Interest Payment Dates***

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

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

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

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

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(2) above, the **Floating Rate Convention**, such Interest Payment Date: (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis*; or (ii) in the case of (y) above, shall be postponed to

the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (2) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (B) in the case of any sum payable, either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any Covered Bonds denominated or payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (**TARGET2**) System (the **TARGET2 System**) is open.

(ii) **Rate of Interest**

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

- (A) ISDA Determination for Floating Rate Covered Bonds

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the

International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is the period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is the day specified in the applicable Final Terms.

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

(B) Screen Rate Determination for Floating Rate Covered Bonds

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

- (1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (2) the arithmetic mean (rounded if necessary (i) in the case of LIBOR, to the fifth decimal place, with 0.000005 being rounded upwards and (ii) in the case of EURIBOR, to the third decimal place, with 0.0005 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. (Relevant Financial Centre Time) on the Interest Determination Date in question plus or minus the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

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

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

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of this Condition 4 is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

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

The Principal Paying Agent, in the case of Floating Rate Covered Bonds, 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.

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

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 4 for any Interest Period:

- (A) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum (A) of the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (E) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 in which case D_1 is 29, in which case D_2 will be 30;

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

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

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the last calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

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

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

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day of the Interest Period, unless (i) that day is the last day of February but not the Final Maturity Date (or, as the case may be, the Extended Due for Payment Date) or (ii) such number would be 31, in which case D_2 will be 30.

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

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

(vi) ***Determination or Calculation by Bond Trustee***

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent defaults in its obligation to determine the Rate of Interest or to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) (ISDA Determination for Floating Rate Covered Bonds) or (ii)(B) (Screen Rate Determination for Floating Rate Covered Bonds) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (iv) above, the Bond Trustee (or an agent appointed by it) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Bond Trustee shall calculate (or appoint an agent to calculate) the Interest Amount(s) in

such manner as it shall deem fair and reasonable in all the circumstances in making any such determination or calculation. The Bond Trustee may appoint and rely on a determination or calculation by an agent appointed by it. Each such determination or calculation shall be deemed to have been made by the Principal Paying Agent.

(vii) *Certificates to be final*

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

(c) *Accrual of Interest*

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

5. Payments

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or electronic transfer to an account in the relevant Specified Currency (which, in the case of a payment in Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and
- (ii) payments in euro will be made by credit or electronic transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

In the case of Bearer Covered Bonds, payments in U.S. Dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5, 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 (i) any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 (inclusive) of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law.

(b) *Presentation of Bearer Definitive Covered Bonds and Coupons*

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

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 12 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, six years from the date on which such Coupon would otherwise have become due.

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

Upon the due date for redemption of any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Covered Bond** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon **provided that** such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond. If the date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Definitive Covered Bond.

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

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner

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

(d) Payments in respect of Registered Covered Bonds

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

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on (i) in the case of Registered Covered Bonds in global form, the Business Day prior to the relevant due date and (ii) in the case of Registered Covered Bonds in definitive form, the Business Day falling 15 days prior to the relevant due date (in each case, the **Record Date**) at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not less than three Business Days before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by electronic transfer on the due date in the manner provided in the preceding paragraph. Any such application for electronic transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in

respect of each Registered Covered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

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

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by electronic transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

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

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

The holder of a Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer or, as the case may be, the LLP will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or the LLP to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall have any claim against the Issuer or the LLP in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in U.S. Dollars in respect of the Bearer Covered Bonds will only be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of interest on the Bearer Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and

- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

(f) *Payment Day*

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms), **Payment Day** means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Covered Bonds in definitive form only, the relevant place of presentation; and
 - (B) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency which, if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (iii) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) *Interpretation of principal and interest*

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

- (i) any additional amounts which may be payable with respect to principal under Condition 7 or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Covered Bonds;
- (iii) the Covered Bond Principal Amount(s) (if any) of the Covered Bonds;
- (iv) the Early Redemption Amount of the Covered Bonds;
- (v) the Optional Redemption Amount(s) (if any) of the Covered Bonds;

- (vi) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts;
- (vii) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6(f));
- (viii) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (ix) any Excess Proceeds which may be payable by the Bond Trustee to the LLP under or in respect of the Covered Bonds pursuant to the Trust Deed.

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

(h) *Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security Trustee, the Agents, the Registrar (in the case of Registered Covered Bonds), Euroclear and Clearstream, Luxembourg and DTC and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13, elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms provides for a minimum Specified Denomination in the Specified Currency which is equivalent to at least €100,000 and in integral multiples of €1,000 in excess thereof and which are admitted to trading on a regulated market in the European Economic Area, it shall be a term of any such redenomination that the holder of any Covered Bonds held through Euroclear and/or Clearstream, Luxembourg and/or DTC must have credited to its securities account with the relevant clearing system a minimum balance of Covered Bonds of at least €100,000.

The election will have effect as follows:

- (i) the Covered Bonds shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Covered Bond equal to the nominal amount of that Covered Bond in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, in consultation with the Agents and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the competent listing authority, stock exchange and/or market (if any) on or by which the Covered Bonds may be listed and/or admitted to trading and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

- (iii) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of €100,000 and in integral multiples of €1,000 in excess thereof and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than €100,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 6;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds 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 Coupons so issued will also become void on that date although those Covered Bonds and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds and Coupons will be issued in exchange for Covered Bonds and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;
- (v) after the Redenomination Date, all payments in respect of the Covered Bonds and the Coupons, other than payments of interest and/or principal in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (a) in the case of Covered Bonds represented by a Global Covered Bond, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Covered Bonds represented by such Global Covered Bonds; and
 - (b) in the case of definitive Covered Bonds, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding;

- (vii) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and

- (viii) such other changes shall be made to this Condition (and the Transaction Documents) as the Issuer may decide, after consultation with the Agents and the Bond Trustee, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

(i) **Definitions**

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

Calculation Amount has the meaning given in the applicable Final Terms

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 and Floating Rate Covered Bonds, as determined in, or as determined in the manner specified in, the applicable Final Terms.

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

Treaty means the Treaty on the Functioning of the European Union, as amended.

6. Redemption and Purchase

(a) **Final redemption**

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

Without prejudice to Condition 9 (Events of Default and Enforcement), if an Extended Due for Payment Date is specified as "applicable" in the Final Terms for a Series of Covered Bonds and, in each case after the expiry of any applicable grace period set out in Condition 9(a):

- (i) an Issuer Event of Default in respect of non-payment of the Final Redemption Amount occurs under Condition 9(a)(i), and following service of a Notice to Pay on the LLP, the LLP has insufficient moneys available to apply under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds in full on the Extension Determination Date; or
- (ii) any other Issuer Event of Default occurs, and following service of a Notice to Pay on the LLP, the LLP has insufficient moneys available under the Guarantee Priority

of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds in full on the earlier of:

- (A) the Extension Determination Date; and
- (B) the later of (x) the Final Maturity Date and (y) the date falling two Business Days after the service of such Notice to Pay,

then payment of the unpaid Final Redemption Amount referred to in (i) and (ii) above by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that such unpaid amount (or part thereof) may (subject to the order of priority set out in the Guarantee Priority of Payments) be paid by the LLP on each Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four Business Days prior to the Final Maturity Date of a Series of Covered Bonds whether or not payment will be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date.

Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension.

The LLP shall notify the relevant Covered Bondholders (in accordance with Condition 13 (Notices)), the Rating Agencies, the Swap Providers, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the Registrar (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least two Business Days prior to the earlier of the dates specified in (A) and (B) of the preceding paragraph of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the LLP to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

In the circumstances outlined above, the LLP shall on the earlier of (a) the date falling two Business Days after the service of a Notice to Pay or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i)) and (b) the Extension Determination Date, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. 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 or to the order of the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the LLP under the Covered Bond Guarantee in connection with this Condition 6(a) (***Final redemption***).

For the purposes of these Conditions:

Extended Due for Payment Date means, in relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or

(as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (after the expiry of the grace period set out in Condition 9(a)(i) or (b), the Extension Determination Date).

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

Final Maturity Date means the Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Final Redemption Amount in accordance with the Conditions.

Guarantee Priority of Payments means the priority of payments relating to moneys standing to the credit of the Deposit Accounts to be paid on each LLP Payment Date in accordance with the Trust Deed.

Rating Agency means any one of Moody's Investors Service Limited and Fitch Ratings Ltd. (together, the **Rating Agencies**) or their successors, to the extent they provide ratings in respect of the Covered Bonds. Each Rating Agency is established in the European Union and is registered under Regulation EU No. 1060/2009 (the **CRA Regulations**).

(b) *Redemption for taxation reasons*

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if such Covered Bond is not a Floating Rate Covered Bond), or on any Interest Payment Date (if such Covered Bond is a Floating Rate Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Swap Providers and, in accordance with Condition 13 (Notices), the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that on the occasion of the next date for payment of interest, the Issuer is or will be required to pay additional amounts as provided in Condition 7 (Taxation). Covered Bonds redeemed pursuant to this Condition 6(b) (***Redemption for taxation reasons***) will be redeemed at their Early Redemption Amount referred to in Condition 6(f) (***Early Redemption Amounts***) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, (in the case of the redemption of Registered Covered Bonds) the Registrar, the Swap Providers and, in accordance with Condition 13, the Covered Bondholders (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. In the event of a redemption of some only of the Covered Bonds, such redemption must be for an amount being the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg (to

be reflected in the records of DTC, Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 60 days' prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 13 not less than 30 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Dates, **provided that** such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6(c) and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 13 at least 30 days prior to the Selection Date.

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

If an investor put is specified as being applicable in the Final Terms (the **Investor Put**), then if and to the extent specified in the applicable Final Terms, upon the holder of a relevant Covered Bond giving to the Issuer, in accordance with Condition 13, not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, **provided that** the Issuer has notified all Swap Providers of such notice and 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 Interest Rate Swap Provider(s) and Covered Bond Swap Provider(s), redeem subject to, and in accordance with, the terms specified in the applicable Final Terms 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 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(b)) falling within the above-mentioned notice period at the specified office of any Paying Agent during normal business hours 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(d).

(e) *Redemption due to illegality*

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Swap Providers, the Principal Paying Agent, the Registrar and, in accordance with Condition 13, all the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP from the Covered Bonds pursuant to the Intercompany Loan

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

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

(f) *Early Redemption Amounts*

For the purpose of Conditions 6(b), 6(e) 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) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:
 - (a) the Reference Price; and
 - (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable, or such other amount as is provided in the applicable Final Terms.

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

(g) *Purchases*

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

any Paying Agent and/or the Registrar for cancellation (except that any Covered Bonds purchased or otherwise acquired by the LLP must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

If the Issuer or any of its subsidiaries purchases or otherwise acquires Covered Bonds other than in connection with an Issue Date, the Issuer shall, or the Issuer shall procure that its subsidiaries shall, no later than 30 Business Days prior to such purchase or acquisition notify each relevant Swap Provider of its intention to purchase or otherwise acquire the relevant Covered Bonds.

(h) *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured 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(g) above and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be held, reissued or resold.

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

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Conditions (a), (b) or (c) 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 Bond shall be the amount calculated as provided in Condition 6(f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

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

(j) *Certification on redemption under Condition 6(b), (c) and 6(e)*

Prior to the publication of any notice of redemption pursuant to Conditions 6(b), (c) and (e), the Issuer shall deliver to the Bond Trustee a certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all holders of the Covered Bonds and Couponholders.

7. Taxation

All payments of principal and interest (if any) in respect of the Covered Bonds and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made free and clear of, and without withholding or deduction for or on account of any present or future taxes, duties, assessments or

governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In the event of a withholding or deduction being made by the Issuer in respect of a payment made by it, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Covered Bondholders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds 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 or Coupon presented for payment:

- (a) in the United Kingdom; or
- (b) by or on behalf of a holder who (i) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so or by presenting an appropriate certificate; or (ii) is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bonds 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 or Coupons; or
- (c) 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
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Covered Bond or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

Relevant Date means the date on which such payment in respect of the Covered Bond or Coupon first becomes due and payable, except that, if the full amount of the moneys payable on such date has not been duly received by the Bond Trustee, the Registrar or the Principal Paying Agent on or prior to such date, it means the date on which such moneys have been so received, notice to that effect having been given to the Covered Bondholders in accordance with Condition 13.

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

8. Prescription

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless presented for payment within 10 years (in the case of principal) and 5 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.

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 and Enforcement

(a) *Issuer Events of Default*

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding (which for this purpose or the purpose of any Extraordinary Resolution referred to in this Condition 9(a) 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 Principal Amount Outstanding 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, (but in the case of the happening of any of the events mentioned in sub paragraphs (ii) to (viii) below, only if the Bond Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, **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 in itself be considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee) (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee), each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

- (i) there is default for more than seven days from the relevant Final Maturity Date in respect of the payment of principal in respect of the covered Bonds, or for more than 14 days from the relevant Interest Payment Date in respect of the payment of interest in respect of the Covered Bonds; or
- (ii) there is default by the Issuer in the performance or observance of any covenant, Condition or provision contained in the Trust Deed or any other Transaction Document or in the Covered Bonds or Coupons and on its part to be performed or observed (other than the covenant to pay principal and interest in respect of any of the Covered Bonds, or any covenant or obligation contained in the Programme Agreement or any Subscription Agreement) but excluding any obligation of the Issuer to comply with the Asset Coverage Test or any representation or warranty given by the Issuer in respect of the Asset Coverage Test, and (except where the Bond Trustee determines that such default is not capable of remedy when no such continuation or notice as is hereinafter mentioned shall be required) such default continues for the period of 30 days next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied and indicating that this provision may be invoked if it is not; or
- (iii) any other borrowings of the Issuer or any of its Principal Subsidiaries (which borrowings have an outstanding aggregate amount of at least £10,000,000 or its equivalent in any other currency or currencies) shall become due and payable prior to

the stated maturity thereof as a result of a default in respect thereof; or any such borrowings of such amount shall not be paid at the maturity thereof as extended by any applicable grace period as originally provided, or any guarantee given by the Issuer or any of its Principal Subsidiaries in respect of any such borrowings of such amount is not honoured when due as extended by any applicable grace period as originally provided and called upon; or any security over any property owned by the Issuer or any of its Principal Subsidiaries in respect of any such borrowings of such amount shall be or become enforceable and steps are taken to enforce the same; or

- (iv) if the Issuer becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or receiver or administrator or bank liquidator or bank administrator or similar officer of itself or the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on its business or any substantial part of its business or an order is made or an effective resolution is passed for the winding-up or dissolution of the Issuer except in any case in connection with a substitution pursuant to Condition 14 or for the purpose of a reconstruction, union, transfer (of engagements or of business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution of the Covered Bondholders; or
- (v) any Principal Subsidiary becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or receiver or administrator or bank liquidator or bank administrator or similar officer of itself or the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on its business or any substantial part of its business or an order is made or an effective resolution is passed for the winding-up or dissolution of any Principal Subsidiary (except for the purposes of an arrangement the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution of the Covered Bondholders or for a resolution for the winding-up of a solvency Principal Subsidiary or in connection with the transfer of the whole or substantially the whole of the business of a Principal Subsidiary to another Subsidiary or to the Issuer); or
- (vi) an administrative or other receiver or an administrator or other similar official is appointed or an administration order is made in relation to the Issuer or any Principal Subsidiary or in relation to the whole or a substantial part of the assets of any of them or an encumbrancer takes possession of the whole or any substantial part of the undertaking, property or assets of the Issuer or any of its Principal Subsidiaries or a distress, diligence or execution is levied or enforced upon or sued out against the whole or any substantial part of the chattels or property of the Issuer or any of its Principal Subsidiaries and, in any such case, is not discharged within 30 days; or
- (vii) (except in connection with a substitution pursuant to Condition 14 or for the purpose of a reconstruction, union, transfer (of engagements or of business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution of the Covered

Bondholders) the Financial Services Authority gives a direction under Section 33 of the FSMA withdrawing the Issuer's status as an authorised person or the authorisation or registration of the Issuer to accept deposits under Part IV of the FSMA is or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs; or

- (viii) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice; or
- (ix) if the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds is breached on a Pre-Maturity Test Date falling less than eleven months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds and the LLP has not cured the breach as described in the LLP Deed before the earlier to occur of (i) 10 London Business Days from the date that the Seller is notified of the failure of the Pre-Maturity Test and (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds.

Principal Subsidiary means a Subsidiary of the Issuer whose total assets (attributable to the Issuer) represent 10 per cent. or more of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole. A certificate signed by two Authorised Signatories (as defined in the Master Definitions and Construction Agreement) of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Bond Trustee without further enquiry or evidence and, if so relied upon shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

Upon the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice on the Issuer in accordance with Condition 9(a), the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP pursuant to the Covered Bond Guarantee and the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9(c).

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

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

(b) *LLP Events of Default*

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the holders of the Covered Bonds then Outstanding (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition (b) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) as if they were a single Series (with the Principal Amount Outstanding 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), but in the case of the happening of any of the events described in paragraphs (ii) to (vii) below, only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholder of any Series, provided that a breach of any obligation of the LLP to provide notices, reports, or other information to the FSA under the RCB Regulations shall not in itself be considered to be materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee, give notice (the **LLP Acceleration Notice**) in writing to the Issuer, all Swap Providers and the LLP, that (x) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and any other amount due and payable under the Covered Bonds (other than additional amounts payable under Condition 6) and (y) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

- (i) default is made by the LLP for a period of seven (7) days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 6(a) where the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (ii) default is made by the LLP in the performance or observance of any obligation, Condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document to which the LLP is a party and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or
- (iii) an order is made or an effective resolution passed for the liquidation or winding-up of the LLP; or
- (iv) the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or

- (v) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (vi) proceedings are initiated against the LLP under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vii) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on the 10th day of each month (or, if that is not a Business Day, then the immediately preceding Business Day) (the **Calculation Date**) following an Issuer Event of Default; or
- (viii) the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP each of the Bond Trustee and the Security Trustee may or shall (subject in either case to being indemnified and/or secured to its satisfaction) take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9(c) and the Covered Bondholders (or the Bond Trustee on their behalf) shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount for each Covered Bond of each Series together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 7) as provided in the Trust Deed in respect of each Covered Bond.

(c) Enforcement

The Bond Trustee may at any time, at its discretion and without further notice, take such proceedings or other action against the Issuer and/or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds and the Coupons or any other Transaction Document, but it shall not be bound to take any such enforcement proceedings or other action in relation to the Trust Deed, the Covered Bonds or the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series and converted into Sterling at the relevant Covered Bond Swap Rate 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 Bond Trustee may at any time, at its discretion and without further notice, direct the Security Trustee to take such proceedings, steps or actions 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 to which it is a party and may, at any time after the Security has become enforceable, direct the Security Trustee to take such proceedings or steps as it may think fit to enforce the Security, but the Bond Trustee shall not be bound to give any such direction unless (i) the Bond Trustee 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 and converted into Sterling at the relevant Covered Bond Swap Rate 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) the Bond Trustee shall have been indemnified and/or secured to its satisfaction. The Security Trustee shall not be bound to take any proceeding, steps or actions 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 or to take such proceedings or steps as may be required to enforce the security unless (i) it is directed to do so by the Bond Trustee and (ii) the Security Trustee shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph each of the Bond Trustee and Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other Secured Creditors. In having regard to the interests of the Covered Bondholders, the Security Trustee shall be entitled to rely solely on a written confirmation from the Bond Trustee as to whether, in the opinion of the Bond Trustee, any matter, action or omission is or is not materially prejudicial to the interests of, the Covered Bondholders.

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

10. Replacement of Covered Bonds, Coupons and Talons

Should any Covered Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been published in accordance with Condition 13 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, Coupons or Talons must be surrendered before replacements will be issued.

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

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar, the initial Transfer Agent, the initial Exchange Agent and their initial specified offices are set out below.

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other

bank as may be approved by the Bond Trustee to act as such in its place. The Principal Paying Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

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

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in continental Europe;
- (c) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or as the case may be, other relevant authority
- (d) so long as any of the Registered Global Covered Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and
- (e) the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive if any.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(e). 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 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 the Financial Times or any other daily newspaper in London approved by the Bond Trustee or, if this is not possible, in one other English language daily newspaper approved by the Bond Trustee with general circulation in the United Kingdom. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers on different dates, the last date of such first publication.

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

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

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

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

The Trust Deed contains provisions for convening meetings of the Covered Bondholders of any Series to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing the Covered Bondholders of such Series whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they

are present at the meeting, and on all Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee or the Issuer may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the respective interest of such Covered Bondholders, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9(a) (Issuer Events of Default) or to give an LLP Acceleration Notice pursuant to Condition 9(b) (LLP Events of Default) or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the Covered Bondholders of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee by the Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all the Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Couponholders in respect of such Series of Covered Bonds.

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

The Bond Trustee, the Security Trustee (acting on the directions of the Bond Trustee, so long as there are any Covered Bonds outstanding or all the Secured Creditors, if there are no Covered Bonds outstanding), the LLP and the Issuer may also agree, without the consent of the Covered Bondholders or Couponholders of any Series and without the consent of the other Secured Creditors (other than any Secured Creditor who is a party to the relevant document), to:

- (a) any modification (other than in relation to a Series Reserved Matter) of the Covered Bonds of one or more Series, the related Coupons or any Transaction Document provided that, in the opinion of the Bond Trustee, such modification is not materially prejudicial to the interests of the Covered Bondholders of any Series; or
- (b) any modification of the Covered Bonds of any one or more Series, the related Coupons or any Transaction Document which in the opinion of the Bond Trustee is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

The Security Trustee may agree to any such modifications as directed by the Bond Trustee, so long as there are any Covered Bonds outstanding, or by all the Secured Creditors, if there are no Covered Bonds outstanding, and otherwise with the consent of the other Secured Creditors (other than any Secured Creditor who is a party to the relevant document).

Notwithstanding the above:

- (i) the Issuer, the LLP and the Principal Paying Agent may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders or Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms

which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law;

- (ii) subject as provided in paragraph (iv) below, the Bond Trustee shall be bound to concur in and to effect, and to direct the Security Trustee to concur in and to effect, with the Issuer and the LLP and any other party in making any of the above-mentioned modifications if it is (a) so directed by an Extraordinary Resolution of the Covered Bondholders of the relevant one or more Series (with the Covered Bonds of all such Series taken together as a single Series in the circumstances provided in the Trust Deed and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate) or (b) requested to do so in writing by the holders of not less than twenty-five per cent. of the Principal Amount Outstanding of the Covered Bonds of the relevant one or more Series (with the Covered Bonds of all such Series taken together as a single Series in the circumstances provided in the Trust Deed and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate) then outstanding and at all times then only if it shall first be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing;
- (iii) Subject as provided in paragraph (iv) below, the Bond Trustee shall be bound to concur in and to effect, and to direct the Security Trustee to concur in and to effect, any modifications to the Transaction Documents that are requested by the LLP or the Cash Manager to accommodate the accession of a New Seller to the Programme, provided that the LLP or the Cash Manager, as the case may be, has certified to the Security Trustee and the Bond Trustee in writing that (i) such modifications are required in order to accommodate the addition of a New Seller to the Programme and (ii) all other conditions precedent to the accession of a New Seller to the Programme set out in the Programme Agreement and the Mortgage Sale Agreement have been satisfied at the time of the accession and at all times then only if it shall first be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing; and
- (iv) notwithstanding any of the foregoing, neither the Bond Trustee nor the Security Trustee shall be obliged to agree to any modification 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 shall also agree to the waiver or authorisation of any breach by the Issuer or the LLP or any other person of any of the covenants or provisions contained in the Trust Deed, the other Transaction Documents or the Conditions or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, for the purposes of the Trust Deed if it is: (A) in the case of any such waiver or authorisation, (a) so directed by Extraordinary Resolution of the Covered Bondholders of the relevant one or more Series (with the Covered Bonds of all such Series taken together as a single Series in the circumstances provided in the Trust Deed and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate) or (b) requested to do so in writing by the holders of not less than twenty-five per cent. of the Principal Amount Outstanding of the Covered Bonds of the relevant one or more Series (with the Covered Bonds of all such Series taken together as a single Series in the circumstances provided in the Trust Deed and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate) or (B), in the case of any such determination, (a) so directed by an Extraordinary Resolution of the Covered Bondholders of all

Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate) or (b) requested to do so in writing by the holders of not less than twenty-five per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series and, if applicable, converted into Sterling as aforesaid), and at all times then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

The Security Trustee may, without the consent of the Secured Creditors (other than any Secured Creditor who is a party to the relevant document) and without prejudice to its right in respect of any further or other breach, from time to time and at any time, but only if so directed by (a) the Bond Trustee, so long as there are any Covered Bonds outstanding or (b) all of the other Secured Creditors, if there are no Covered Bonds outstanding, modify, or authorise or waive any proposed or actual breach of, any of the covenants or provisions contained in the Deed of Charge or any other Transaction Document.

Prior to the Bond Trustee or Security 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 or Security Trustee, as applicable, (which confirmation the Bond Trustee or Security Trustee shall be entitled to rely on absolutely) that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or result in the Issuer and/or the Programme ceasing to be registered under the RCB Regulations and that either:

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

Any such modification, waiver, authorisation or determination shall be binding on all the Covered Bondholders of all Series of Covered Bonds for the time being outstanding, the related 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 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 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 or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholder 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.

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

In exercising or performing any of its discretions, rights, powers, trusts or duties under or in relation to these presents or any other Transaction Document (including without limitation, any consent, approval, modification, waiver, authorisation or determination referred to in these Conditions), the Bond Trustee may have regard to any Rating Agency Confirmation whether or not any such confirmation is addressed to, or provides that it may be relied on by, the Bond Trustee and irrespective of the method by which such confirmation is conveyed.

Substitution

Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Covered Bondholders of any Series, may agree, without the consent of the Covered Bondholders or Couponholders, to the substitution of a Subsidiary of the Issuer or a Successor in Business in place of the Issuer as principal debtor under the Covered Bonds and the Trust Deed.

Any substitution pursuant to this Condition 14 shall be binding on the Covered Bondholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified by the Issuer to the Covered Bondholders as soon as practicable thereafter in accordance with Condition 14.

It shall be a condition of any substitution pursuant to this Condition 14 that:

- (a) 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 which is proposed to be substituted for the Issuer as principal debtor under the Covered Bonds and the Trust Deed; and
- (b) any Successor in Business or any Subsidiary of the Issuer is included in the register of Issuers pursuant to the RCB Regulations and that all other provisions of the RCB Regulations (including Regulation 20 of the RCB Regulations) are satisfied prior to the substitution of the Issuer.

Rating Agencies

If:

- (a) a confirmation of rating or other response by a Rating Agency is a Condition to any action or step under any Transaction Document; and
- (b) a written request for such confirmation or response is delivered to that Rating Agency by any of the LLP, the Issuer, Bond Trustee and/or the Security Trustee, as applicable (each a **Requesting Party**) and the Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances, the Requesting Party shall be entitled to assume that the then current ratings of the Covered Bonds on issue will not be downgraded or withdrawn by such Rating Agency as a result of such action or step. However, nothing in this Condition 14 shall in any way affect the right of a Rating Agency to downgrade or withdraw its then Current Ratings of the Covered Bonds in such a manner as it sees fit.

The Bond Trustee and/or the Security Trustee shall be entitled to treat as conclusive a certificate signed by an Authorised Signatory of the Issuer or a Designated Member of the LLP as to any matter referred to in (b) above, and the Bond Trustee and/or the Security Trustee, shall not be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be caused as a result.

For the purposes of this Condition 14:

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

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

Successor in Business means any entity which (i) acquires all or substantially all of the undertaking and/or assets of the Issuer or (ii) acquires the beneficial ownership of the whole of the issued voting stock and/or share capital of the Issuer or (iii) into which the Issuer is amalgamated, merged or reconstructed and where the Issuer is not the continuing company where, in each case, the terms of the proposed transaction have been previously notified to the Bond Trustee and the Bond Trustee has determined that the transaction will not be materially prejudicial to the Covered Bondholders, or by an Extraordinary Resolution of the Covered Bondholders; and

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

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

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

Covered Bonds of the relevant Series then outstanding or as otherwise required under the Transaction Documents.

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action 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, Couponholders or the other Secured Creditors and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

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

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

16. Limited Recourse

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

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

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

17. Further Issues

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

18. Contracts (Rights of Third Parties) Act 1999

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

19. Governing Law

The Trust Deed, the Agency Agreement, the Corporate Services Agreement, the Covered Bonds, the Coupons and the other Transaction Documents (other than each declaration of trust in relation to the sale of Scottish loans and their related security to the LLP (each a **Scottish Declaration of Trust**) and certain supplemental security documents to be granted pursuant to the Deed of Charge) and any non-contractual obligations arising out of or in relation to such documents are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust and certain supplemental security 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 construed in accordance with Northern Irish law.

USE OF PROCEEDS

The proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after swapping the proceeds of the Term Advances into Sterling, if necessary) either to (i) acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations (if the Issuer and the Covered Bonds are registered under the RCB Regulations) and the Asset Coverage Test and thereafter may be applied by the LLP:

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

THE ISSUER

THE CO-OPERATIVE BANK P.L.C. (the Bank)

History and Development

The Bank's origins date back to 1872, originally being formed as the Banking Department of the Co-operative Wholesale Society Limited (**CWS**), which changed its name on 3 December 2007 to Co-operative Group Limited following the merger with United Co-operatives on 29 July 2007 (the **Co-operative Group**).

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

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

The Co-operative Group is the UK's largest mutual business, owned not by private shareholders but by over six million consumers. The Co-operative Group operates a range of businesses in food (it is the UK's fifth biggest food retailer, and one of the UK's leading convenience store operators) and non-food retailing, farming, funerals, travel, and pharmacy. It also provides buying, marketing, distribution and other services for the co-operative movement.

The Co-operative Group operates 5,000 retail trading outlets, employs more than 102,000 people and has an annual turnover of more than £13.3 billion.

Co-operative Banking Group Limited is incorporated under the Industrial and Provident Societies Acts of 1965 to 2003 and is also the parent of the Bank's primary sister organisations – Co-operative Insurance Society Limited (**CIS**) and CIS General Insurance Limited (**CISGIL**).

With effect from 15 January 2006, the Executive Management of the Boards of the Co-operative Banking Group Limited, CIS, CISGIL and the Co-operative Bank have been reorganised under a single Executive Management Framework. At this date all the Directors of the Co-operative Banking Group Limited Board were appointed to the Bank Board ensuring a common understanding of objectives.

The Bank's registered office, which is also its Head Office, is situated at 1 Balloon Street, Manchester M60 4EP, telephone number: +44 (0)161 832 3456, fax number: +44 (0)161 829 4475. The registered number of the Bank is 990937.

Moody's currently rates the short-term senior unsecured and unguaranteed obligations of the Bank as P-2 and the long-term senior, unsecured and unguaranteed obligations of the Bank as A3. Fitch has assigned the the Bank with a short-term issuer default rating of F2 and a long-term issuer default rating of BBB+.

Merger with Britannia Building Society

On 21 January 2009, the boards of Britannia Building Society and Co-operative Banking Group Limited jointly announced their proposal to merge (the **Merger**). On 29 April 2009, Britannia Building Society shareholding and borrowing members voted in favour of the Merger. The Merger became effective on 1 August 2009 through a transfer of the business, assets and liabilities of the Britannia Building Society to the Bank under Section 97 of the Building Societies Act 1986 and Britannia Building Society ceased to exist as a legal entity.

Prior to the Merger, Britannia Building Society was the United Kingdom's second largest building society in terms of total consolidated assets. At the date of this Prospectus, the retail residential lending and savings franchise transferred from Britannia Building Society (the **Britannia Businesses**) and the pre-Merger businesses of the Bank (the **Co-operative Bank Businesses**) continue to trade as separate businesses under the "Britannia", "Co-operative Bank" and "Smile" brand names respectively.

Responsible Finance

In 2001, the Co-operative group launched its ethical plan, with the aim of being one of the UK's leading socially responsible businesses. Responsible finance is a key focal area of the ethical plan, part of which is the Bank's ethical policy.

The Bank is the only UK bank to have a customer-led ethical policy, reflecting ethical concerns about the provision of financial services to certain activities and sectors.

Since the ethical plan was originally launched in 1992¹, the Bank has declined over £1 billion of funding from business activities that are in breach of its ethical policy.

Business & Principal Activities

The Bank is an established UK settlement bank with a diversified range of retail banking activities, substantially servicing UK customers. It has an established presence in its chosen segments of the UK market and has a continuing programme centred upon mutuality to differentiate itself from the competition and to improve customer loyalty, through its member owned, customer led and ethically guided principles.

The Bank, as part of Co-operative Banking Group Limited, has goals centred around a "Balanced Score card" under the categories of "Financial", "Customer", "People", "Process" and "Risk". These categories capture performance in areas such as profit, liquidity, customer advocacy, efficiency and colleague engagement.

The Co-operative Bank's operating result and profit before taxation

	2011 £m	2010 £m	Change £m	Change %
Income	817.6	821.8	(4.2)	(1)%
Operating costs - steady state	(548.2)	(555.5)	7.3	1%
Operating costs - strategic initiatives	(13.4)	(26.0)	12.6	48%
Impairment losses	(114.9)	(95.8)	(19.1)	(20)%
Operating result	141.1	144.5	(3.4)	(2)%
Significant items	(53.3)	(55.5)	2.2	4%
PPI provision	(90.0)	(4.3)	(85.7)	

¹ Source: 2010 Sustainability Report: http://www.co-operative.coop/Corporate/sustainability/2011/downloads/Sustainability_Report_2010.pdf. Statements and figures have been subject to third party independent assurance as described on pages 124 and 125 of the Sustainability Report.

	2011	2010	Change	Change
	£m	£m	£m	%
Share of post tax profits/(losses) from joint ventures	0.2	0.7	(0.5)	(71)%
Financial services compensation scheme levies	(14.5)	(11.5)	(3.0)	(26)%
Profit before tax, distributions and fair value amortisation	(16.5)	73.9	(90.4)	(122)%
Fair value amortisation	86.3	(14.2)	100.5	708%
Profit before taxation and distributions	69.8	59.7	10.1	17%
Membership dividend	(15.6)	(10.8)	(4.8)	44%
Profit before taxation	54.2	48.9	5.3	11%

Balance Sheet

	2011	2010
	Total	Total
	£m	£m
Loans and advances to customers	34,132	35,144
Investments	13,274	9,033
Other assets	1,550	1,403
Total Assets	48,956	45,581
Amounts owed to customers	36,553	34,303
Wholesale liabilities	3,303	2,939
Debt securities in issue	4,165	4,212
Other liabilities	1,403	1,078
Minority interest	33	32
Other borrowed funds	1,259	975
Equity	2,240	2,042
Total Liabilities & Equity	48,956	45,581

Funding

The Bank is predominantly customer funded, with £36.6 billion of customer deposits (Retail and Corporate and Business Banking deposits). The loan to deposit ratio at 31 December 2011 stood at 93.9%, strengthening by 8.6% on the position as at 2010 (102.5%) year end. The customer funding position is supplemented by wholesale funding which enables the Bank to diversify its funding base. Wholesale funding represents £8.7 billion of total funding.

Capital

The Bank's capital position remains strong with a core tier 1 ratio at 31 December 2011 of 9.6%, unchanged from 31 December 2010: 9.6%. A provision of £90.0 million was made in the Bank's 2011 accounts to cover the cost of redress and administration of PPI complaints, principally in relation to PPI sold with unsecured credit offerings.

In 2011, the capital position was supported through surplus capital previously held within the Co-operative Banking Group Limited, and through the exchange and issuance of lower tier two subordinated debt. As a

consequence, the Bank's total capital ratio improved from 14.0% at 31 December 2010 to 14.7% as at 31 December 2011. A further PPI provision of £40.0 million was made in the first six months ended 30 June 2012.

Rigorous stress testing is undertaken to ensure that regulatory capital levels can be adequately maintained under severe stress scenarios. The Bank's capital planning activity incorporates the transitional impact of Basel III and the ICB report.

The Bank's primary operating segments

The Bank consists of two primary operating segments – Retail and Corporate and Business Banking.

Retail Banking

The Retail Banking business offers a range of financial products and services to individuals, households and small businesses throughout the UK, trading as The Co-operative Bank, Britannia and Smile.

Retail savings and current accounts

The Bank has just over 4.8 million retail banking customers, and operates a range of current accounts and savings products. The Bank had £27.8 billion personal customer deposit balances as at 31 December 2011. These balances are held in a mixture of instant access, notice accounts and fixed rate deposits as well as current accounts. The Bank distributes its retail products through over 342 branches and call centres across the UK and via the internet.

Residential Mortgage Lending

The Bank offers variable, fixed and tracker mortgages. As at 31 December 2011 the residential mortgage portfolio of the Bank predominantly comprises prime mortgages (66 %), with a broad geographical spread. The portfolio is well seasoned with stable Loan to Values (**LTV**).

As at 31 December 2011, the Bank had £23.7 billion of gross advances, before fair value adjustments, secured on residential property. At 31 December 2011, the total provision held against residential loans was £9.0 million.

As at 31 December 2011 the total residential mortgage portfolio comprised:

<i>Mortgage Type</i>	<i>Amount</i>	<i>Percentage of Book</i>
Prime	£15.7 billion	66.4 per cent.
Non Conforming	£2.9 billion	12.2 per cent.
Self Certificated	£2.2 billion	9.2 per cent.
Buy to Let	£2.9 billion	12.2 per cent.
Total	£23.7 billion	

Geographical analysis of residential mortgages

	2011	2010
London & South East	40 per cent.	40 per cent.
Northern England	21 per cent.	22 per cent.
Midlands and East Anglia	21 per cent.	21 per cent.
Wales and South West	12 per cent.	12 per cent.
Other	6 per cent.	5 per cent.

Loan to Value (indexed) of Residential Mortgage Portfolio

	2011	2010
LTV < 50 per cent.	26.1 per cent.	27.3 per cent.
LTV 50-60 per cent.	10.7 per cent.	10.6 per cent.
LTV 60-70 per cent.	13.0 per cent.	12.3 per cent.
LTV 70-80 per cent.	15.3 per cent.	15.0 per cent.
LTV 80-90 per cent.	14.7 per cent.	14.7 per cent.
LTV 90-100 per cent.	9.9 per cent.	10.2 per cent.
LTV > 100 per cent.	10.4 per cent.	9.8 per cent.

Basis of indexation: Halifax quarterly non-seasonally adjusted house price index

Residential mortgage asset quality has been maintained in 2011, with the Bank's level of mortgage delinquencies (arrears balance greater than or equal to 2.5% of total balance) standing at 1.18% as at 31 December 2011.

Prime residential mortgage lending (66% of the total residential mortgage portfolio) loans which are three months or more in arrears as a proportion of the total book stood at 0.49% as at 31 December 2011.

Personal Unsecured Loans

The Bank's book comprises mostly fixed rate lending to Bank customers (personal loans) and non-bank customers (direct loans). Risk based pricing is utilised. The Bank's unsecured lending book was £0.8 billion as at 31 December 2011.

Credit Cards

The Bank's credit card book was £0.6 billion as at 31 December 2011. Credit card growth is focused on customer retention and targeted growth opportunities.

Smile

In October 1999, the Bank launched Smile, the UK's first full Internet bank. Smile currently has approximately 360,000 customers as at 31 December 2011, of which a high proportion are relationship customers. Smile offers services including current accounts, unsecured loans, credit cards, mortgages, savings products and insurance either directly or through other Co-operative companies.

Retail performance

Retail impairment in 2011 was 45.4 per cent, better than at 31 December 2010. Key drivers include declining unsecured credit card balances and improvements in arrears collection rates. Mortgage quality has been maintained with continued low rates of impairment.

The strength of the Retail customer proposition continues to be recognised by a range of awards. In 2012, the Co-operative Bank was successful in multiple categories at the Moneywise Customer Service Awards and The Card & Payments Awards, recognising consumers banking propositions across both the Bank and the wider Co-operative Group. The Co-operative Bank's credibility amongst customers and commentators alike was underscored by a third successive year of being shortlisted for "Best Financial Services Provider" at the 2012 Which? Awards.

Platform

Platform is one of the leading intermediary only lenders in the UK residential mortgage market. Launched in February 2003, the company was created from the merger of Platform Home Loans and Verso, both subsidiaries of the Britannia Building Society. It is focused on prime and buy-to-let intermediary lending. In 2012, the Platform portfolio of £1.75 billion (as at 30 June 2012) has been moved from Corporate and Business Banking to the Retail Business.

Corporate and Business Banking

Commercial Lending

The Bank has a diversified portfolio of commercial lending totalling £9.0 billion of drawn balances as at the end of December 2011 (compared to £8.7 billion as at the end of December 2010), with £11.1 billion of gross exposure. The majority of the commercial lending is property based to low risk customers with tangible net assets and/or very high quality tenant covenants.

Most of the commercial lending book is comprised of bilateral facilities, underpinning the relationship based model. The portfolio has a reasonably well spread maturity profile which provides a good longer term earnings stream. A centralised underwriting process provides strong control and governance. The portfolio consists of loans to the following industries:

Commercial lending portfolio by sector as at 31 December 2011

Sector	Total Exposure (£m)	% Total Exposure	Default Exposure (£m)	% Default Exposure to Total Exposure
Education/ Public Sector	325	2.9%	0	0.0%
Services	1,021	9.2%	30	2.9%
Housing Associations	1,133	10.3%	0	0.0%
PFI	1,276	11.5%	0	0.0%
Property and Construction				

Commercial Investment	3,679	33.3%	563	15.3%
Residential Investment	594	5.4%	155	26.1%
Commercial Development	287	2.6%	11	3.8%
Residential Development	121	1.1%	4	3.3%
Renewable Energy/ Utilities	536	4.8%	11	2.1%
Other	2,081	18.8%	148	7.1%
Total	11,053	100.0%	921	8.3%

Corporate and Business Banking performance

As at 31 December 2011, 10.2% of the Corporate lending portfolio was in default (compared to 7.6 % as at 31 December 2010). Of the 10.2% of loans in default, 100% are recognised as impaired. The majority of impaired balances are covered by provisions, protected via credit fair value adjustments, or secured by collateral.

Corporate and Business Banking impairment losses rose from £31.4 million in the year end 31 December 2010 to £87.4 million in the year ended 31 December 2011.

Savings and Current Accounts

The Bank had £7.6 billion corporate customer deposit balances as at 31 December 2011, including deposit notes. These balances are held in a mixture of instant access, notice accounts and fixed rate deposits as well as current accounts.

Optimum

Optimum has been established to provide commercial focus on the specialist mortgage portfolio and the delivery of broader loss mitigation strategies across the Bank. The business unit was created following the merger and is a closed book as part of Corporate and Business Banking. The book at 31 December 2011 stood at £7.7 billion, a reduction of 5.5% from 31 December 2010.

Treasury and Wholesale Lending

The core responsibilities for the Bank's treasury department (the **Treasury**) are to ensure a strong and stable liquidity base, provide diverse sources of wholesale funding to the bank, manage market risk within risk appetite and deliver a strong financial performance on the investment portfolio.

Wholesale Funding

The Bank aims to achieve a diversified mix of wholesale funding by currency, investor category and maturity to prevent dependence on any particular funding sector. The Bank has a variety of programmes in place so it can meet its short term and long term funding needs, including:

- Covered Bond Programme
- Euro Medium Term Note Programme
- Euro Commercial Paper Programme

The Bank continued to access the wholesale markets in 2011 and 2012. The Bank issued sterling covered bonds in November 2011, "Silk Road Finance" residential mortgage backed securities in July 2011 and July 2012, and lower tier two subordinated debt in April 2011. Together, these issues raised over £2 billion in new funding.

Liquidity Management

The Bank's Individual Liquidity Adequacy Assessment (ILAA) documents how liquidity risk is identified, measured, monitored and managed; process and procedures in place and governance to mitigate the risk. In particular the ILAA covers:

- Liquidity Risk Appetite
- Adequate systems and controls
- Stress testing
- Contingency planning
- Maintaining a liquid asset buffer

Liquidity risk appetite is defined as the board approved survival period under stress scenarios.

The Bank's liquidity management framework is designed in line with FSA BIPRU regulations and industry guidelines, including Institute of International Finance (IIF) and Bank for International Settlements (BIS) recommendations, and is being developed in response to emerging FSA requirements.

The Bank manages liquidity risk by applying:

- a systematic control process embedded in the Bank's operations;
- controlled end-to-end liquidity management with:
 - net outflows monitored to ensure they are within FSA limits;
 - maintenance of a well diversified deposit base;
 - management of stocks: high quality primary liquidity including cash, and secondary liquidity including certificates of deposit;
 - target strategic ratios; and
 - stress testing.

The strategic measures set by ALCO and monitored monthly are:

- Wholesale borrowing ratio – monitoring the amount of whole borrowing versus total liabilities
- Liquid Asset Ratio – amount of total assets that are liquid assets
- Customer loan / deposit ratio – amount of customer loans funded by customer deposits

Day-to-day cash flow (tactical liquidity) is managed by Treasury within guidelines laid down by ALCO and in accordance with the standards established for all banks by banking regulators.

The Bank has a high proportion of retail assets funded by retail deposits, ensuring there is no over reliance on wholesale funding. There are customer funding and wholesale funding ratios as described above which are set in line with the Board approved strategic plan. The Bank's structural liquidity risk management is therefore retail based and is dependent on behavioural analysis of both customer demand and deposit and loan drawdown profiles by product category based on experience. The behaviour of retail products is reviewed by ALCO and in addition the Bank has maturity mismatch limits to control the exposure to longer term mismatches.

The Bank's liquidity position is monitored on a daily basis and reported to ALCO each month. Marketable assets are maintained as a liquidity pool against potential outflows. The liquidity pool consists of high quality debt securities, such as government-issued debt and cash deposited at the Bank of England. As at 31 December 2011, the liquid asset ratio was 15.5%.

European Exposures

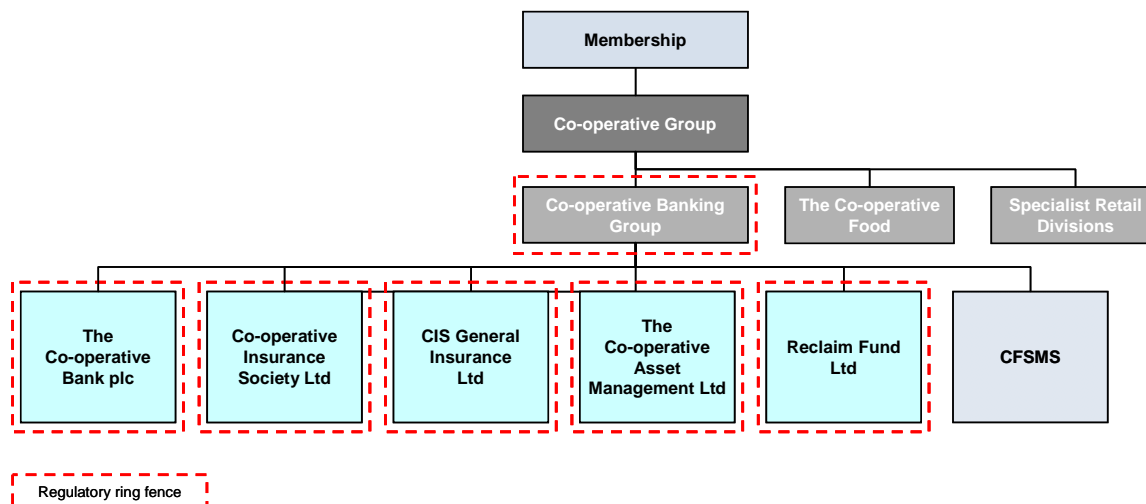
As at 31 December 2011, the Bank has no sovereign exposure to 'peripheral' eurozone area countries (Portugal, Ireland, Italy, Greece and Spain), and no exposure to Greek financial institutions or any other Greek counterparties.

The majority of underlying exposure to higher risk eurozone counterparties is comprised of money market lending and short dated bonds scheduled to run-off. As at 31 December 2011, the Bank's exposure to European Financial Institutions is detailed in the following table:

Country	Total exposure £m		
	2011	2010	Change
Austria	40	40	0
Belgium	20	187	(167)
Denmark	8	6	2
Finland	0	25	(25)
France	315	812	(497)
Germany	166	396	(230)
Ireland	30	132	(102)
Italy	0	412	(412)
Netherlands	251	10	241
Portugal	34	34	0
Spain	145	484	(339)
Sweden	28	0	28
Switzerland	233	84	149
	<u>1,270</u>	<u>2,622</u>	<u>(1,352)</u>
	£m	£m	Change
Short term exposure (<12 month residual maturity)*	746	2,123	(1,377)
Term exposure (>12 month residual maturity)*	873	878	(5)
Exposure via Senior debt securities*	713	945	(233)
Exposure via other products*	906	2,056	(1,150)

* Exposure to financial institutions before the application of credit risk mitigation.

Summary Group Structure



Through its subsidiary, Co-operative Commercial Ltd, the Bank owns 27 % of the equity of Unity Trust Bank Plc (**UTB**). UTB provides retail banking services principally to trade unions and social economy sector organisations. In accordance with UK accounting practice, the financial results of UTB are consolidated within the statutory accounts of the Bank.

Directors

At the date of this Prospectus, the Directors and the Secretary of the Bank, their businesses addresses, their functions in the Bank and their principal outside activities (if any) of significance to the Bank were as follows:

Name	Business Address	Function within the Bank	Principal outside activity (if any) of significance to the Bank
Barry Tootell	CIS Building, Miller Street, Manchester M60 0AL	Acting Chief Executive	Acting Chief Executive Co-operative Banking Group Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited. Deputy Chief Executive Co-operative Group Limited.
James Mack	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Acting Chief Financial Officer	Acting Chief Financial Officer Co-operative Banking Group Limited and Co-operative Insurance Society Limited.
Paul Flowers	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non-Executive Director and Chair	Deputy Chair of Co-operative Group Limited, Non-Executive Director and Chair of Co-operative Banking Group Limited and Co-operative Insurance Society Limited. Member of the Co-operative Group North Regional Board.
Anne Margaret Gunther	Governance Department, 5th Floor New Century House, Corporation Street,	Non Executive Director	Non Executive Director Co-operative Banking Group Limited and Co-operative Insurance Society Limited, Chair of Warwick Business School.

Name	Business Address	Function within the Bank	Principal outside activity (if any) of significance to the Bank
	Manchester, M60 4ES		
Duncan Bowdler	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Trade Liaison Manager, Co-operative Group Ltd. Non-Executive Director of Co-operative Group Limited, Co-operative Banking Group Limited and Co-operative Insurance Society Limited. Member of the Co-operative Group North West and North Midlands Regional Board.
David Wyndham Davies	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director, Deputy Chair and Senior Independent Director	Non-Executive Director and Deputy Chair of Co- operative Banking Group Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited. Chair of Sunlife Assurance Company of Canada (UK) and Nortel Network Pension Scheme in the UK. Non-Executive Director of Interglobal Insurance Company Ltd.
Peter Harvey	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Non-Executive Director of Co-operative Banking Group Limited, Co-operative Insurance Society Limited. Non-Executive Director of Marshalls Holdings Limited. Consultant to Berwin Leighton Paisner LLP.
Merlyn Vivienne Lowther	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Non Executive Director of Co-operative Banking Group Limited and Co-operative Insurance Society Limited, Non-Executive Director of Schrodgers plc.
Peter Marks	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Chief Executive, Co-operative Group Ltd. Non-Executive Director of Co-operative Banking Group Limited and Co-operative Insurance Society Limited.
Robert Newton	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Non-Executive Director of Co-operative Banking Group Limited, Co-operative Insurance Society Limited, CIS General Insurance Limited and Reclaim Fund Limited. Chair of Silentair Group Limited and Non-Executive Director of UIA Limited.
Ben Reid	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Chief Executive, Midcounties Co-operative. Non-Executive Director of Co-operative Group Ltd, Co-operative Banking Group Limited and Co-operative Insurance Society Limited. Chair of Walsall Hospitals NHS Trust.

Name	Business Address	Function within the Bank	Principal outside activity (if any) of significance to the Bank
Leonard Adrian Wardle	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Chairman of Co-operative Group Ltd. Non-Executive Director of Co-operative Banking Group Limited and Co-operative Insurance Society Limited. Member of the South East Regional Board. Director of Communicate Mutuality Ltd.
Martyn James Wates	Governance Department, 5th Floor New Century House Corporation Street,Manchester, M60 4ES	Non Executive Director	Deputy Chief Executive, Co-operative Group Ltd. Non-Executive Director of Co-operative Banking Group Limited and Co-operative Insurance Society Limited.
Moira Lees	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Company Secretary	Secretary Co-operative Group Limited, Co-operative Banking Group Limited, Co-operative Insurance Society Limited, CIS General Insurance Limited.

There are no other potential conflicts of interest between the duties to the Bank of its Directors and its Secretary and their private interests or other duties.

Recent Developments

The Co-operative Group is a financial institution

On 30 March 2012, the Co-operative Group was informed by the FSA that it is a financial institution as defined in the glossary in the FSA's Handbook of Rules and Guidance.

Project Verde

On 19 July 2012, the Co-operative Group announced that it and Lloyds Banking Group ("LBG") agreed non-binding heads of terms for the acquisition of the Verde Business.

The Board of the Co-operative Group has agreed to proceed on the basis of non-binding heads of terms with LBG in relation to the acquisition of the Verde Business. The move by the Co-operative Group would create a High Street bank with almost 1,000 branches.

The Co-operative Group and LBG are now working towards agreeing definitive, binding documentation, subject to the satisfactory completion of further due diligence and Board approvals. Completion of the transaction is expected before the end of November 2013 and will be conditional on, among other things, regulatory approvals from the FSA, HM Treasury and the European Commission.

The prospects from the acquisition of the Verde Business, and current account market growth should be of considerable benefit to the financial strength of the Bank and the product range and services offered to customers.

The Bank is continuing to progress its transformation plan. However, while pursuing Project Verde, progress has been managed down and spend reduced in those areas where Project Verde could impact the Bank's plans, to minimise the risk of redundant investment. The Bank will continue to review the transformation plan until the conclusion of the process leading to signing a sale and purchase agreement.

The Co-operative Insurance Society Limited

On 15 July 2011, Co-operative Banking Group Limited announced the outcomes from a strategic review into its life and savings business. One of the outcomes included the entrance into exclusive talks with Royal London Mutual Insurance Society Limited to sell the life insurance subsidiary, The Co-operative Insurance Society Limited, including £15 billion of assets in its Long Term Business Fund and The Co-operative Asset Management which manages the fund. Any transaction will be subject to regulatory approval.

Interim Financial Report as of 30 June 2012

The Bank's interim financial report for the period 1 January to 30 June 2012 was released on 23 August 2012.

The Bank's operating result and profit before taxation for the six months to 30 June 2012:

	H1 2012 £m	H2 2011 £m	H1 2011 £m
Income	385	383	435
Operating costs	(282)	(282)	(280)
Impairment losses	(92)	(69)	(46)
Operating result	11	33	109
- Core	84	28	106
- Non Core	(73)	5	3
Significant items	(19)	(26)	(28)
Costs relating to Project Verde	(20)	-	-
Group recharges	(10)	-	-
PPI Provision	(40)	-	(90)
Other	-	(9)	(6)
Fair value amortisation	20	70	17
Profit / (loss) before taxation & distributions	(59)	68	2

The financial performance in the first six months of 2012 is a reflection of the challenging economic conditions. The operating result of £11.3 million (2011 H1: £108.6 million) reflects continuing strain within the UK corporate sector where an increase in impairments has been witnessed, alongside a reduction in income due to the continued low base rate environment and increasingly higher costs of funding. Impairment losses in H1 2012 were £91.9 million (2011 H1: £46.1 million) principally from corporate and business banking.

The loss before taxation of £58.6m reflects the reduction in operating profits, additional provisions for PPI mis-selling of £40.0 million (2011: £90 million), and higher non-operating charges partly as a result of the acquisition of the Verde Business by The Co-operative Group from Lloyd Banking Group described above.

The Bank's core tier one ratio remains steady, at 9.6% (December 2011: 9.6%). The total capital ratio was 14.8% (2011: 14.7%) The loan to deposit ratio was 101% at the end of June (December 2011: 94%), reflecting the Bank's policy of keeping the ratio broadly in balance.

Retail Business

The Retail Banking operating results for the six months to June 2012 was £32.0 million (2011 H1: £57.8 million), reflecting a fall in interest income caused by the higher cost of attracting and retaining retail deposits in a low interest rate environment.

Retail mortgage quality has been maintained with continued low rates of impairment, and late arrears (>2.5% of balance) on only 0.29% of accounts (December 2011: 0.30%).

Corporate and Business Banking

From early 2012, the Corporate and Business Banking has been managed through two business units. The 'Core' business unit represents lines of business that are consistent with the Bank's strategy and risk appetite. 'Non-Core' lines of business include sectors not congruent with the Bank's current strategy, are managed for value and targeted for run down or exit, and contain the majority of impairment risk. The challenging UK economic environment continued to impact corporate performance in 2012, with £75.9 million impairment losses to the half year, 30 June 2012, predominantly in the Non-Core portfolio (£58.4 million).

Strategic options are being reviewed to improve the profitability and capital consumption of the non-core portfolio. Any viable solutions are likely to be medium term in nature and, in the short term, very active and close management of the impairment and profitability position is being undertaken.

The legacy Optimum portfolio, a £7.5 billion (as at 30 June 2012) closed portfolio of intermediary and acquired mortgage assets continued to witness steady improvement in delinquency performance. Late arrears in the portfolio (>2.5% of balance) were 3.12% of account (December 2011: 3.59%).

THE LLP

Introduction

The LLP was incorporated in England and Wales on 12 March 2009 as a limited liability partnership (partnership number OC343979) with limited liability under the LLPA 2000 by the Britannia Building Society and the Liquidation Member as its Members under the name Britannia Covered Bonds LLP. On the Vesting Date, Co-operative Bank became a member of the LLP and Britannia Building Society ceased to exist. On 13 January 2011 the LLP changed its name from Britannia Covered Bonds LLP to Moorland Covered Bonds LLP. The principal place of business of the LLP is at Newton House, Leek, Staffordshire ST13 5RG. The LLP has no subsidiaries.

Principal Activities

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

The LLP has not engaged since its incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA 2000, its change of name, 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 are and their principal offices are:

Name	Principal Office
The Co-operative Bank p.l.c.	1 Balloon Street, Manchester, M60 4EP
Liquidation Member	35 Great St. Helen's, London, EC3A 6AP

The LLP has no employees.

Directors of the Members

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

Name	Business Address	Business Occupation
SFM Directors Limited	35 Great St. Helen's, London, EC3A 6AP	
SFM Directors (No.2) Limited	35 Great St. Helen's, London, EC3A 6AP	
Rajesh Bhatia	5th Floor, 9 Prescott Street, London, E1 8SF	Banker

The directors of Co-operative Bank are set out under "*Board of Directors*" above.

LLP Management Board

The LLP Management Board, consisting as at the Programme Date of directors, officers and/or employees of Co-operative Bank, will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters. Any decision by the LLP Management Board relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

Directors of SFM Directors Limited

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Paivi Helena Whitaker	35 Great St. Helen's, London, EC3A 6AP	Director
Robert William Berry	35 Great St. Helen's, London, EC3A 6AP	Director
Jonathan Eden Keighley	35 Great St. Helen's, London, EC3A 6AP	Director
John Paul Nowacki	35 Great St. Helen's, London, EC3A 6AP	Director
Claudia Ann Wallace	35 Great St. Helen's, London, EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London, EC3A 6AP	Director
Jocelyn Coad	35 Great St. Helen's, London, EC3A 6AP	Director

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

Directors of SFM Directors (No.2) Limited

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Paivi Helena Whitaker	35 Great St. Helen's, London, EC3A 6AP	Director
Robert William Berry	35 Great St. Helen's, London, EC3A 6AP	Director
Jonathan Eden Keighley	35 Great St. Helen's, London, EC3A 6AP	Director
John Paul Nowacki	35 Great St. Helen's, London, EC3A 6AP	Director
Claudia Ann Wallace	35 Great St. Helen's, London, EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London, EC3A 6AP	Director
Jocelyn Coad	35 Great St. Helen's, London, EC3A 6AP	Director

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

INITIAL INTEREST RATE SWAP PROVIDER

The LLP may, in respect of any Series of Covered Bonds, enter into Interest Rate Swap(s) with one or more Interest Rate Swap Providers. The current Interest Rate Swap Provider in respect of the Programme is J.P. Morgan Securities plc (the **Initial Interest Rate Swap Provider**).

The Initial Interest Rate Swap Provider is incorporated in England and Wales and is authorised and regulated by the Financial Services Authority. The Initial Interest Rate Swap Provider became an EU credit institution on 1 July 2011. On 6 July 2012, J.P. Morgan Securities Ltd. changed its name to J.P. Morgan Securities plc and the address of the registered office of J.P. Morgan Securities plc changed from 125 London Wall, London EC2Y 5AJ to 25 Bank Street, Canary Wharf, London E14 5JP.

The Initial Interest Rate Swap Provider's immediate parent undertaking is J.P. Morgan Chase International Holdings, incorporated in England and Wales. The Initial Interest Rate Swap Provider's ultimate parent undertaking is JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The parent undertaking of the smallest group in which the Company's results are consolidated is J.P. Morgan Capital Holdings Limited, incorporated in England and Wales.

The Initial Interest Rate Swap Provider's primary activities are underwriting Eurobonds, equities and other securities, arranging private placements of debt and convertible securities, trading in debt and equity securities, swaps and derivative marketing, providing investment banking advisory and primary brokerage and clearing services for exchange traded futures and options contracts. The Initial Interest Rate Swap Provider has branches in Frankfurt, Paris, Milan, Zurich, Madrid and Stockholm and is a member of many futures and equity exchanges including the London Stock Exchange.

The obligations of the Initial Interest Rate Swap Provider under the Initial Interest Rate Swap Agreement are guaranteed by JPMorgan Chase Bank, National Association pursuant to a guarantee dated on or about the date of this Prospectus.

The information contained in this section of this Prospectus relates to and has been obtained from the Initial Interest Rate Swap Provider. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of the Initial Interest Rate Swap Provider since the date hereof, or that the information contained or referred to in this section of this Prospectus is correct as of any time subsequent to its date.

INITIAL INTEREST RATE SWAP GUARANTOR

JPMorgan Chase Bank, National Association (the **Initial Interest Rate Swap Guarantor**) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of 30 June 2012, JPMorgan Chase Bank, National Association, had total assets of \$1,812.8 billion, total net loans of \$594.3 billion, total deposits of \$1,163.0 billion, and total stockholder's equity of \$136.4 billion. These figures are extracted from the Initial Interest Rate Swap Guarantor's unaudited Consolidated Reports of Condition and Income (the **Call Report**) as of 30 June 2012, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles. The Call Report, including any update to the above quarterly figures, is filed with the Federal Deposit Insurance Corporation and can be found at www.fdic.gov (for the avoidance of doubt, such website does not constitute part of this Prospectus).

Additional information, including the most recent annual report on Form 10-K for the year ended 31 December 2011, of JPMorgan Chase & Co., the 2011 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the **SEC**) by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Prospectus is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov (for the avoidance of doubt, such website does not constitute part of this Prospectus).

The information contained in this section of this Prospectus relates to and has been obtained from the Initial Interest Rate Swap Guarantor. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of the Initial Interest Rate Swap Guarantor since the date hereof, or that the information contained or referred to in this section of this Prospectus is correct as of any time subsequent to its date.

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

Following the occurrence of an Issuer Event of Default and after the Covered Bonds have been declared due and payable by the Bond Trustee as against the Issuer, following service of an Issuer Acceleration Notice, the Bond Trustee is required to serve a Notice to Pay on the LLP. Payment by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee is required to be made on the later of: (i) the day which is two Business Days following service of a Notice to Pay on the LLP; or (ii) the day on which the Guaranteed Amounts are otherwise Due for Payment.

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

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee will be as principal debtor and not merely as surety and will be absolute and (following service of an Issuer Acceleration Notice and a Notice to Pay, or, if earlier, service of an LLP Acceleration Notice) unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect

in, any provisions of the Trust Deed, the Deed of Charge, the Conditions, the applicable Final Terms, or the Covered Bonds or Coupons or any other Transaction Document or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9(b) of the Conditions, failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default.

The Trust Deed provides that the Excess Proceeds 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 LLP Accounts and the Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the LLP Accounts. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service of an LLP Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any of such obligations.

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

The Trust Deed is governed by English law.

Intercompany Loan Agreement

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the Principal Amount Outstanding on the Issue Date of the issue of the related Covered Bonds to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in the relevant Specified Currency of the corresponding Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms, and the LLP will, if such Term Advance is not denominated in Sterling, swap such Term Advance 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 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 (b) to acquire or invest in Substitution Assets in an amount not exceeding the prescribed limit, in either case, to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP: (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 written confirmation from the LLP that on the relevant Issue Date it has not been served with an Asset Coverage Test Breach Notice which has not been revoked), to make a Capital Distribution to the Seller (in its capacity as Member); and/or (iv) if an existing Series or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (v) to make a deposit in the appropriate Deposit Account (including, without limitation, to fund the Reserve Fund in an amount not exceeding the Reserve Fund Required Amount). Each Term Advance will bear interest at least at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments and following a Cash Manager Relevant Event from amounts (in respect of

interest due on the Term Advances) standing to the credit of the Collateral Account. Prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked) or a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments and following a Cash Manager Relevant Event from amounts standing to the credit of the Collateral Account. The Issuer may use the proceeds of the Term Advances to pay amounts due on the Covered Bonds. However, any failure by the LLP to pay any amounts due on the Term Advances will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so long as an Asset Coverage Test Breach Notice is outstanding and has not been revoked, the LLP may not borrow any new Term Advances (and the Issuer may not make any new Term Advances) under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by: (i) any amounts paid by the LLP under the terms of the Covered Bond Guarantee; or (ii) the Principal Amount Outstanding of any relevant 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(g) and 6(h).

The Intercompany Loan Agreement is governed by English law.

Mortgage Sale Agreement

The Seller

Loans and their Related Security have been and will be sold by the Seller to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Initial Programme Date between Co-operative Bank (in its capacities as Seller and as a Beneficiary), the LLP (in its capacities as LLP, All Moneys Mortgage Trustee and a Beneficiary), the Interest Rate Swap Provider and the Security Trustee. The English Loans and Northern Irish Loans were originally held by the Seller for the benefit of the LLP under the CCA Trust. The LLP obtained a CCA licence on 17 June 2010, at which point the beneficial interest in all the English Loans and Northern Irish Loans held pursuant to the CCA Trust were transferred and assigned by the Seller to the LLP. No Scottish Loans were sold by the Seller to the LLP on or prior to such date.

Sale by the Seller of Loans and Related Security

The Portfolio will consist of Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming part of the Portfolio will vary over time **provided that**, at the time the relevant Loans are sold to the LLP, the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Transfer Date. Accordingly, the Portfolio may, at any time, include Loans with characteristics that were not being offered to Borrowers on previous Transfer Dates.

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

- (a) *First*, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied in whole or in part by the LLP to acquire Loans and their Related Security from the Seller. In consideration of the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the True Balance of those Loans sold by it as at the Transfer Date, which will be satisfied by a combination of:
 - (i) a cash payment to be made by the LLP from the proceeds of the relevant Term Advance and/or from Available Principal Receipts; and/or

- (ii) the Seller being treated as having made a Capital Contribution in an amount equal to the difference between the aggregate of the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) made by the LLP;
 - (iii) the covenant by the LLP (in its capacity as the All Moneys Mortgages Trustee) to hold the All Moneys Mortgage Trust Property under each All Moneys Mortgage Trust upon trust for itself and the Seller, (as the holder of the Associated Debt), each as beneficiaries of each All Moneys Mortgage Trust; and
 - (iv) Deferred Consideration.
- (b) *Second*, prior to service of an Asset Coverage Test Breach Notice on the LLP (which has not been revoked) the LLP may 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 so that the Issuer is in compliance with the Asset Coverage Test in consideration of (i) the Seller being treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans sold by the Seller as at the relevant Transfer Date), (ii) the right to receive the Deferred Consideration and (iii) the covenant by the LLP (in its capacity as the All Moneys Mortgage Trustee) to hold the All Moneys Mortgage Trust Property under each applicable All Moneys Mortgage Trust upon trust for itself and the Seller (as holder of the Associated Debt), each as beneficiaries of such All Moneys Mortgage Trust.

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 in certain circumstances following service of a Notice to Pay*", the obligations of the Seller insofar as they relate to those Selected Loans and their Related Security will cease to apply.

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

Eligibility Criteria

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

- (a) no Issuer Event of Default or LLP Event of Default under the Transaction Documents shall have occurred which is continuing as at the relevant Transfer Date;
- (b) the LLP, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the purchase of the New Portfolio on the relevant Transfer Date would adversely affect the then current ratings by Moody's or Fitch of the Covered Bonds;
- (c) the weighted average yield on the Loans in the Portfolio (including the loans which it is proposed will be New Loans) is at least 0.10% greater than LIBOR for one month Sterling deposits after taking into account:
 - (i) the weighted average yield on the Loans;

- (ii) the margins on the Interest Rate Swaps;
 - (iii) the weighted average yield on any Substitution Assets held by the LLP; and
 - (iv) the amount available to be withdrawn from the Yield Reserve taking into account amounts to be credited to the Yield Reserve on or before the next following Calculation Date; and
- (d) if the sale of loans which it is proposed will be New Loans on the relevant Transfer Date includes the sale of New Loan Types to the LLP, the Rating Condition has been satisfied.

If the Transfer Date is an Issue Date, only the conditions set out in paragraphs (a) and (c) above are required to be satisfied to effect an assignment and transfer of the loans which it is proposed will be New Loans. In addition, if any part of the consideration for a sale is satisfied pursuant to a cash payment under the Mortgage Sale Agreement, the conditions set out in paragraphs (a) to (d) above will be deemed to be satisfied or waived and, if the sale was in fact made at a time when the conditions were not satisfied or waived, the Mortgage Sale Agreement will be deemed to contain a warranty that the conditions above had been satisfied and that there is a material breach of such warranty, provided that in each case if amounts are not credited to the Yield Reserve on or before the relevant Calculation Date, then the Mortgage Sale Agreement will be deemed to contain a warranty that such amounts had been credited to the Yield Reserve and that there is a material breach of such warranty on that date.

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

If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or Further Advance, then if the Eligibility Criteria referred to in paragraphs (a) to (d) above relating to the Loan subject to that Product Switch or Further Advance are not satisfied on the next following Calculation Date, the LLP will be entitled to rectify the relevant breach of those Eligibility Criteria by (in the event of a breach of the Eligibility Criteria in paragraphs (a) and (c) above) requiring the Seller to repurchase the Loans subject to any Product Switch or Further Advance or (in the event of a breach of the Eligibility Criteria in paragraph (c) above) by requiring the Seller to transfer further New Loans to the LLP or make a Cash Capital Contribution to the LLP, in each case in an amount sufficient to ensure that the Eligibility Criterion in paragraph (c) above of the Eligibility Criteria is met.

On the relevant Transfer Date the Seller must deliver to the Security Trustee a solvency certificate signed by an Authorised Signatory of the Seller dated as at the relevant Transfer Date if (i) a solvency certificate has not been delivered by the Seller in the six months prior to the relevant Transfer Date or (ii) as at the relevant Transfer Date the short-term, unsecured, unsubordinated debt obligations of the Seller are not rated at least P-1 and F2 by Moody's and Fitch, respectively.

Transfer of Title to the Loans to the LLP

English Loans and Northern Irish Loans and their Related Security will be sold by the Seller to the LLP by way of equitable assignment. Scottish Loans and their Related Security will be sold by the Seller to the LLP by way of one or more Scottish Declarations of Trust, under which the beneficial interest in such Scottish Loans and their Related Security will be transferred to the LLP (and in relation to Scottish Loans, references in this document to a sale or assignment of Loans or Loans having been sold or assigned are to be read as references to the making of such Scottish Declarations of Trust).

Legal assignment or assignation (as appropriate) of the Loans and their Related Security to the LLP (or, where specified, of the Selected Loans and their Related Security) will be completed on or before the 25th Business Day after the earliest of the following:

- (a) either: (i) the occurrence of an Issuer Event of Default under Condition 9(a)(i) and service on the Issuer of an Issuer Acceleration Notice and the service on the LLP of a Notice to Pay unless the Seller has notified the LLP that it will accept an offer set out in the Selected Loan Offer Notice within the prescribed time (in respect of those Loans which are the subject of a Selected Loan Offer Notice); or (ii) if the Bond Trustee has previously served on the Issuer an Issuer Acceleration Notice and served on the LLP a Notice to Pay in respect of an Issuer Event of Default under Condition 9(a)(xi), then the occurrence of any other Issuer Event of Default;
- (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: (i) by law; (ii) by an order of a court of competent jurisdiction; (iii) by a regulatory authority which has jurisdiction over the Seller; or (iv) by any organisation of which the Seller is a member, or whose members comprise, but are not necessarily limited to, mortgage lenders and with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans; and
- (d) the Seller requesting a transfer by way of assignment or assignation (as appropriate) by giving notice in writing to the LLP and the Security Trustee.

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 by, or (in Scotland) supported by, an irrevocable power of attorney granted by the Seller in favour of the LLP and the Security Trustee.

Except where lodged with the relevant registry in relation to any registration or recording which may be pending at the Land Registry or the Registers of Scotland or the Registers of Northern Ireland, and save in relation to Loans which are Dematerialised Loans, the Title Deeds and Loan Files relating to the Loans in the Initial Portfolio will be held by or to the order of the 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. The Seller or the Servicer, as the case may be, will undertake that, save in relation to Loans which are Dematerialised Loans, all the Title Deeds and Loan Files 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 or the Security Trustee or the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which will be given if the Rating Condition has been satisfied), amend the Representations and Warranties in the Mortgage Sale Agreement. The Representations and Warranties are given on the relevant Transfer Date in respect of the Loans and Related Security to be sold to the LLP only on that date and on the Calculation Date following the making of any Further Advance or Product Switch in respect of the Loan to which the Further Advance or Product Switch relates only and on the Calculation Date following the Rearrangement Transfer Date in respect of the Loan to which the Rearrangement relates only.

The material Representations and Warranties are as follows:

Loans

- The particulars of each Loan and its Related Security as provided by the Seller to the LLP are true, accurate and not misleading in any material respect.

- Each Loan was originated or purchased by the Seller in the ordinary course of business and was denominated in Sterling upon origination (or was denominated in euro upon origination or acquisition if the euro has been adopted as the lawful currency of the United Kingdom).
- No Loan has a True Balance of more than £1,200,000.
- Prior to the making of each Initial Advance and Further Advance, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions and waivers as made on a case-by-case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender.
- The Lending Criteria are consistent with the criteria that would be used by a Reasonable, Prudent Mortgage Lender.
- Each Loan and its Related Security was made on the terms of the Standard Documentation without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect.
- At least one monthly payment due in respect of each Loan has been paid by the relevant Borrower.
- The True Balance on each Loan and its Related Security constitute a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower enforceable in accordance with their terms and are non-cancellable except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies.
- The rate of interest under each Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto.
- No agreement for any Loan is in whole or in part a regulated agreement or consumer credit agreement (as defined in Section 8 of the CCA) or, to the extent that any Loan is in whole or in part a regulated agreement or consumer credit agreement, the procedures and requirements set out in the CCA have been complied with in all material respects.
- All of the Borrowers are individuals (and not partnerships) and were aged 18 years or older at the date they executed the relevant Mortgage.
- Each Loan has a remaining term of less than 50 years as at the relevant Transfer Date.
- To the extent that a Guarantee was required under the Lending Criteria in relation to a particular Loan, that Guarantee constitutes the valid, binding and enforceable obligations of the guarantor thereunder (save to the extent that the Guarantee is not valid, binding or enforceable by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or the Unfair Terms in Consumer Contracts Regulations 1999).
- Each Loan and its Related Security is valid, binding and enforceable in accordance with its terms and is non-cancellable except in the case of some Flexible Loans in respect of which a Mortgage may constitute valid and subsisting first or second charges by way of legal mortgage or legal charge or first or second ranking standard securities (in relation to Scottish Loans) over the relevant Property, and subject only in certain appropriate cases to requisite applications for registrations or recordings at the Land Registry or the Registers of Scotland or Registers of Northern Ireland (as applicable) having been made and which are pending and, in relation to such cases, the Seller is not

aware of any caution, notice, inhibition or any other matter that would prevent such registration or recording.

- All approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the LLP, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the LLP, the Security Trustee or any of their successors in title or assigns.
- No Related Security consists of stock or marketable securities (in either case for the purposes of Section 122 of the Stamp Act 1891), chargeable securities (for the purposes of Section 99 of the Finance Act 1986) or a chargeable interest for the purposes of Section 48 of the Finance Act 2003.
- Save in respect of Product Switches none of the provisions of the Loans have been waived, altered or modified in any way by the Seller other than:
 - (a) any variation agreed with a Borrower to control or manage arrears on a Loan;
 - (b) any variation in the maturity date of a Loan;
 - (c) any variation imposed by statute or as a result of UK government policy changes or initiatives aimed at assisting homeowners (including Borrowers) in meeting payments on their mortgage loans or any variation in the frequency with which the interest payable in respect of the Loan is charged;
 - (d) any variation to the interest rate as a result of the Borrowers switching to a different rate;
 - (e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan or removal of a Borrower;
 - (f) any change in the repayment method of the Loan; or
 - (g) any partial release of security where, after such release, the Loan continues to satisfy the applicable LTV Ratio requirements; or
 - (h) or any Rearrangement.
- No Loan is identified in the records of the Seller as being a Staff Product.
- Each Loan and its Related Security will be eligible property for the purposes of Regulation 2 of the RCB Regulations.
- In relation to any Right to Buy Loan:
 - (i) in the case of English Loans the Seller is an approved lending institution within the meaning given to that expression in the Housing Act 1985 (as amended); and
 - (j) the original advance or Further Advance was made to a person exercising the right to buy.
- No Loan is greater than one monthly payment in arrears.

- So far as the Seller is aware, no Borrower is in breach of any obligation under a Loan other than in respect of Monthly Payments.
- No Loan is a buy-to-let Loan.

Mortgages

- Subject in certain appropriate cases to the completion of an application for registration or recording at the Land Registry or the Registers of Northern Ireland or the Registers of Scotland (as applicable) (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), the whole of the True Balance on each Loan is secured by a Mortgage over a residential Property and each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage, legal charge or (in Scotland) standard security (or in the case of some Flexible Loans, a valid and subsisting first and second charge by way of legal mortgage, legal charge or (in Scotland) first and second ranking standard securities in each case in favour of the Seller).
- Each Mortgage is substantially in the form of the pro forma contained in the Standard Documentation which was applicable at the time the Mortgage was executed.
- In relation to each English Mortgage, the Borrower has good and marketable title to the relevant Property (subject to registration of the title at the Land Registry) free from any encumbrance (except the Mortgage and any subsequent ranking mortgage and, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the relevant local authority which has not been postponed) which would materially adversely affect such title and, without limiting the foregoing, in the case of a leasehold Property:
 - (a) the lease cannot be forfeited on the bankruptcy of the tenant;
 - (b) any requisite consent of the landlord to, or notice to the landlord of, the creation of the Related Security has been obtained or given; and
 - (c) a copy of the consent or notice has been or will be placed with the Title Deeds.
- In relation to each Scottish Mortgage, the Borrower has a valid and marketable heritable or long lease title to the relevant Property (subject to registration or recording of the title at the Registers of Scotland) free (save for the Scottish Mortgage and any subsequent ranking heritable security and, in relation to a Right to Buy Loan, any standard security which may arise or be granted in favour of the relevant local authority which has not been postponed) from any encumbrance which would materially adversely affect such title and, without limiting the foregoing, in the case of a leasehold Property:
 - (a) the lease cannot be irritated on the bankruptcy or sequestration of the tenant;
 - (b) any requisite consent of the landlord to, or notice to the landlord of, the creation of the Related Security has been obtained or given; and
 - (c) a copy of the consent or notice has been or will be placed with the Title Deeds.
- In relation to each Northern Irish Mortgage, the Borrower has good and marketable title to the relevant Property (subject to registration of the title at the Registers of Northern Ireland) free from any encumbrance (except the Mortgage and any subsequent ranking mortgage and, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the Northern Ireland Housing Executive or other competent public authority which has not been postponed) which would

materially adversely affect such title and, without limiting the foregoing, in the case of a leasehold Property:

- (a) the lease cannot be forfeited on the bankruptcy of the tenant;
- (b) any requisite consent of the landlord to, or notice to the landlord of, the creation of the Related Security has been obtained or given; and
- (c) a copy of the consent or notice has been or will be placed with the Title Deeds.

The Properties

- All of the Properties are in England, Wales, Scotland or Northern Ireland.
- Each Property constitutes a separate dwelling unit and is either freehold, fee farm grant, leasehold or commonhold or (in Scotland) held under heritable title or held under a long lease.
- In relation to each English Mortgage and Northern Irish Mortgage every person who, at the date upon which the relevant Loan was made, had attained the age of seventeen and who had been notified to the Seller as residing or being about to reside in a Property subject to a Mortgage, is either the relevant Borrower or has signed a Deed of Consent and in relation to each Scottish Mortgage, all necessary MH/CP Documentation has been obtained so as to ensure that the relevant Property is not subject to any right of occupancy.
- As far as the Seller is aware, no Property has been let by the Borrower otherwise than by way of:
 - (a) an assured shorthold tenancy which meets the requirements of Section 19A or Section 20 of the Housing Act 1988 (in England);
 - (b) a short assured tenancy which meets the requirements of Section 32 of the Housing (Scotland) Act 1988; or
 - (c) in Northern Ireland on terms equivalent to (a) above,in each case which meets the Seller's Policy in connection with lettings to non-owners.
- No Loan which is proposed as a New Loan to be sold on the First Transfer Date or any subsequent Transfer Date relates to a Property which is not a residential Property.

Valuers' and Solicitors' Reports

- In the case of each Loan, the Seller caused to be made on its behalf a valuation of the relevant Property by a Valuer or an automated valuation model (the **AVM**) in all material respects in accordance with the Lending Criteria.
- The Seller has not agreed to waive any of its rights against any valuer, solicitor, licensed or qualified conveyancer or other professional who has provided information, carried out work or given advice in connection with any Loan or Related Security.
- In the case of all Loans other than remortgages, prior to making a Loan to a Borrower the Seller:
 - (i) caused its approved solicitors or approved conveyancers to carry out in relation to the relevant Property all investigations, searches and other actions and enquiries which a Prudent Mortgage Lender or its solicitors normally make when lending to

an individual on the security of residential property, as the case may be, in England and Wales or Northern Ireland or Scotland (as applicable); and

- (ii) received a Certificate of Title from Approved Solicitors or Approved Conveyancers relating to such Property and the results thereof were such as would be acceptable to a Prudent Mortgage Lender in order to proceed with the Loan; or
- (iii) arranged for its interest in the Property to be insured under any Title Insurance Policy applicable to such Property and the Seller is insured under such policy,

except where, in the case of (ii) and (iii) above, a Prudent Mortgage Lender would deem such Certificate of Title and/or Title Insurance Policy not to be required;

- In the case of remortgages only, prior to remortgaging a Borrower's Loan the Seller:

- (i) caused its Approved Solicitors or Approved Conveyancers to carry out in relation to the relevant Property limited investigations which a Prudent Mortgage Lender or its solicitors normally make when remortgaging a loan to an individual on the security of residential property, as the case may be, in England and Wales or Northern Ireland or Scotland (as applicable) where a Title Insurance Policy is to be taken out; and
- (ii) the Seller has received a limited Certificate of Title from Approved Solicitors or Approved Conveyancers relating to such Property and the results thereof were such as would be acceptable to a Prudent Mortgage Lender in order to proceed with the remortgage; or
- (iii) arranged for its interest in the Property to be insured under a Title Insurance Policy and the Seller is insured under such Policy,

except where, in the case of (ii) and (iii) above, a Prudent Mortgage Lender would deem such Title Insurance Policy not be required;

Buildings Insurance

- As far as the Seller is aware, each Property is insured (from the date of completion of the relevant Loan):
 - (a) under the third party buildings policies;
 - (b) with a reputable insurance company approved by the Seller;
 - (c) against all risks usually covered by a Reasonable, Prudent Mortgage Lender in England and Wales or Scotland or Northern Ireland, advancing money on the security of residential property; and
 - (d) to an amount not less than the full reinstatement cost as determined by the relevant valuer.

The Seller's Title

- Immediately prior to the purchase of any Loan and the Related Security by the LLP, and subject to registration or recording at the Land Registry or the Registers of Scotland or (as the case may be) the Registers of Northern Ireland, the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and

Related Security agreed to be sold and/or assigned by the Seller to the LLP pursuant to the Mortgage Sale Agreement free and clear of all Security Interests, claims and equities (including, without limitation, rights of set-off or counterclaim and overriding interests within the meaning of either Section 3(xvi) of the Land Registration Act 1925 in the case of any property, interests or rights governed by English law, or Section 28(1) of the Land Registration (Scotland) Act 1979, in the case of any property, interests or rights governed by Scots law or Section 38 of the Land Registration Act (Northern Ireland) 1970 in the case of any property, interests or rights governed by Northern Irish law) subject in each case only to the Mortgage Sale Agreement and the Borrower's equity of redemption and the Seller is not in breach of any covenant or warrandice implied by reason of its selling the relevant Portfolio with full title guarantee (or in the case of Scottish Loans and their Related Security comprised in the relevant Portfolio, with absolute warrandice, or in the case of Northern Irish Loans and their Related Security comprised in the relevant Portfolio, as beneficial owner) (or which would be implied if the relevant Land Registry Transfers, Scottish Transfers or, as applicable, Northern Irish Transfers were completed and registered or recorded, as appropriate).

- As far as the Seller is aware, all steps necessary to perfect the Seller's title to the Loans and the Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay.
- The Loan Files relating to each of the Loans and their Related Security are held by, or are under the control of:
 - (a) the Seller; or
 - (b) the relevant Servicer.
- Neither the entry by the Seller into the Mortgage Sale Agreement nor any transfer, assignment, assignation or creation of trust contemplated by the Mortgage Sale Agreement affects or will adversely affect any of the Loans and their Related Security and the Seller may freely assign and enter into trust arrangements in respect of all its rights, title, interests and benefits therein as contemplated in the Mortgage Sale Agreement without breaching any term or condition applying to any of them.
- The Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Loan or its Related Security, other than waivers and acquiescence such as a Reasonable, Prudent Mortgage Lender might make on a case-by-case basis.

Interest Rates payable under the Loans

- Each Loan in the relevant Portfolio is either:
 - (a) a Variable Rate Loan, Tracker Rate Loan, a Capped Rate Loan or Fixed Rate Loan; or
 - (b) a New Loan Type in respect of which the Rating Condition is satisfied.

FSA Regulation

- In respect of any Mortgages entered into after 31 October 2004, the Seller was authorised by and had permission from the FSA for entering into regulated mortgage contracts as lender at the time that it entered into each such Mortgage and continues to be so authorised and hold such permission.
- From and including 31 October 2004 the Seller is authorised by and had permission from the FSA for conducting any other regulated activities (as set out in the FSMA (Regulated Activities) Order 2001, as

amended (the **Regulated Activities Order**)) in respect of a regulated mortgage contract (as defined in Article 61(3)(a) of the Regulated Activities Order) in respect of the Mortgages.

- The Seller has complied in all material respects with all regulatory requirements in respect of the Mortgages, in particular the provisions of MCOB.
- The Seller is not aware of any pending action or proceeding by an applicant against the Seller in respect of the Mortgages.
- Each officer or employee of the Seller in any capacity which involves a controlled function (as defined in the FSA Rules) or involves the supervision of any person or persons so engaged is and was at all relevant times a validly registered "approved person" in accordance with the FSA Rules.
- The Seller has created and maintained all records in respect of the Mortgages in accordance with the FSA Rules and any other regulatory requirement.
- To the extent that any of the Loans qualify as "distance contracts" (as defined by Article 2 of the Distance Marketing of Consumer Financial Services Directive) the Seller had complied with the relevant provisions of the Distance Marketing of Consumer Financial Services Directive, as implemented in the United Kingdom.
- The Seller has not altered the terms of any letter of offer accepted by a Borrower relating to a Loan or otherwise changed any of the terms and conditions relating to any Loan other than in accordance with the terms and conditions of the letter of offer relating to a Loan as accepted by the applicable Borrower other than as requested by a Borrower.

General

- The Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan.
- Neither the Seller nor as far as the Seller is aware any of its agents has received written notice of any litigation, claim, dispute or complaint (in each case, subsisting, threatened or pending) in respect of any Borrower, Property, Loan or Related Security which (if adversely determined) might have a material adverse effect on the value of the Portfolio or any part of it.
- There are no governmental authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to render the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence in a court in England and Wales or (where applicable) Scotland or Northern Ireland which have not been obtained.
- Other than in connection with the Merger, to the best knowledge and belief of the Seller no corporate action has been taken or is pending, no other steps have been taken and no legal proceedings have been commenced or pending for:
 - (a) the winding-up, liquidation, dissolution, administration or reorganisation of the Seller; or
 - (b) the Seller to enter into any composition or arrangement with its creditors generally; or
 - (c) the appointment of a receiver, administrative receiver, trustee or other similar officer in respect of the Seller or any of its property, undertaking or assets. No documents have been filed with the court for the appointment of an administrator and no notice of intention to appoint an administrator has been served. No steps have been taken by the Seller with a view to obtaining a

moratorium in respect of any indebtedness of the Seller or for the purpose of proposing a company voluntary agreement. No event equivalent to any of the foregoing has occurred in or under the laws of any relevant jurisdiction.

References in the Representations and Warranties to "Seller" include Co-operative Bank or the Britannia Building Society as the context so requires.

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

Repurchase of Loans

If the Seller receives a Repurchase Notice from the LLP identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of a Further Advance, Product Switch or Rearrangement), materially comply with the Representations and Warranties and the Seller has failed to remedy such breach as set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase such Loan on the first working day of the Calculation Period immediately following the last day of the month in which such Repurchase Notice has been received with reference to the balance of the Loan on the final Business Day of the month in which such Repurchase Notice has been received:

- (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 Loan is an amount (not less than zero) equal to the True Balance thereof 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).

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

- (a) a Further Advance or Product Switch made in respect of a Loan results in certain Eligibility Criteria being breached;
- (b) a Rearrangement occurs. In these circumstances, the Seller will be able to offer to sell the affected Loan back to the LLP. The repurchase price for such Loan that is subject to a Rearrangement will, prior to the occurrence of an Issuer Event of Default, be satisfied by way of a deemed Capital Distribution to the Seller; or
- (c) a proposed Product Switch or Further Advance which would result in the LLP being required to be regulated by the FSA by reason of it entering into or arranging a regulated mortgage contract. In these circumstances, if the Seller or Borrower accepts an offer for the Product Switch or the Further Advance (as the case may be), the Servicer will notify the LLP and the Seller will be required to repurchase the affected Loan or Further Advance before the Product Switch or Further Advance takes place.

Co-operative Bank Event

Following the occurrence of a Portfolio Lock Event or a Substitution Event in respect of the Initial Interest Rate Swap Agreement the Seller must not:

- allocate any new Fixed Rate Loans to the Initial Interest Rate Swap, or substitute any Allocated Loans for any other type of Loan in the Portfolio; or
- repurchase from the LLP any Allocated Loans unless: (i) such Allocated Loan or Loan(s) are in material breach of the Representations and Warranties contained in the Mortgage Sale Agreement; or (ii) any Further Advance, Product Switch or Rearrangement made in respect of an Allocated Loan results in a breach of the conditions set out in paragraph (c) or (d) of the Eligibility Criteria; or (iii) any Further Advance, Product Switch, Flexible Loan Drawing or Rearrangement made in respect of an Allocated Loan would result in the LLP being required to be regulated by the FSA by reason of it entering into or arranging a regulated mortgage contract,

(together, an **Adjustment Event**),

however, the Seller will still be permitted to offer, accept or document any Further Advance, Flexible Loan Drawing, Product Switch or Rearrangement in respect of the Allocated Loans.

Following the occurrence of a Substitution Event, the LLP may be required to make a mark-to-market payment to the Initial Interest Rate Swap Provider to reflect any change in the notional amount of the Initial Interest Rate Swap as a result of an Adjustment Event (the **LLP Fee Amount**). The LLP Fee Amounts will be funded by either (i) a Cash Capital Contribution made by the Seller to the LLP, or (ii) (in the case of a repurchase of an Allocated Loan in the event that such Allocated Loan or Loan(s) are in material breach of the Representations and Warranties or the Eligibility Criteria contained in the Mortgage Sale Agreement or the repurchase of an Allocated Loan as a consequence of any Further Advance, Product Switch, Flexible Loan Drawing or Rearrangement made in respect of an Allocated Loan resulting in the LLP being required to be regulated by the FSA by reason of it entering into or arranging a regulated mortgage contract) the repurchase price paid for such Loans equalling the sum of the True Balance of such Loan and the positive amount of any break costs due under the Initial Interest Rate Swap Agreement. To the extent that the Seller does not put the LLP in funds for an amount equal to the LLP Fee Amount, no LLP Fee Amount will be payable by the LLP to the Initial Interest Rate Swap Provider, however the Seller will be prohibited from effecting or documenting any Further Advance, Rearrangement or Product Switch in relation to the Initial Interest Rate Swap Provider's Allocated Loans. The Initial Interest Rate Swap Provider may also be required to make a mark-to-market payment to the LLP to reflect any change in the notional amount of the Initial Interest Rate Swap as a result of an Adjustment Event (the **Swap Provider Fee Amount**). An amount equal to the Swap Provider Fee Amount (if any) received by the LLP will be distributed to the Seller as a Capital Distribution. The LLP Fee Amounts and the Swap Provider Fee Amounts will be paid outside of the Priorities of Payment.

If any Insolvency Event occurs in relation to the Seller, the Seller is prohibited from selling or otherwise transferring Fixed Rate Loans to the LLP or substituting Fixed Rate Loans for any other type of Loan in the Portfolio or repurchasing from the LLP any Fixed Rate Loans from the LLP (unless the relevant Loan or Loans is in breach of the Representations and Warranties or accepting an application from a Borrower for a Fixed Rate Conversion.

Defaulted Loans

If a Seller receives a Defaulted Loans Notice from the Cash Manager identifying any Defaulted Loan, then that Defaulted Loan will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. In addition, the Seller may, at its option, repurchase a Defaulted Loan and its Related Security from the LLP for an amount equal to its True Balance as at the date of repurchase.

General ability to repurchase

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Loan (whether such Loan is current or in arrears) and its Related Security from the LLP for a purchase price

of not less than the aggregate True Balance of the relevant Loan. The LLP may accept such offer at its discretion.

Right of Pre-emption

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

The LLP will serve on the Seller a Selected Loans Offer Notice offering to sell those Selected Loans and their Related Security for an offer price in aggregate equal to (a) where the Selected Loan Offer Notice is given because the Issuer has failed the Pre-Maturity Test in respect of any Series of Hard Bullet Covered Bonds, the greater of the then True Balance of the Selected Loans, together with all Accrued Interest and Arrears of Interest thereon, and the Adjusted Required Redemption Amount; (b) where the Selected Loan Offer Notice is given following the service of an Asset Coverage Test Breach Notice but prior to the service of a Notice to Pay, the True Balance of the Selected Loans, together with all Accrued Interest and Arrears of Interest thereon; or (c) where the Selected Loan Offer Notice is given following the service of a Notice to Pay, the greater of the True Balance of the Selected Loans, together with all Accrued Interest and Arrears of Interest thereon, and the Adjusted Required Redemption Amount, subject to the offer being accepted by the Seller within ten Business Days. If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee. If the Seller rejects the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Loans and their Related Security to other Purchasers (as described under "*LLP Deed – Sale of Selected Loans and their Related Security in certain circumstances following the occurrence of an Issuer Event of Default*", below).

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

For the purposes hereof:

The **Adjusted Required Redemption Amount** means, the Sterling Equivalent of:

- (a) the Required Redemption Amount;

plus (if an amount payable by the LLP) or minus (if an amount is payable to the LLP);
- (b) any swap termination amounts payable under the Covered Bond Swap Agreement in respect of the relevant Series of Covered Bonds;

plus (if an amount is payable by the LLP) or minus (if an amount is payable to the LLP);
- (c) any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement(s) in respect of any Selected Loans which are Allocated Loans;

- any change to a Borrower under the Loan or the addition of a new Borrower under a Loan or removal of a Borrower;
- any change in the repayment method of the Loan; or
- any partial release of security, where, after such release, the Loan continues to satisfy the applicable LTV Ratio requirements.

In addition, the circumstances listed above will not affect the general ability of the Seller to offer to repurchase a Loan and its Related Security from the LLP.

Following the occurrence of a Substitution Event, the LLP or the Interest Rate Swap Provider may be required to make a mark-to-market payment to reflect any increase or decrease in the amount of Fixed Rate Loans allocated to a particular Interest Rate Swap Agreement.

Rearrangements

If the Seller accepts an application from, or makes an offer (which is accepted) to a Borrower for a Rearrangement, the Seller will notify the Servicer and will repurchase from the LLP the relevant Loan or Loans and its (or their) Related Security. The LLP will accordingly re-assign or re-transfer to the Seller free from the Security created pursuant to the Deed of Charge, such Loan(s) and its (or their) Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) on the Business Day immediately following the Rearrangement Date for an amount equal to the Current Balance of such loan on the Business Day immediately following the Rearrangement Date. Prior to the occurrence of an Issuer Event of Default the repurchase price in respect of any Rearrangement may be satisfied by a deemed reduction in the Capital Contribution Balance of the Seller in accordance with the provisions of the LLP Deed.

The sale by the Seller of any Loans and their Related Security which are the subject of a Rearrangement to the LLP will not include any transfer of an obligation under such Loan including any obligation to make a Further Advance, Flexible Loan Drawing or any other obligation relating to the payment of funds to the Borrowers in respect of such Loans, which obligations will, at all times notwithstanding the sale of the Relevant Loan to the LLP, be obligations of the Seller.

Any Loan which is the subject of a Rearrangement may be resold to the LLP at any time in accordance with the provisions of the Mortgage Sale Agreement.

The Seller undertakes to the LLP that it is and will at all times remain solely responsible for documenting any relevant offer or, accepting any application, for a Rearrangement made to or received from a Borrower with respect to any relevant Loan.

Following the occurrence of a Substitution Event, the LLP or the Interest Rate Swap Provider may be required to make a mark-to-market payment to reflect any increase or decrease in the amount of Fixed Rate Loans allocated to a particular Interest Rate Swap Agreement.

Loan Porting

If a Borrower ports a Loan comprised in the Portfolio, such Loan will be redeemed and the principal element of such amount will be applied as Available Principal Receipts and the interest element of such amount will be applied as Available Revenue Receipts on the next Interest Payment Date.

Authorised Underpayments

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

New Sellers

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

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

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

In addition, where the Seller intends to sell Loans originated by a third party (and not the Seller) to the LLP, the sale of any Loans to the LLP will be subject to the Rating Condition being satisfied.

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

All Moneys Mortgage Trust

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

For so long as a Loan in the Portfolio is not a Defaulted Loan, the Seller will not direct the LLP to take any enforcement action in respect of such Loan and the Related Security irrespective of whether or not the Associated Debt has become enforceable.

Servicing Agreement

Pursuant to the terms of the Servicing Agreement entered into on the Initial Programme Date between the LLP, Co-operative Bank (in its capacity as Servicer, Seller and Cash Manager), the Back-Up Servicer Facilitator and the Security Trustee, the Servicer has agreed to service on behalf of the LLP (and, in the case of the Loans for so long as they are subject to a Scottish Declaration of Trust on behalf of the Seller in its capacity as trustee of the relevant Scottish Declaration of Trust) the Loans and their Related Security sold by the Seller to the LLP.

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

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

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

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

Undertakings of the Servicer

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

- act as collection agent for the LLP under the Direct Debiting Scheme in accordance with the provisions of the Servicing Agreement;
- notify the relevant Borrowers of any change in their Monthly Payments;

- keep records and accounts on behalf of the LLP in relation to the Loans and their Related Security comprised in the Portfolio;
- keep the Loan Files and Title Deeds in its possession or under its control 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 (other than Title Deeds in relation to Loans which are Dematerialised Loans) and other records relating to the servicing of the Loans and their Related Security;
- maintain a register in respect of the Portfolio;
- keep any records necessary for all taxation purposes, including, without limitation, VAT;
- assist the auditors of the LLP and provide information to them upon reasonable request;
- provide a redemption statement upon the request of a relevant Borrower or the Borrower's solicitor, licensed conveyancer or otherwise at the discretion of the Servicer;
- make available upon request to the LLP and the Security Trustee a report on a monthly basis containing information about the Loans and their Related Security comprised in the Portfolio;
- 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 comprised in the Portfolio or its Related Security using the discretion of a Reasonable, Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy; and
- take any other action and do all other things which it would be reasonable to expect a Reasonable, Prudent Mortgage Lender to do in servicing its loans and their related security.

Servicer ratings

If the Servicer ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 (or such lower rating specified by Moody's) or by Fitch of at least BBB- (or such lower rating which is otherwise specified by Fitch), it will use reasonable efforts (with the assistance of the Back-Up Servicer Facilitator) to enter, within 60 days, into a back-up or master servicing agreement with a third party with suitable experience and credentials. The Servicer will make a draft of the back-up or master servicing agreement available to the Rating Agencies prior to its execution. If the Servicer does not appoint a Back-Up Servicer within 60 days of being required to do so by the Issuer, the Servicer shall immediately upon notice from the Issuer appoint as Back-Up Servicer such person as may be specified by the Issuer, provided that a failure to find a suitable third party willing to act as back-up or master servicer shall not constitute a breach of the Servicer's obligations under the Servicing Agreement and provided further that nothing in this Agreement shall prevent such third party delegating the services to The Co-operative Bank p.l.c..

If the short-term ratings of the Seller fall below P-2 by Moody's or F2 by Fitch, the Seller (or the Servicer acting on its behalf) will use reasonable endeavours to procure that:

- (a) a separate account (the **CB Collection Account**) is set up in the name of the Seller at National Westminster Bank plc, or another financial institution into which all amounts received in relation to the Loans and Related Security comprised in the Portfolio will be transferred;
- (b) all further instructions by the Servicer to debit the accounts of Borrowers that are subject to direct debit mandates will be made to the CB Collection Account;
- (c) all Monthly Payments made by a Borrower under a payment arrangement other than the Direct Debiting Scheme are credited on the Business Day immediately following receipt by the Servicer to the CB Collection Account; and
- (d) notice is sent to the bank at which the CB Collection Account is held that the account is a trust account and that the Seller holds all amounts standing to the credit of the CB Collection Account on trust for the LLP pursuant to the terms of the Servicing Agreement and that such bank will not combine, consolidate or merge the CB Collection Account with any other account of the Seller or any other person or any liabilities of the Seller or any other person owed to it and acknowledgement of such notice is received from such bank by the Seller;

and, for the avoidance of doubt, all amounts credited to the CB Collection Account will be paid to the appropriate Deposit Account, in accordance with the requirements of, and the time limits set out in, the Servicing Agreement.

It should be noted that when assessing a Fitch ratings trigger, a transaction party put on "Ratings Watch Negative" by Fitch shall be deemed, while they remain on "Ratings Watch Negative", to be rated one notch below their actual current Fitch rating.

Setting of Standard Variable Rate and other discretionary rates and margins

Pursuant to the terms of the Mortgage Sale Agreement and in accordance with Mortgage Conditions applicable to certain of the Loans, the Seller has prescribed policies relating to interest rate setting, arrears management and handling of complaints which the LLP (and any subsequent purchaser thereof) will be required to adhere to following the transfer of Loans and their Related Security. Such arrears management and handling of complaints policies are consistent with those to be applied by the Servicer under the terms of the Servicing Agreement. The interest rate setting policy specified in the Mortgage Sale Agreement is only applicable to Loans with interest rates which may be varied from time to time in the discretion of the lender and requires that such interest rates should be set in accordance with any applicable statement of good practice of the FSA or any other requirements or recommendations of the FSA with which it is customary to comply.

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

- (i) the LLP Standard Variable Rate applicable to the Loans sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Standard Variable Rate of the Seller which applies to mortgage loans beneficially owned by the Seller outside the Portfolio; and
- (ii) any other discretionary rate or margin in respect of any other Loan sold by the Seller to the LLP and in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin which applies to that type of mortgage loan beneficially owned by the Seller outside the Portfolio.

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

- (a) the income which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);
- (b) the LLP Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the Relevant LLP Payment Period; and
- (c) the other resources available to the LLP including the Interest Rate Swap Agreement(s), the relevant Covered Bond Swap Agreements, the Reserve Fund and taking into account any amounts available to be withdrawn from the Yield Reserve including amounts to be credited thereto on or prior to the LLP Payment Date falling at the end of the Relevant LLP Payment Period,

whether the LLP would receive an amount of income during the Relevant LLP Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of (1) the amount of interest which would be payable (or provisioned to be paid) under the Intercompany Loan on each LLP Payment Date falling at the end of the Relevant LLP Payment Period and relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on each LLP Payment Date of each Series of Covered Bonds falling at the end of the Relevant LLP Payment Period and (2) the other senior expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priority of Payments applicable prior to an LLP Event of Default and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security (the **Interest Rate Shortfall Test**).

If the Servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the LLP and the Security Trustee, within three Business Days, of the amount of the shortfall. If the LLP or the Security Trustee notifies the Servicer and the Seller that, having regard to the obligations of the LLP and the amount of the shortfall, further Loans and their Related Security should be sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, the Seller will use all reasonable endeavours to offer to sell New Loans and their Related Security to the LLP on or before the next Calculation Date which have a Standard Variable Rate and/or other discretionary rates or margins sufficient to avoid such shortfall on future Calculation Dates. In consideration of such sale, the Seller will be treated as having made a Capital Contribution in Kind (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and will be entitled to receive the Deferred Consideration.

In addition, the Servicer will determine on each Calculation Date following an Issuer Event of Default and the Service of an Issuer Acceleration Notice on the Issuer and the service on the LLP of a Notice to Pay, having regard to the aggregate of:

- (a) the LLP Standard Variable Rate and any other discretionary rate or margin, in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the Relevant LLP Payment Period;
- (b) the resources available to the LLP under the Interest Rate Swap Agreement(s); and
- (c) any amounts available to be withdrawn from the Yield Reserve including amounts to be credited thereto prior to the commencement of the Relevant LLP Payment Period,

whether the LLP would receive an aggregate amount of interest on the Loans, amounts under the Interest Rate Swap Agreement(s), and taking into account any amounts available to be credited to and/or withdrawn from the Yield Reserve during the Relevant LLP Payment Period, which would give an amount equal to an annual yield on the Loans of at least LIBOR for one month Sterling deposits plus 0.10 per cent.

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

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

Remuneration

As full remuneration for its servicing duties and activities and as reimbursement for any expense incurred by it in connection therewith, the Servicer or any substitute servicer which is a member of the Co-operative Bank Group is entitled to receive the fee (inclusive of VAT or other similar duties) from the LLP as set out in the Cash Management Agreement. If, however, a servicer is appointed from outside the Co-operative Bank Group, the level of this fee may be amended.

Back-Up Servicer Facilitator

Under the Servicing Agreement in the event that the long-term unsecured and unsubordinated debt rating of the Servicer has fallen below (a) Baa3 by Moody's (or such lower rating specified by Moody's) and (b) BBB- by Fitch (or such other long-term rating which is otherwise specified by Fitch), the Back-Up Servicer Facilitator, shall, within 60 days of the date on which the ratings of the Servicer have so fallen, use best efforts to identify, on behalf of the Issuer a suitable back-up servicer (the **Back-Up Servicer**) which meets the requirements for a substitute Servicer provided for by the Servicing Agreement.

Removal or resignation of the Servicer

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

- the Servicer defaults in the payment of any amount due to the LLP under the Servicing Agreement and fails to remedy that default for a period of fourteen Business Days after the earlier of the Servicer becoming aware of the default and receipt by the Servicer of written notice from the Security Trustee or the LLP requiring the same be remedied;
- the Servicer fails to comply with any of its other obligations under the Servicing Agreement which failure in the opinion of the Security Trustee is materially prejudicial to the Covered Bondholders and does not remedy that failure within the earlier of 30 Business Days after becoming aware of the failure and receipt by the Servicer of written notice from the Security Trustee or the LLP requiring the same be remedied;
- an Insolvency Event occurs in relation to the Servicer; or

- another entity is appointed to service, and begins servicing the Loans in accordance with the Servicing Agreement.

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

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

The Servicer may sub-contract or delegate the performance of its duties under the Servicing Agreement **provided that** it meets conditions as set out in the Servicing Agreement. Neither the Bond Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

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

If the long-term unsecured, unguaranteed and unsubordinated debt obligations of the Cash Manager or the Issuer fall below Baa3 by Moody's or BBB- by Fitch, or if an Asset Coverage Test Breach Notice has been served and has not been revoked, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to report on such arithmetic accuracy following each Calculation Date until such time as the Cash Manager and the Issuer each has a long-term unsecured, unguaranteed and unsubordinated debt obligation of at least Baa3 by Moody's and at least BBB- by Fitch, and provided that no Asset Coverage Test Breach Notice is outstanding. If, following a determination by the Asset Monitor of any arithmetic errors in the calculations performed by the Cash Manager such that the Asset Coverage Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the reported Adjusted Aggregate Loan Amount, or the reported Amortisation Test Aggregate Loan Amount, as applicable, is mis-stated by an amount exceeding 1 per cent. of the actual Adjusted Aggregate Loan Amount or the actual 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 other than in relation to testing the arithmetic accuracy of the Cash Manager's calculations is entitled, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of reporting on the arithmetic accuracy is true and correct and not misleading, and is not required to conduct an audit or otherwise take steps to verify the accuracy or completeness of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

As of the Initial Programme Date, the LLP will pay to the Asset Monitor an agreed fee (based on each report to be provided) for the reports to be performed by the Asset Monitor.

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

Upon receipt of notice of resignation, the LLP will immediately use all reasonable endeavours to appoint a replacement asset monitor to provide the services set out in the Asset Monitor Agreement (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. 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 will 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 Initial Programme Date between the LLP, Co-operative Bank, the Liquidation Member, the Bond Trustee and the Security Trustee (the **LLP Deed**).

Members

As at the Programme Date, each of Co-operative Bank 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, and Co-operative Bank 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 will have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

For so long as Covered Bonds are outstanding, if an administrator or a liquidator or a bank administrator or bank liquidator is appointed to Co-operative Bank or if Co-operative Bank disposes of any of its shares in the Liquidation Member (such that it ceases to hold at least 20 per cent. of the issued share capital of the Liquidation Member), the Liquidation Member may, by written notice to the LLP, appoint another Member as a Designated Member or may, at its sole discretion (acting on behalf of itself and the other Members), admit a New Member to the LLP (in each case with the prior written consent of the Security Trustee).

No New Member may be otherwise appointed without the Rating Condition being satisfied.

Capital Contributions

From time to time Co-operative Bank (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (for example, through a contribution of Loans to the LLP). The Capital Contributions of Co-operative Bank will be calculated in Sterling on each Calculation Date as the difference between (a) the aggregate of the True Balance of the Portfolio as at the last day of the

immediately preceding Calculation Period plus Principal Receipts standing to the credit of the LLP Accounts plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the immediately preceding Calculation Period and (b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the preceding Calculation Period.

In the event that a Cash Manager Relevant Event occurs the Seller will:

- (a) within 4 London Business Days after such downgrade make a Cash Capital Contribution to the LLP in an amount equal to the aggregate of:
 - (i) the Required Coupon Amount for such Term Advance payable in respect of the immediately succeeding Interest Payment Date for such Series of Covered Bonds and/or Loan Interest Payment Date; and
 - (ii) the net amount (if any) payable to an Interest Rate Swap Provider under an Interest Rate Swap on the immediately succeeding LLP Payment Date;
- (b) within 4 London Business Days after each Loan Interest Payment Date in respect of the Term Advance corresponding to a Series of Covered Bonds make a Cash Capital Contribution to the LLP in an aggregate amount equal to the Required Coupon Amount for such Term Advance corresponding to Series of Covered Bonds payable on the immediately succeeding Loan Interest Payment Date for such Term Advance corresponding to a Series of Covered Bonds; and
- (c) within 3 London Business Days after each LLP Payment make a Cash Capital Contribution equal to the net amount (if any) payable to an Interest Rate Swap Provider under an Interest Rate Swap on the immediately succeeding LLP Payment Date.

The LLP will within one London Business Day of receipt of such Cash Capital Contribution from the Seller (A) deposit an amount equal to the lesser of the Required Coupon Amount for such Series and the amount of such Cash Capital Contribution referred to in items (a)(i) and (b) above to the Collateral Account, and (B) in respect of items (a)(ii) and (c) pay to the relevant Interest Rate Swap Provider an amount equal to the net amount (if any) that would otherwise have been payable on the immediately succeeding LLP Payment Date by the LLP to such Interest Rate Swap Provider.

Where the Seller has repurchased a Fixed Rate Loan that is subject to a Rearrangement and the Repurchase Price for such Loan and its Related Security is, in accordance with the terms of the Mortgage Sale Agreement, paid by way of a deemed Capital Distribution to the Seller, the Seller will within 3 London Business Days of notice of the amount of such termination payment make a Capital Contribution to the LLP in an aggregate amount equal to the net amounts (if any) due by the LLP to each Interest Rate Swap Provider on the immediately following LLP Payment Date.

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

Capital Contributions or returns on Capital Contributions will 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 prior to the service of a Notice of Pay or an LLP Acceleration Notice, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

If on any Calculation Date, the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Members (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see "*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Loans and their Related Security*") or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP and will (if the Issuer has been accepted to the register of members) send notice of the same to the FSA pursuant to the RCB Regulations. The Bond Trustee will revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

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

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

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

For the purposes hereof:

Adjusted Aggregate Loan Amount means the amount calculated on each Calculation Date for the last day of the immediately preceding Calculation Period as follows:

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

where,

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

- (i) = the sum of the **Adjusted True Balance** of each Loan in the Portfolio, which will be, in relation to each Loan, the lower of (1) the actual True Balance of the relevant Loan in the Portfolio as calculated on the last day of the immediately preceding Calculation Period and (2) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are

less than three months in arrears or not in arrears, $M = 0.75$; for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75 per cent., $M = 0.40$ and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than 75 per cent., $M = 0.25$),

minus

the aggregate sum of the following deemed reductions to the aggregate Adjusted True Balance of the Loans in the Portfolio if any of the following occurred:

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

AND

- (ii) = the aggregate **Arrears Adjusted True Balance** of each Loan in the Portfolio which in relation to each Loan will be the lower of (1) the actual True Balance of the relevant Loan on the last day of the immediately preceding Calculation Period and (2) the Indexed Valuation relating to that Loan multiplied by N (where for all Loans that are less than three months in arrears or not in arrears, $N = 1$; for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75 per cent., $N = 0.40$ and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than 75 per cent., $N = 0.25$);

minus

the aggregate sum of the following deemed reductions to the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio if any of the following occurred:

- (1) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the relevant Loan or Loans and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated in respect of the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the Arrears Adjusted True Balance of the relevant

Loan or Loans (as calculated in respect of the last day of the immediately preceding Calculation Period); and/or

- (2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss),

the result of the calculation in this paragraph (ii) being multiplied by the Asset Percentage (as defined below);

B = the aggregate amount of, if any, Principal Receipts on the Loans in the Portfolio during the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date by or on behalf of the LLP to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents (including the Intercompany Loan Agreement);

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

D = the aggregate outstanding principal balance of any Substitution Assets;

E = the amount of any Sale Proceeds standing to the credit of the Deposit Account and credited to the Pre-Maturity Liquidity Ledger as at the relevant Calculation Date;

X = 8 per cent. multiplied by the Flexible Redraw Capacity multiplied by 3,

where "**Flexible Redraw Capacity**" means the amount equal to the excess of:

(3) the maximum amount that Borrowers may draw under Flexible Loans included in the Portfolio (whether or not drawn), over

(4) the aggregate True Balance in respect of Flexible Loans in the Portfolio on the relevant Calculation Date;

Y = an amount equal to the aggregate Deposit Set Off Amounts for each Borrower whose Loan is included in the Portfolio;

Z = the Weighted Average Remaining Maturity of all Covered Bonds then outstanding multiplied by the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds multiplied by the Negative Carry Factor,

where the Negative Carry Factor equals:

- (i) 0.5 *per cent.* if the Covered Bond Weighted Average Margin of the interest rate payable on the Covered Bonds is less than or equal to 0.1 *per cent.* per annum; or

- (ii) 0.5 *per cent.* plus the margin referred to in (i) above minus 0.1 *per cent.*, if that Covered Bond Weighted Average Margin is greater than 0.1 *per cent.* per annum;

where the **Weighted Average Remaining Maturity** is calculated as the weighted average (weighted by the Principal Amount Outstanding) of the Remaining Maturities of each Series of Covered Bonds then outstanding.

Covered Bond Weighted Average Margin means the weighted average of (i) where a Series of Covered Bonds does not have a Covered Bond Swap in place, the margin payable on such Covered Bonds of each Series and (ii) where a Series of Covered Bonds does have a Covered Bond Swap in place, the margin payable by the LLP to the relevant Covered Bond Swap Provider in respect of such Series of Covered Bonds.

Remaining Maturity means in respect of all Series of Covered Bonds, the amount of time (expressed in days/365) from but excluding the relevant Calculation Date to and including the relevant Final Maturity Date provided that if such calculation is less than one, the Remaining Maturity will be deemed for the purposes of this calculation to be one.

Asset Percentage

Save as otherwise agreed with the Rating Agencies, the Asset Percentage on any Calculation Date will be the lowest of:

- (i) 93.5 *per cent.*; or
- (ii) the percentage figure most recently notified to the LLP (or the Cash Manager acting on its behalf) by Fitch, as determined from time to time in accordance with the terms of the LLP Deed, being the percentage figure that is necessary to ensure the Covered Bonds maintain the then current rating assigned to them by Fitch; or
- (iii) the percentage figure (most recently selected by the LLP (or the Cash Manager acting on its behalf) and notified to Moody's and the Security Trustee in accordance with the terms of the LLP Deed on such Calculation Date or, where the LLP (or the Cash Manager acting on its behalf) has not notified Moody's and the Security Trustee of the minimum percentage figure on the relevant Calculation Date, on the last date of such notification), if applicable, being the percentage figure that would be necessary to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology (regardless of the actual Moody's rating of the Covered Bonds at the time).

Save where the LLP (or the Cash Manager acting on its behalf) notifies the Rating Agencies and the Rating Condition is satisfied, the Asset Percentage will be adjusted in accordance with various Rating Agency methodologies to ensure that sufficient credit enhancement will be maintained. Notwithstanding the above, the Asset Percentage may not, at any time, exceed 93.5 *per cent.* unless the LLP (or the Cash Manager acting on its behalf) otherwise agrees with the Rating Agencies.

The LLP (or the Cash Manager acting on its behalf) may, by prior written notice to the Security Trustee and the Rating Agencies, change the fixed rate by reference to which amounts payable by the LLP to an Interest Rate Swap Provider are calculated, subject to satisfying the Rating Condition. Such change may result in an adjustment of the Asset Percentage in accordance with various Rating Agency methodologies to ensure that sufficient credit enhancement will be maintained.

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. There is no obligation on the LLP to ensure that an Aaa rating is maintained by Moody's and the LLP is under no obligation to change the figure selected by it and notified to Moody's and the Security Trustee in line with the level of credit enhancement required to ensure an Aaa rating by Moody's, using Moody's expected loss methodology.

Deposit Set Off Amount means, for each Borrower whose Loan is included in the Portfolio, the lesser of (a) 100% of the aggregate balance of each savings account held with the Seller by such Borrower (provided that where the Borrower has a joint account and the joint deposit holder is not a Borrower under a Loan that is in the Portfolio, the whole amount standing to the credit of the joint account will be taken into account for the purposes of calculating (a) and where the joint deposit holder is a Borrower under a Loan that is included in the Portfolio (whether as Co-Borrower or otherwise) the amount credited to the joint account will be taken into account in respect of only one such Borrower), and (b) the aggregate True Balance of such Borrower's Loan which is included in the Portfolio, in each case as calculated on any day after the last day of the immediately preceding Calculation Period but prior to the Calculation Date.

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.

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

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

$$A + B + C - Z$$

where,

A = the aggregate **Amortisation Test True Balance** of each Loan, which will be the lower of (1) the True Balance of the relevant Loan as calculated on the last day of the immediately preceding Calculation Period multiplied by M and (2) 100 per cent. of the Indexed Valuation relating to that loan multiplied by M.

Where for all the Loans that are less than three months in arrears or not in arrears M = 1 or for all the Loans that are three months or more in arrears M = 0.7;

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

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

Z = the Weighted Average Remaining Maturity of all Covered Bonds then outstanding *multiplied by* the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds *multiplied by* the Negative Carry Factor.

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

The LLP Deed provides for sales of Selected Loans and their Related Security in circumstances where the Pre-Maturity Test has been failed. The Pre-Maturity Test will be failed if the ratings of the Issuer fall below a specified level and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter (see further the section of this Prospectus entitled "*Credit Structure – Pre-Maturity Liquidity*" below). The LLP will be obliged to sell the Selected Loans and their Related Security to the relevant Purchasers, subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement, in accordance with the procedure summarised in – "*Method of Sale of Selected Loans*" below. If the Issuer fails to repay any Series of Hard Bullet Covered Bonds on the relevant Final Maturity Date thereof, then, following the service of a Notice to Pay on the LLP, the proceeds from any sale of Selected Loans or the Cash Capital Contributions standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in the section of this Prospectus entitled "*Credit Structure – Pre-Maturity Liquidity*" below.

Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice

After service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay and prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and the realisation of the Security, the LLP shall sell Selected Loans in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption enjoyed by the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale or any refinancing will be credited to the appropriate Deposit Account and applied as set out in the Priorities of Payments (see "*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below).

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

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

Method of Sale of Selected Loans

If the LLP sells or is required to sell Selected Loans and their Related Security to Purchasers following failure of the Pre-Maturity Test, the service of an Asset Coverage Test Breach Notice (if it remains outstanding) or 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 True Balance in an amount (the **Required True Balance Amount**) which is as close as possible to the amount calculated as follows:

- (1) following the Service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their True Balance (taking into account, after the occurrence of a Substitution Event, any termination payments due and payable by the LLP under the Interest Rate Swap Agreement(s)), the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the LLP Payment Date immediately following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or
- (2) following a failure of the Pre-Maturity Test or service of a Notice to Pay:

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

where "N" is an amount equal to:

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

For the avoidance of doubt, the entire Portfolio may comprise Selected Loans.

The LLP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (i) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), for an amount not less than the True Balance of the Selected Loans; and
- (ii) following a failure of the Pre-Maturity Test or the service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay, if the Selected Loans and their Related Security have not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable:

- (i) in respect of the Earliest Maturing Covered Bonds that 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;
- (ii) in respect of a sale in connection with the Pre-Maturity Test, the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds; or

- (iii) 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 after taking into account all payments, provisions and credits to be made in priority thereto), then the LLP will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

Following the service of a Notice to Pay on the LLP (but prior to the service of an LLP Acceleration Notice and/or the commencement of winding up proceedings against the LLP, 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 LLP Deed, in respect of other Series of Covered Bonds **provided that** any such Selected Loans will be for an amount not less than the Adjusted Required Redemption Amount in respect of that Series of Covered Bonds or, where the sale occurs within six months before the Final Maturity Date or Extended Due for Payment Date (as applicable) for that Series of Covered Bonds, the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

The LLP is also permitted to offer for sale to Purchasers a Partial Portfolio. Except in circumstances where the portfolio of Selected Loans is being sold within six months of, as applicable, the Final Maturity Date or, (as applicable) if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) will be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

If the LLP is obliged to or elects to sell 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) 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 their right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment of the portfolio manager will be approved by the Security Trustee (acting on the direction of the Bond Trustee in accordance with the LLP Deed). The Security Trustee will approve the agreement giving effect to the appointment of the portfolio manager and the Bond Trustee will give such directions if (i) the portfolio manager is an investment bank or accountant of recognised standing and (ii) two Authorised Signatories of the LLP have certified to the Security Trustee that such appointment is on a basis intended to incentivise the Portfolio Manager to achieve the best price for the sale of the Selected Loans (on terms that are commercially available in the market), which certificate will be conclusive and binding on all parties.

In respect of any sale or refinancing of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay or in respect of a breach of the Pre-Maturity Test, 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 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 will give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Security Trustee (acting on the direction of the Bond Trustee) which is to be given upon the satisfaction of various conditions. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under – "*Deed of Charge – Release of Security*", below) are satisfied.

Following the service of a Notice to Pay, if Purchasers accept the offer or offers from the LLP so that some or all of the Selected Loans and their Related Security will be sold prior to the next following Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the terms of the LLP Deed, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers. Any such sale will not include any Representations and Warranties from the LLP in respect of the Selected Loans and the Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Seller.

Covenants of the LLP and the Members

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

The LLP covenants that it will not, save with the prior written consent of the LLP Management Committee and the consent of the Security Trustee (which may only be given (i) so long as any Covered Bonds are outstanding if the Security Trustee is instructed by the Bond Trustee pursuant to the Deed of Charge, or (ii) when no Covered Bonds are outstanding, by all other Secured Creditors) or as envisaged by the Transaction Documents:

- (a) create or permit to subsist any mortgage, standard security, pledge, lien, charge or other security interest whatsoever (unless arising by operation of law), upon the whole or any part of its assets (including any uncalled capital) or its undertakings, present or future other than as created or permitted in the Deed of Charge;
- (b) transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do so;
- (c) have an interest in any bank account, other than as set out in the Transaction Documents;
- (d) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any such indebtedness;
- (e) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (f) have any employees or premises or subsidiaries;
- (g) acquire any assets other than pursuant to the terms of the Mortgage Sale Agreement, the Cash Management Agreement and the LLP Deed;
- (h) enter into any contracts, agreements or other undertakings;
- (i) compromise, compound or release any debt due to it;
- (j) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets;

- (k) establish any "establishment" as that term is used in Article 2(h) of the EU Insolvency Regulation; and
- (l) engage in any activities in the United States (directly or through agents) or derive any income from United States sources as determined under United States income tax principles or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under United States tax principles.

The LLP and each of the Members further covenants that 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, will not include any Swap Collateral; and
- (iv) at all times comply with its obligations under the RCB Regulations and/or the RCB Sourcebook.

The LLP undertakes so long as the Covered Bonds are outstanding that:

- (a) it will maintain its registered office and its head office in England and Wales and its "centre of main interest" as that term is used in Article 3(i) of the EU Insolvency Regulation, in England and Wales and will not move such offices to another jurisdiction;
- (b) it will hold all meetings of the LLP Management Committee in England and Wales and procure that the LLP's management, the places of residence of the management of the LLP and the place where the management effects its central management and decision-making are all, at all times, situated in England and Wales;
- (c) it will furnish the FSA with any and all documents, instruments and information that may be necessary in order to obtain registration of the Issuer and the Programme and any Covered Bonds issued thereunder under the RCB Regulations; and
- (d) no application has been made nor will be made for the LLP to be treated as a member of a group for the purposes of the relevant provisions of the Value Added Tax Act 1994 and no steps have been taken nor will any steps be taken (whether by act or omission or otherwise) which could give rise to a direction, pursuant to Schedule 9A to the Value Added Tax Act 1994, which would require the LLP to be treated as a member of a group for such purposes or which could otherwise result in it being treated as a member of such a group.

Limit on Investing in Substitution Assets

Prior to the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances standing to the credit of the LLP Accounts in Substitution Assets, **provided that:**

- (a) the aggregate amount so invested in Substitution Assets will not exceed 10 per cent. of the total assets of the LLP at any one time;

- (b) such investments are made in accordance with the terms of the Cash Management Agreement and the RCB Regulations, as applicable; and
- (c) the aggregate amount invested in Substitution Assets (other than Sterling demand or time deposits) will not exceed zero per cent. of the total assets of the LLP at any one time, unless the Rating Condition is satisfied or as otherwise agreed amongst the LLP, the Cash Manager and the Rating Agencies.

As at the date of this Prospectus, Substitution Assets are limited to Sterling deposits. The LLP may be permitted to invest in other Substitution Assets from time to time provided that the Rating Condition is satisfied.

For these purposes, amounts deposited in any LLP Account will not constitute an investment in Substitution Assets. Investments in Substitution Assets will only be made in accordance with the terms of the Cash Management Agreement.

Following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, all Substitution Assets must be sold or otherwise liquidated by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the appropriate Deposit Account and the LLP will be permitted to invest all available moneys 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 will be entitled to invest in Authorised Investments.

Other Provisions

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

The LLP Management Committee, comprised as at the Programme Date of directors, officers and/or employees of Co-operative Bank and one director, officer or employee of the Liquidation Member, will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters. Any decision by the LLP Management Committee relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

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

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

Following the appointment of a liquidator to any Member (other than the Liquidation Member), any decisions of the LLP that are reserved to the Members in the LLP Deed will be made by the Liquidation Member only.

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 Initial Programme Date between the LLP, Co-operative Bank (in its capacity as the Cash Manager, the Seller and the Servicer) the Bond Trustee and the Security Trustee.

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

- (a) operating the LLP Accounts;
- (b) maintaining the Ledgers on behalf of the LLP;
- (c) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable;
- (d) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under Cashflows, below;
- (e) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under "*Credit Structure – Asset Coverage Test*" below;
- (f) determining whether the Amortisation Test is satisfied on each Calculation Date following an Issuer Event of Default in accordance with the LLP Deed, as more fully described under "*Credit Structure – Amortisation Test*" below;
- (g) on each London Business Day, determining whether the Pre-Maturity Test for each Series of Hard Bullet Covered Bonds is satisfied, as more fully described under "*Credit Structure – Pre-Maturity Liquidity*" below;
- (h) providing the FSA with information on the composition of any Substitution Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information as may be required by the FSA in accordance with the RCB Regulations;
- (i) preparation of Investor Reports for the Covered Bondholders, the Rating Agencies and the Bond Trustee; and
- (j) preparing the Monthly Asset Coverage Report.

The Servicer will, on each Business Day, transfer all cleared amounts (collected by direct debit in respect of the Loans) standing to the credit of the general Co-operative Bank collection accounts (held with the Co-operative Bank, or, as the case may be another collection account bank) or the CB Collection Account as applicable at the end of the previous Business Day, to the appropriate Deposit Account for value on the day of transfer.

The Cash Manager will ensure that on each LLP Payment Date, prior to the service on the LLP of an Asset Coverage Test Breach Notice which is outstanding and/or 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, that Available Principal Receipt, applied in accordance with the Pre-Acceleration Principal Priority of Payments, into the Retained Principal Ledger. Amounts standing to the credit of the Retained Principal Ledger will be applied by the Cash Manager 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, provided that any amount standing to the credit of the Retained Principal Ledger and not applied towards the purchase of New Loans and their Related Security by the next following Calculation Date or otherwise provisioned to make payment on the Term Advances, will form part of Available Principal Receipts to be applied on the immediately following LLP Payment Date.

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager in which event the LLP will use its reasonable endeavours 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).

Under the Cash Management Agreement in the event that the long-term unsecured, unguaranteed and unsubordinated debt rating of the Cash Manager has fallen below (a) Baa3 by Moody's (or such lower rating specified by Moody's) or (b) BBB- by Fitch (or such other long-term rating which is otherwise specified by Fitch), the Back-Up Cash Manager Facilitator shall, within 60 days of the date on which the ratings of the Cash Manager have so fallen, use best efforts to identify, on behalf of the Issuer, a suitable back-up cash manager (the **Back-Up Cash Manager**) which meets the requirements for a substitute Cash Manager provided for by the Cash Management Agreement.

The Cash Management Agreement provides that on the Cash Manager ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by Fitch of at least BBB-, it will use reasonable efforts (with the assistance of the Back-Up Cash Manager Facilitator) to enter into a back-up cash management agreement with a third party within 60 days.

It should be noted that when assessing a Fitch ratings trigger, a transaction party put on "Ratings Watch Negative" by Fitch shall be deemed, while they remain on "Ratings Watch Negative", to be rated one notch below their actual current Fitch rating.

The Cash Management Agreement is governed by English law.

Interest Rate Swaps

Some of the Loans in the Portfolio pay a fixed rate of interest for a period of time. In order to provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Fixed Rate Loans in a portion of the Portfolio; and
- (b) LIBOR for one month Sterling deposits,

the LLP will enter into the Initial Interest Rate Swap with the Initial Interest Rate Swap Provider on or prior to the issue of the initial Series of Covered Bonds after the date of this Prospectus, whereby the LLP will pay amounts calculated by reference to a fixed rate and will receive amounts calculated by reference to LIBOR for one month Sterling deposits. The principal terms of the Initial Interest Rate Swap are set out below. The LLP may enter into further interest rate swaps (each, a **New Interest Rate Swap**, and together with the Initial Interest Rate Swap, the **Interest Rate Swaps**) to provide additional hedging in respect of any Fixed Rate Loans not allocated to the Initial Interest Rate Swap in accordance with the allocation provisions described below and/or other Loans which charge interest on a basis other than with reference to a fixed rate. The Fixed Rate Loans or other Loans allocated to each Interest Rate Swap will be determined in accordance with methodology to be agreed between the LLP and the relevant Interest Rate Swap Provider when the relevant Interest Rate Swap is entered into.

Each Interest Rate Swap Agreement will have a **Maximum Notional Amount** which will be the amount agreed between the LLP and the relevant Interest Rate Swap Provider on or prior to the commencement of such Interest Rate Swap. The Maximum Notional Amount of the relevant Interest Rate Swap will be specified in the Final Terms of each Series of Covered Bonds.

Each Interest Rate Swap will terminate on the date on which the aggregate principal balance of all Allocated Loans is reduced to zero unless the Interest Rate Swap provides it will continue for a longer period.

In the event that the relevant ratings of an Interest Rate Swap Provider, or any guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the ratings specified in the applicable Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies), the Interest Rate Swap Provider may be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with rating(s) required by the relevant Rating Agency or procuring another entity with rating(s) required by the relevant Rating Agency to become guarantor or co-obligor in respect of its obligations. A failure to take such steps may allow the LLP to terminate all transactions entered into under the applicable Interest Rate Swap Agreement.

All or some of the transactions entered into under an Interest Rate Swap Agreement may also be terminated (in full or in part) in certain other circumstances including (but not limited to):

- at the option of either party, if there is a failure by the other party to pay any amounts due under an Interest Rate Swap;
- upon the occurrence of the insolvency of the relevant Interest Rate Swap Provider or any guarantor, and certain insolvency related events in respect of the LLP;
- in the event the relevant Interest Rate Swap Provider is required to gross up payments due to the LLP or receive net payments from the LLP as a result of a withholding or deduction for tax; or
- if any provision of the Transaction Documents is amended so as to affect the amount, timing or priority of any payments due to the Interest Rate Swap Provider without its consent.

Upon the termination of all or some of the transactions entered into under an Interest Rate Swap Agreement, the LLP or the relevant Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of such Interest Rate Swap Agreement.

The Interest Rate Swap Agreements may contain provisions which limit the Seller's ability to allocate Loans (the **Allocated Loans**) to or remove Loans from the notional amount of the Interest Rate Swap following a Co-operative Bank Event. The Initial Interest Rate Swap contains such a provision as described under "*Initial Interest Rate Swap*" below.

Following the occurrence of a Co-operative Bank Event, the LLP or the Interest Rate Swap Provider may also be required to make a mark-to-market payment to reflect any increase or decrease in the amount of Fixed Rate Loans or other Loans allocated to a particular Interest Rate Swap Agreement.

If the LLP sells any Allocated Loans in the Portfolio following an Issuer Event of Default and service of a Notice to Pay on the LLP then either:

- (a) a portion of the Interest Rate Swap to which that Allocated Loan relates will partially terminate and any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Loans; or
- (b) a portion of the Interest Rate Swap to which that Allocated Loan relates will be partially novated to the purchaser of such Loans (provided such purchaser has been approved by the Interest Rate Swap Provider), and such purchaser will thereby become party to a separate interest rate swap transaction with the relevant purchaser as the New Interest Rate Swap Provider.

If withholding taxes are imposed on payments made by an Interest Rate Swap Provider under an Interest Rate Swap Agreement, such Interest Rate Swap Provider will always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the LLP to an Interest Rate Swap Provider under an Interest Rate Swap Agreement, the LLP will not be obliged to gross up those payments. In each case, the Interest Rate Swap Provider may terminate any transactions entered into under the relevant Interest Rate

Swap Agreement where it is required to gross up its payments to the LLP or receive net payments from the LLP as a result of a withholding.

In the event that an Interest Rate Swap Provider posts collateral in respect of its obligations under the Interest Rate Swaps it has entered into with the LLP, that collateral will be credited to one or more separate Swap Collateral Accounts. Amounts standing to the credit of the Swap Collateral Accounts will be utilised solely in returning collateral directly to the relevant Interest Rate Swap Provider (and not in accordance with the relevant Priorities of Payments) in accordance with the terms of the relevant Interest Rate Swap Agreement and the credit support annex entered into in connection with such agreement. Following the termination of any Interest Rate Swap Agreement, any swap Collateral which is not returned to the relevant Interest Rate Swap provider as a termination payment shall constitute Available Revenue Receipts.

Any termination payment made by an Interest Rate Swap Provider to the LLP in respect of an Interest Rate Swap Agreement will first be used to the extent necessary (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 Interest Rate Swap Provider (or replacement Interest Rate Swap Providers) to enter into a replacement Interest Rate Swap with the LLP. Any premium received by the LLP from a replacement Interest Rate Swap Provider in respect of a replacement Interest Rate Swap will first be used to the extent necessary to make any termination payment due and payable by the LLP with respect to the previous Interest Rate Swap Agreement.

Any amendments to the Transaction Documents that affect the amount, timing or priority of any payments due between an Interest Rate Swap Provider or a Covered Bond Swap Provider and the LLP may, if so specified in the relevant Swap Agreement, constitute an additional termination event under that Swap Agreement unless the prior consent of the Interest Rate Swap Provider or Covered Bond Swap Provider is sought by the LLP to the proposed amendments. In addition, in relation to any amendments that affect the amount, timing or priority of any payments due between an Interest Rate Swap Provider or any Covered Bond Swap Provider, the LLP may, if so specified in the Swap Agreement, have a positive obligation to obtain the consent of the Swap Provider to such amendments prior to such amendments being effected.

An Interest Rate Swap Agreement may include a provision that the fixed rate payable under it may be revised by the agreement of the relevant Interest Rate Swap Provider, the Co-operative Bank and the LLP subject to certain conditions being met, including satisfaction of the Rating Condition.

Initial Interest Rate Swap

Under the terms of the Initial Interest Rate Swap the LLP will pay amounts calculated by reference to a fixed rate (which may under the terms of the Initial Interest Rate Swap Agreement be reset periodically, as may be agreed between the LLP, the Co-operative Bank and the Interest Rate Swap Provider from time to time, subject to the conditions set out in that Interest Rate Swap Agreement (which will include the Rating Condition being met)).

Subject as provided below the notional amount of the Initial Interest Rate Swap may be reset quarterly, but will not exceed the Maximum Notional Amount (if any) agreed in respect the Initial Interest Rate Swap.

Except where a Portfolio Lock Event or a Substitution Event has occurred, the Cash Manager may, at any time prior to the date specified in the Initial Interest Rate Swap Agreement immediately following a Quarter Date, designate one or more Fixed Rate Loans as Allocated Loans which will determine the notional of the Initial Interest Rate Swap Agreement for the particular quarter and/or remove the designation of one or more Allocated Loans such that they cease to be Allocated Loans, in each case with effect from the Quarterly Period commencing on that Quarter Date, subject to the condition that the aggregate principal balance of the Allocated Loans as at that Quarter Date does not exceed the Maximum Notional Amount of the Initial Interest Rate Swap.

Following the occurrence of a Portfolio Lock Event or a Substitution Event:

- (i) Fixed Rate Loans which have previously been designated as Allocated Loans will only cease to be Allocated Loans if a Loan Repurchase Notice in respect of those Allocated Loans is served on the Seller in the circumstances described below; and
- (ii) except as provided for in sub-paragraph (i), the portfolio of Fixed Rate Loans designated as the Allocated Loans for the Quarterly Period during which such Substitution Event takes place shall constitute the Allocated Loans for all Quarterly Periods thereafter,

provided that prior to the occurrence of a Substitution Event, any change to the principal balance of any Allocated Loan which arises from a Product Switch, a Rearrangement, Further Advance, a Flexible Loan Drawing or a Scheduled Adjustment will be taken into account for the purpose of determining the Notional Amount. Following a Substitution Event, any change to the principal balance of any Allocated Loan which arises from a Product Switch, a Rearrangement, Further Advance or a Flexible Loan Drawing which occurs in an LLP Payment Period may result in an LLP Fee Amount becoming due and payable to the Initial Interest Rate Swap Provider by the LLP, or a Swap Provider Fee Amount becoming due and payable to the LLP by the Initial Interest Rate Swap Provider.

In the event that the LLP fails to pay any LLP Fee Amounts to the Initial Interest Rate Swap Provider, the Seller will be prohibited from effecting or documenting any Further Advance, Rearrangement or Product Switch in relation to the Initial Interest Rate Swap Provider's Allocated Loans. A Fixed Rate Loan may only be designated an Allocated Loan if it is an Eligible Fixed Rate Loan. A Fixed Rate Loan will be an **Eligible Fixed Rate Loan** if the fixed term of such Loan is not greater than the limit set out in the Initial Interest Rate Swap.

A **Portfolio Lock Event** will occur in respect of the Initial Interest Rate Swap Agreement if an Event of Default (as defined in the back to back transaction relating to that swap) in respect of the Co-operative Bank occurs in relation to the back to back transaction or the commencement of a Remedial Period which is continuing.

A **Remedial Period** will occur in respect of the Initial Interest Rate Swap Agreement if the Co-operative Bank has failed to post collateral as required under any hedging transaction entered into with Co-operative Bank in respect of the Initial Interest Rate Swap and will continue to (but exclude) the date upon which it is cured.

A **Scheduled Adjustment** means, in relation to an Allocated Loan:

- (a) any reduction in the principal balance of that Allocated Loan as a result of any repayment (in whole or in part) of that Allocated Loan by the applicable Borrower; and
- (b) any Allocated Loan ceasing to be a Fixed Rate Loan (and therefore having a principal balance of zero for the purposes of determining the Notional Amount) as a result of the expiry of any fixed rate period which applies to such Fixed Rate Loan pursuant to the Mortgage Conditions in effect at the time that Fixed Rate Loan was designated as an Allocated Loan.

A **Substitution Event** will occur if the Initial Interest Rate Swap Provider notifies the LLP that an Early Termination Event has been designated under a back-to-back interest rate swap transaction into which the Interest Rate Swap Provider and the Issuer have been permitted to enter in order to hedge certain exposures of the Interest Rate Swap Provider under the Interest Rate Swap. An Early Termination Date under such back-to-back interest rate swap transaction may be designated if, amongst other things, the Issuer fails to pay amounts to, or post collateral with, the Initial Interest Rate Swap Provider in accordance with the terms of such back-to-back interest rate swap transaction.

A Portfolio Lock Event and/or a Substitution Event will constitute a Co-operative Bank Event for the purposes of the disclosure elsewhere in this Prospectus.

The Initial Interest Rate Swap Provider's obligations under the Initial Interest Rate Swap Agreement will be guaranteed by JPMorgan Chase Bank, National Association as the Initial Interest Rate Swap Guarantor.

The Initial Interest Rate Swap Agreement and any New Interest Rate Swaps will be governed by English law.

Covered Bond Swap Agreements

The LLP may (if required or desirable) enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers in relation to a Series or Tranche, as applicable, of Covered Bonds. Each Covered Bond Swap will provide a hedge against certain risks (including but not limited to interest rate and currency risks) associated with the potential variance between (i) amounts received by the LLP under the Loans (ii) amounts received by the LLP under one or more Interest Rate Swaps (if any) and (iii) amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) or under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP).

If so agreed between the parties to a Covered Bond Swap which is a currency swap, on the relevant Issue Date, the LLP will pay to the Covered Bond Swap Provider the amount received by the LLP under the applicable Term Advance (being an amount equal to the gross proceeds of the issue of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay an amount equal to the Sterling Equivalent of the applicable Term Advance. Thereafter, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date amounts equivalent to the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will pay to the Covered Bond Swap Provider on each LLP Payment Date an amount in Sterling calculated by reference to LIBOR for Sterling deposits for the relevant Interest Period plus a spread and the Sterling Equivalent of any principal due in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement or the Covered Bond Guarantee.

Each Covered Bond Swap will terminate on the earlier of:

- (a) the Final Maturity Date of the relevant Series of Covered Bonds, if they are redeemed in full on such Final Maturity Date; or
- (b) such other date as may be agreed between the parties to the Covered Bond Swap.

Under the terms of each Covered Bond Swap Agreement, in the event that the relevant rating of the relevant Covered Bond Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agencies) for such Covered Bond Swap Provider, the Covered Bond Swap Provider may, 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 such Covered Bond Swap Agreement, arranging for its obligations under such Covered Bond Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor in respect of its obligations under such Covered Bond Swap Agreement, or taking such other action as it the relevant Rating Agency may agree will not adversely affect the rating of the Covered Bonds. A failure to take such steps will allow the LLP to terminate the Covered Bond Swaps entered into under that Covered Bond Swap Agreement.

All or some of the transactions entered into under a Covered Bond Swap Agreement may also be terminated (in full or in part) in certain other circumstances as set out in the relevant Covered Bond Swap Agreement, including (but not limited to):

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement;
- upon the occurrence of the insolvency of the relevant Covered Bond Swap Provider or any guarantor, and certain insolvency related events in respect of the LLP;
- upon the redemption (in full or in part) of the relevant Series or Tranche, as applicable, of Covered Bonds; or
- in the event the relevant Covered Bond Swap Provider is required to gross up payments due to the LLP or receive net payments from the LLP as a result of a withholding or deduction for tax.

If withholding taxes are imposed on payments made by any Covered Bond Swap Provider to the LLP under a Covered Bond Swap Agreement, such Covered Bond Swap Provider will always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap Agreement, the LLP will not be obliged to gross up those payments.

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

In the event that a Covered Bond Swap Provider posts collateral in respect of its obligations under the Covered Bond Swap(s) it has entered into with the LLP, that collateral will be credited to one or more separate swap collateral accounts. Amounts standing to the credit of such accounts will be applied solely in returning collateral directly to the relevant Covered Bond Swap Provider (and not in accordance with the relevant Priorities of Payments), or in satisfaction of any termination payment owing by that Covered Bond Swap Provider to the LLP (and applied by the Issuer as Available Revenue Receipts) in accordance with the terms of the relevant Covered Bond Swaps Agreement and the credit support annex entered into in connection with such agreement.

Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap Agreement will first be used to the extent necessary (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 (or replacement Covered Bond Swap Providers) to enter into a replacement Covered Bond Swap with 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 the extent necessary to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap Agreement.

Co-op Bank Account Agreement

Pursuant to the terms of the Co-op Bank Account Agreement as amended and restated on or about the Initial Programme Date between the LLP, Co-operative Bank, the Cash Manager and the Security Trustee, the LLP will maintain with Co-operative Bank the Co-op Deposit Account, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge. The LLP will deposit amounts in the Co-op Deposit Account in an amount up to the Co-op Deposit Limit (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, all amounts received from Borrowers in respect of Loans in the Portfolio).

Co-op Deposit Limit means:

- (a) for so long as the short-term and long-term (as applicable) unsecured, unsubordinated and unguaranteed debt obligations of the Co-operative Bank are rated at least the Account Bank Rating, an unlimited amount; or
- (b) for so long as the short-term and long-term (as applicable) unsecured, unsubordinated and unguaranteed debt obligations of the Co-operative Bank are rated below the Account Bank Rating:
 - (i) the maximum amount of any guarantee obtained by the Co-operative Bank (in a form acceptable to the Security Trustee) provided by an entity whose short-term and long-term (as applicable) unsubordinated and unguaranteed debt obligations are rated at least the Account Bank Rating; or
 - (ii) the maximum amount of the Co-op Collateral Amount Designated Portion, in each case in respect of the obligations of the Co-operative Bank in respect of the Co-op Deposit Account; or
- (c) if no such guarantee or collateral amount referred to in paragraph (b) is in place, zero;

Co-op Collateral Amount means an amount equal to the amount deposited with the BNPP Account Bank in the BNPP Deposit Account by the Co-operative Bank to collateralise its obligations under the Co-op Bank Account Agreement (if any) and/or its obligations in relation to the Co-operative Bank Collection Accounts and recorded on the Co-op Collateral Account Ledger from time to time

The Co-op Bank Account Agreement is governed by English law.

BNPP Bank Account Agreement

If amounts standing to the credit of the Co-op Deposit Account exceed the Co-op Deposit Limit, the Servicer will deposit the amount of any such surplus which it receives in an account of the LLP maintained at BNPP (the **BNPP Deposit Account**) pursuant to the terms of an agreement entered into between, *inter alios*, the LLP, BNPP, the Cash Manager and the Security Trustee, dated on the Initial Programme Date (the **BNPP Bank Account Agreement**) or a similar account with another entity rated at least the Account Bank Rating.

The BNPP Bank Account Agreement is governed by English law.

Collateral Account Agreement

The LLP will be required to establish a deposit account in its name with BNPP (the **Collateral Account**) pursuant to a bank account agreement between, *inter alios*, the LLP, the Issuer, BNPP and the Security Trustee dated on the Initial Programme Date (the **Collateral Account Agreement**).

The Collateral Account Agreement is governed by English law.

Corporate Services Agreement

The Liquidation Member, Holdings and the LLP have entered into a Corporate Services Agreement with, *inter alios*, Structured Finance Management Limited, (as Corporate Services Provider) on the Initial Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the LLP, the Liquidation Member and Holdings respectively.

The Corporate Services Agreement is governed by English law.

Deed of Charge

Pursuant to the terms of the Deed of Charge entered into on the Initial Programme Date by the LLP, the Security Trustee and the other Secured Creditors, the secured obligations of the LLP and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

- (a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the Insurance Policies, English Loans, Northern Irish Loans and their Related Security and other related rights comprised in the Portfolio;
- (b) an assignment by way of first fixed charge over the rights of the LLP in and to the Insurance Policies and the Third Party Buildings Policies to the extent that the LLP has an interest in such Insurance Policies or Third Party Buildings Policies;
- (c) a first ranking assignment in security of the LLP's interest in the Scottish Loans and their Related Security (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);
- (d) an assignment by way of first fixed charge over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party (and, in respect of the Interest Rate Swap Agreement(s) and Covered Bond Swap Agreement, after giving effect to all applicable netting provisions therein);
- (e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including any Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;
- (f) a first fixed charge over all its rights, title, interest and benefit, present and future, in, to and under any Excess Proceeds received from the Bond Trustee pursuant to the Trust Deed;
- (g) 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
- (h) a first floating charge over all the assets and undertaking of the LLP (including the assets and undertaking of the LLP located in Scotland or governed by Scots law and the assets and undertaking of the LLP located in Northern Ireland or governed by the law of Northern Ireland).

In respect of the Scottish Loans and their Related Security sold to the LLP after the Programme Date a fixed security will be created over such property, rights and assets by means of Scottish Supplemental Charges 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:

- (i) the Security Trustee provides its prior written consent to the terms of such sale as described under "*LLP Deed – Method of Sale of Selected Loans*" above; and

- (ii) in the case of the sale of Selected Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.

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

Enforcement

If an LLP Acceleration Notice is served on the LLP, the Security Trustee will 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 will deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds (other than any Third Party Amounts, Swap Collateral Excluded Amounts, Swap Provider Tax Payments, Co-op Excluded Collateral Amounts, amounts in excess of the Required Coupon Amounts or amounts payable in respect of Tax Credits) received by the Security Trustee from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under "*Cashflows*".

The Deed of Charge is governed by English law (other than each Scottish Supplemental Charge granted pursuant and supplemental to the Deed of Charge and certain other provisions relating to the property, rights and assets referred to in paragraph (c) above which are governed by Scots law and the first fixed charge over the Northern Irish Loans and their Related Security and the floating charge over the assets and undertaking of the LLP located in or governed by the law of Northern Ireland which are governed by Northern Irish law).

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to the Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds at all times;
- the Pre-Maturity Test is intended to provide liquidity to the LLP in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP;
- a Reserve Fund will be established in the Deposit Accounts to trap Available Revenue Receipts (up to the Reserve Fund Required Amount) and the LLP credited an amount equal to the Reserve Fund Required Amount to the Reserve Ledger in the Deposit Accounts on or before the Programme Date; and
- under the terms of the Bank Account Agreements, each Account Bank has agreed to pay a variable rate of interest on all amounts held by the LLP in the appropriate Deposit Account at a variable rate below LIBOR for one-month Sterling deposits or such greater amount as the LLP and a Account Bank may agree from time to time.

Certain of these factors are considered more fully in the remainder of this section.

Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 9 (Events of Default and Enforcement) following the occurrence of an Issuer Event of Default. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment.

See further "*Summary of the Principal Documents – Trust Deed*" as regards the terms of the Covered Bond Guarantee. See further "*Cashflows – Guarantee Priority of Payments*" as regards the payment of amounts payable by the LLP to the Covered Bondholders and other Secured Creditors following the occurrence of an Issuer Event of Default.

Pre-Maturity Liquidity

Certain Series of Covered Bonds may be scheduled to be redeemed in full on the Final Maturity Date thereof without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable Final Terms will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The **Pre-Maturity Test** is intended to provide liquidity for the Hard Bullet Covered Bonds when the Issuer's credit ratings fall below a certain level. On each London Business Day (each a **Pre-Maturity Test Date**) prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Test has failed, and if so, it will immediately notify the Members and the Security Trustee thereof.

The Issuer will fail and be in breach of the Pre-Maturity Test on a Pre-Maturity Test Date if:

- (a) the Issuer's (i) long-term credit rating from Moody's is A2 (or lower) (or such higher rating as is notified by the Issuer to Moody's and the Security Trustee from time to time) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds occurs within 12 months (or such longer period as is notified by the Issuer to Moody's and the Security Trustee from time to time) of the relevant Pre-Maturity Test Date or (ii) short-term credit rating from Moody's is lower than P-1 (or such higher rating as is notified by the Issuer to Moody's and the Security Trustee from time to time) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds occurs within 12 months (or such longer period as is notified by the Issuer to Moody's and the Security Trustee from time to time) of the relevant Pre-Maturity Test Date; or
- (b) the Issuer's short-term credit rating from Fitch is F1 (or lower) (or such higher rating as is notified by the Issuer to Fitch and the Security Trustee from time to time) and the Final Maturity Date of the Series of Hard Bullet Covered Bonds occurs within 12 months (or such longer period as is notified by the Issuer to Fitch and the Security Trustee from time to time) of the relevant Pre-Maturity Test Date.

Without prejudice to the general right of each Member (other than the Liquidation Member) to make Cash Capital Contributions at any time, Co-operative Bank may, following a failure of a Pre-Maturity Test, make a Cash Capital Contribution to the LLP in an amount equal to:

- (a) the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds; less
- (b) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to repay any other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds.

Following a failure of the Pre-Maturity Test in respect of a Series of Hard Bullet Covered Bonds, if Co-operative Bank has not made a Cash Capital Contribution as contemplated by the LLP Deed, the LLP will offer to sell Selected Loans and their Related Security to Purchasers (subject to any right of pre-emption enjoyed by the Seller pursuant to the Mortgage Sale Agreement and to any Cash Capital Contributions made by Co-operative Bank (in its capacity as a member of the LLP)) with the intention that there will be an amount standing to the credit of the Pre-Maturity Liquidity Ledger at least equal to the Required Redemption Amount of that Series of Hard Bullet Covered Bonds (taking into account the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds).

Following a failure of the Pre-Maturity Test, the Issuer may not issue any further Series of Covered Bonds until the earliest to occur of:

- (a) the date on which the amount standing to the credit of the Pre-Maturity Liquidity Ledger is at least equal to the Required Redemption Amount of each Series of Hard Bullet Covered Bonds in respect of which the Pre-Maturity Liquidity Ledger is being maintained; and
- (b) the date on which the Pre-Maturity Test is no longer being failed by the Issuer.

In certain circumstances, Principal Receipts and Revenue Receipts will also be available to repay a Hard Bullet Covered Bond, as described in "*Cashflows - Pre-Acceleration Revenue Priority of Payments*" and "*Cashflows – Pre-Acceleration Principal Priority of Payments*" below.

Failure by the Issuer to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof will constitute an Issuer Event of Default. Following service of a Notice to Pay on the LLP, the LLP will apply funds standing to the credit of the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds.

If the Issuer and/or the Guarantor fully repay the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the BNPP Deposit Account will be applied by the LLP in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

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

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

Asset Coverage Test

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Asset Coverage Test is not satisfied and such failure is not remedied on or before the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of set-off on a Borrower's savings accounts held with the Seller and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Transfer Date.

See further "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*", above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

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

Amortisation Test

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where the Covered Bondholders may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*", above.

Reserve Fund

The LLP will be required to establish the Reserve Fund on the Deposit Accounts which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default.

The LLP will fund the Reserve Fund on or before the Programme Issue Date with an amount equal to the Reserve Fund Required Amount. The Reserve Fund will thereafter be funded out of 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.

The Cash Manager will maintain a Reserve Ledger to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

Yield Reserve

The LLP will be required to establish the Yield Reserve in respect of the Deposit Accounts which will be credited with Cash Capital Contributions (in the LLP's discretion) in an amount equal to the Yield Reserve Required Amount which is the amount notified by the Seller to the LLP from time to time equal to the amount necessary to ensure that the weighted average yield on the loans (including any New Loans to be sold to the LLP) is at least equal to LIBOR plus 0.10 per cent. taking into account the yield on the Loans, the margins on the relevant Interest Rate Swaps, the yield on the Substitution Assets and any amount to be withdrawn from the Yield Reserve.

The Cash Manager will maintain the Yield Reserve Ledger to record the crediting of Cash Capital Contributions to the Yield Reserve and the debiting of such Yield Reserve in accordance with the terms of the LLP Deed.

Coupon Payment

If the Issuer is acting as the Cash Manager and a Cash Manager Relevant Event occurs and is continuing, the Seller will (a) within 4 London Business Days after such downgrade and, thereafter (b) within 4 London Business Days after each Loan Interest Payment Date in respect of the Term Advance corresponding to a Series of Covered Bonds, make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for such Term Advance corresponding to the Series of Covered Bonds payable on the immediately succeeding Loan Interest Payment Date for such Term Advance corresponding to such Series of Covered Bonds. The LLP will within 1 London Business Day of receipt of such Cash Capital Contribution from the Seller deposit an amount equal to the lesser of the Required Coupon Amount for such Series and the amount of such Cash Capital Contribution to the Collateral Account.

The LLP will, on the direction of the Issuer, on the date of each deposit referred to above deliver an irrevocable payment instruction to the Account Bank to transfer an amount equal to the Required Coupon Amount for each Series to the account of the Principal Paying Agent on the next following Interest Payment Date for such Series.

Advance Payments under Interest Rate Swap

If the Issuer is acting as the Cash Manager and a Cash Manager Relevant Event occurs and is continuing, the Seller will:

- (a) notify each Interest Rate Swap Provider within 3 London Business Days of the occurrence of a Cash Manager Relevant Event;
- (b) within 3 London Business Days after the occurrence of such Cash Manager Relevant Event, make a Cash Capital Contribution to the LLP in an aggregate amount equal to the net amounts (if any) due by the LLP to each Interest Rate Swap Provider on the immediately following LLP Payment Date; and
- (c) within 3 London Business Days after each LLP Payment Date, make a Cash Capital Contribution to the LLP in an aggregate amount equal to the net amount (if any) due by the LLP to each Interest Rate Swap Provider on the immediately succeeding LLP Payment Date. Furthermore, where the Seller has been notified of the LLP Fee Amount in accordance with the provisions of the Mortgage Sale Agreement, the Seller will within 2 London Business Days of receipt of information from an Interest Rate Swap Provider as to the amount of the LLP Fee Amount, make a Capital Contribution to the LLP in an amount equal to the LLP Fee Amount payable under the relevant Interest Rate Swap Agreement(s).

The LLP will within one Business Day of receipt of a Cash Capital Contribution from the Seller as contemplated above pay the lesser of (i) the net amounts (if any) that are due by the LLP to each Interest Rate Swap Provider on the immediately following LLP Payment Date, and (ii) the amount of the Cash Capital Contribution received by the LLP from the Seller as contemplated in items (b) and (c) above to the Interest Rate Swap Provider.

The LLP will, within 5 London Business days of the later of (A) receipt by the Seller and the LLP of notice of the amount of such termination payment arising under the Interest Rate Swap Agreement as a result of a repurchase or proposed repurchase of a Fixed Rate Loan and (B) repurchase of the relevant Loan by the Seller, pay to the Interest Rate Swap Provider the amount of such termination payment.

CASHFLOWS

As described above under "*Credit Structure*", until a Notice to Pay or LLP Acceleration Notice is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority:

- (a) prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;
- (b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);
- (c) following service of a Notice to Pay; and
- (d) following service of an LLP Acceleration Notice, realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

LLP Payment Dates will occur monthly.

Allocation and distribution of Available Revenue Receipts prior to the service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, and whilst amounts are outstanding in respect of the Covered Bonds, Available Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP or the Cash Manager on its behalf will 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).

If the Pre-Maturity Test is failed in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling in the eleven months prior to the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds the LLP or the Cash Manager on its behalf will calculate whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger on that Calculation Date is less than the Required Redemption Amount for that Series of Hard Bullet Covered Bonds (taking into account the Required Redemption Amount of any other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds).

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 Deposit Accounts, in an amount equal to the lower of (a) the amount required to make the payments described below (taking into account any Available Revenue Receipts standing to the credit of the Deposit Accounts) and (b) the amount of Available Revenue Receipts standing to the credit of the Deposit Account.

If an LLP Payment Date is the same as an Interest Payment Date and the LLP or, if applicable, a Covered Bond Swap Provider has not been instructed by the Issuer or the LLP, as applicable to pay amounts due to the Issuer under the Intercompany Loan to the Bond Trustee (or if so directed by the Bond Trustee) to the Principal Paying Agent, then the distribution of Available Revenue Receipts under item (f) of the Pre-Acceleration Revenue Priority of Payments will be delayed until the Issuer (or the LLP on its behalf) has made the scheduled interest and/or principal payments on that Interest Payment Date.

Prior to service on the LLP of an Asset Coverage Test Breach Notice, 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 (except for amounts due to the Bond Trustee, the Security Trustee and third parties by the LLP under items (a) and (b) below or Third Party Amounts (if any), which will be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) all amounts due and payable or to become due and payable to the Bond Trustee (including remuneration payable to it) in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and applicable VAT thereon to the extent provided therein;
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee (including remuneration payable to it) in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay and discharge any liability of the LLP for taxes; and
 - (ii) any remuneration and other amounts (including costs and expenses) then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the terms of the Agency Agreement, together with applicable VAT thereon to the extent provided therein;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Servicer pursuant to the terms of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT thereon to the extent provided therein;
 - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager pursuant to the terms of the Cash Management Agreement in the immediately

succeeding LLP Payment Period, together with applicable VAT thereon to the extent provided therein;

- (iii) amounts (if any) then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Account Banks (including costs) pursuant to the terms of the Bank Account Agreements, together with applicable VAT thereon to the extent provided therein;
 - (iv) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement, together with applicable VAT thereon to the extent provided therein;
 - (v) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (m) below), together with applicable VAT thereon to the extent provided therein;
 - (vi) in the event that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, amounts (if any) due and payable or to become due and payable in the immediately succeeding LLP Payment Period by the LLP to the FSA in respect of fees and to the FSA under the RCB Regulations (other than the initial registration fee);
 - (vii) amounts (if any) due and payable or to become due and payable in the immediately succeeding LLP Payment Period by the LLP to the Back-Up Cash Manager Facilitator pursuant to the terms of the Cash Management Agreement, together with VAT (if payable) thereon to the extent provided therein; and
 - (viii) amounts (if any) due and payable or to become due and payable in the immediately succeeding LLP Payment Period by the LLP to the Back-Up Servicer Facilitator pursuant to the terms of the Servicing Agreement, together with VAT (if payable) thereon to the extent provided therein;
- (d) *fourth*, taking into account any amount paid from the proceeds of a Cash Capital Contribution made by the Seller and applied by the LLP in advance payment of the relevant Interest Rate Swap Provider and/or any amount paid from the LLP Fee Amount Ledger and paid to an Interest Rate Swap Provider, in or towards payment of any amount due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement (but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premium received from the replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts received or receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of:
- (i) any amounts due and payable or to become due and payable to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each

relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Provider) pursuant to the terms of the relevant Covered Bond Swap Agreement; and

- (ii) taking into account any amounts paid from amounts credited to the Collateral Account, any amounts due and payable or to become due and payable (excluding principal amounts), pro rata and pari passu in respect of each relevant Term Advance to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (f) *sixth*, if the LLP is required to make a credit to the Pre-Maturity Liquidity Ledger in accordance with the LLP Deed, in or towards a deposit to the Deposit Account (with a corresponding credit to the Pre-Maturity Liquidity Ledger maintained in respect of that account) of an amount equal to the difference between:
- (i) the Required Redemption Amount as calculated on the immediately preceding Calculation Date for each relevant Series of Hard Bullet Covered Bonds; and
 - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or at the same date as the relevant Series of Hard Bullet Covered Bonds;
- (g) *seventh*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the appropriate Deposit Account (with a corresponding credit to the Revenue Ledger maintained in respect of that account) until such Servicer Event of Default is either remedied by the Servicer or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (h) *eighth*, in or towards a credit to the Reserve Ledger on the Deposit Accounts of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to each Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement and any indemnity amount due to the Members pursuant to the LLP Deed;
- (k) *eleventh*, in or towards repayment to the Co-operative Bank of any Cash Capital Contributions made by Co-operative Bank and deemed as Revenue Receipts or otherwise made to credit the Collateral Account or to fund a payment to the Interest Rate Swap Providers in accordance with the LLP Deed;
- (l) *twelfth*, to pay all remaining Available Revenue Receipts (except for an amount equal to the fee payable to the Liquidation Member in accordance with item (m) below and an amount equal to the profit to be paid to the Members in accordance with item (n) below) to the Seller in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP;

- (m) *thirteenth*, in or towards payment of a fee of £50 (inclusive of any VAT) due to each Designated Member; and
- (n) *fourteenth*, towards payment *pro rata* and *pari passu* to the Members of the sum of £3,000 (or such other sum as may be agreed by the Members from time to time) in aggregate per annum, to be allocated and paid to each Member in proportion to their respective Capital Contribution Balances as at the immediately preceding Calculation Date subject to a minimum of £400 per annum each, as their profit for their respective interests as Members of the LLP.

Any amounts (other than Tax Credits received by the LLP in respect of the Interest Rate Swap Agreement, Swap Collateral Excluded Amounts and any premium received by the LLP used (or to be used) to make a termination payment or any termination payment received by the LLP used (or to be used) to pay any premium in respect of a replacement Interest Rate Swap) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap to each relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement or, as the case may be, to the Issuer in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and has not been revoked.

Any amounts (other than in respect of principal, other than Tax Credits received by the LLP in respect of the Covered Bond Swap Agreement, Swap Collateral Excluded Amounts and any premium received by the LLP used (or to be used) to make a termination payment or any termination payment received by the LLP used (or to be used) to pay any premium in respect of a replacement Covered Bond Swap) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable to the Issuer in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and has not been revoked.

Any amounts (other than Tax Credits received by the LLP in respect of the Interest Rate Swap Agreement, Swap Collateral Excluded Amounts and any premium received by the LLP used (or to be used) to make a termination payment or any termination payment received by the LLP used (or to be used) to pay any premium in respect of a replacement Interest Rate Swap) received by the LLP under the Interest Rate Swap Agreement and any amounts (other than in respect of principal and other than Tax Credits received by the LLP in respect of the Covered Bond Swap Agreement and Swap Collateral Excluded Amounts) received under the Covered Bond Swap Agreements on the LLP Payment Date but prior to the next following LLP Payment Date which are not put towards a payment or provision in accordance with item (e) above or the preceding two paragraphs, will be credited to the Revenue Ledger on the relevant LLP Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

Pursuant to the Intercompany Loan Agreement, the Issuer requires the LLP to direct each Covered Bond Swap Provider to pay any amounts due to the LLP under a Covered Bond Swap, the proceeds of which would otherwise be applied by the LLP directly towards payment to the Issuer in accordance with item (e)(ii) above or items (c)(ii) and (d)(ii) under "*Pre-Acceleration Principal Priority of Payments*" below, directly to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent, unless the Issuer has paid or discharged the corresponding payment under the relevant Series of Covered Bonds or, following a Cash Manager Relevant Event and for so long as a Cash Manager Relevant Event is continuing, the corresponding payment under the relevant Series of Covered Bonds has been paid, at the direction of the Issuer, from amounts standing to the credit of the Collateral Account.

Any Cash Capital Contributions made by the Seller and directed by the Seller to be credited to the Yield Reserve Ledger will be credited to the Yield Reserve Ledger and will be withdrawn by the Cash Manager and applied as Available Revenue Receipts from time to time in accordance with the instruction of the Seller.

Amounts standing to the credit of the Swap Provider Fee Ledger and available for distribution will, subject to the Asset Coverage Test being met, be applied in making a Capital Distribution to the Seller.

Allocation and Distribution of Available Principal Receipts prior to the service of an Asset Coverage Test Breach Notice, which has not been revoked, a Notice to Pay or an LLP Acceleration Notice and/or the Commencement of Winding-up Proceedings against the LLP and/or the Realisation of the Security

Prior to service on the LLP of an Asset Coverage Test Breach Notice which has not been revoked, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or 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.

If an LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest and/or principal payments due and payable under the Covered Bonds on that Interest Payment Date unless 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 an Asset Coverage Test Breach Notice that has not been revoked, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Principal Receipts (other than Cash Capital Contributions unless the Cash Capital Contributions have been deemed as Principal Receipts which are available to be applied to fund the Pre-Maturity Liquidity Ledger made from time to time by the Seller (in its capacity as a Member) as calculated on the immediately preceding Calculation Date) will be applied by or on behalf of the LLP on each LLP Payment Date in making the following payments and provisions (the **Pre-Acceleration Principal Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been paid in full to the extent the same are payable on the relevant LLP Payment Date):

- (a) *first*, if the Pre-Maturity Test has been failed by the Issuer in respect of any Series of Hard Bullet Covered Bonds, to credit the Pre-Maturity Liquidity Ledger in an amount equal to the difference between:
 - (i) the Required Redemption Amount calculated on the immediately preceding Calculation Date for each relevant Series of Hard Bullet Covered Bonds; and
 - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Required Redemption Amount of all other Hard Bullet Covered Bonds, as calculated on that Calculation Date, which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds,
- (b) *second*, to credit the Retained Principal Ledger in such amount as is required to acquire New Loans and their Related Security that will be offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement on and after the relevant LLP Payment Date to (but excluding the immediately following Calculation Date, and thereafter 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;

- (c) *third*, to deposit the remaining Available Principal Receipts in the appropriate Deposit 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 on the next following Calculation Date;
- (d) *fourth*, in or towards repayment *pro rata* and *pari passu* on the LLP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine after taking into account any provisions previously made and, if applicable, any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine):
 - (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 but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) (taking into account any principal amounts received from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement) any amounts (in respect of principal) due or to become due and payable to the Issuer *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement; and
- (e) *fifth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution to Co-operative Bank (or if Co-operative Bank is not then a Member towards repayment of the Issuer Subordinated Loan) by way of distribution of its equity in the LLP in accordance with the LLP Deed, provided that only Available Principal Receipts that are specifically attributable to Loans sold or Cash Capital Contributions made to Co-operative Bank in its capacity as a Seller will be paid to that Member.

Any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace or (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling in the future as the Cash Manager may reasonably determine, unless an Asset Coverage Test Breach Notice has been served on the LLP and has not been revoked.

Any amounts of principal (other than Swap Collateral Excluded Amounts) received by the LLP under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with items (b) and (d) above or the preceding paragraph will be credited to the Principal Ledger on the relevant LLP Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice

At any time after service on the LLP of an Asset Coverage Test Breach Notice (that has not been revoked), but prior to service of a Notice to Pay or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, respectively, save that, whilst any Covered Bonds remain outstanding, no moneys will be applied under item (e)(ii) (unless such amounts are paid directly to the Bond Trustee or the Principal Paying Agent) above, and items (j) (to the extent only that such amounts are payable to the Members), (k), (l), (m) or (n) of the Pre-Acceleration Revenue Priority of Payments or items (a), (d)(ii) (unless such amounts are to be paid directly to the Bond Trustee or the Principal Paying Agent) or (e), of the Pre-Acceleration Principal Priority of Payments.

For the avoidance of doubt, after service of an Asset Coverage Test Breach Notice but prior to service of a Notice to Pay, any amounts due from the Covered Bond Swap Provider will be paid directly to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent.

Allocation and Distribution of Moneys following service of a Notice to Pay

At any time after the service on the LLP 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 in respect of the LLP and/or the realisation of the Security and whilst amounts are outstanding in respect of the Covered Bonds, all Available Revenue Receipts and Available Principal Receipts (other than Third Party Amounts) will be applied as described below under "*Guarantee Priority of Payments*".

On each LLP Payment Date during such period, 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 relevant Deposit Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the LLP Accounts.

The LLP will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with item (f) of the "*Guarantee Priority of Payments*" below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled repayment dates thereof.

Guarantee Priority of Payments

If a Notice to Pay is served on the LLP in connection with the Pre-Maturity Test (as set out in the LLP Deed), the LLP shall, on the relevant Final Maturity Date, apply all moneys standing to the credit of the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds in accordance with the LLP Deed. Subject to such application of moneys standing to the credit of the Pre-Maturity Liquidity Ledger, on each LLP Payment Date after the service on the LLP of a Notice to Pay but prior to the service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings in respect of the LLP and/or realisation of the Security, the LLP (or the Cash Manager on its behalf) will apply Available Revenue Receipts and Available Principal Receipts as calculated on the immediately preceding Calculation Date to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

- (i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period including remuneration payable to it under the provisions of the Trust Deed together with interest and applicable VAT thereon to the extent provided therein;
 - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period including remuneration payable to it under the provisions of the Deed of Charge together with interest and applicable VAT thereon to the extent provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any remuneration and other amounts (including costs and expenses) then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the terms of the Agency Agreement together with applicable VAT thereon to the extent provided therein; and
 - (ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for taxes;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any remuneration then due and payable to the Servicer (and any back-up or master servicer) and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Servicer (and any back-up or master servicer) under the provisions of the Servicing Agreement (or back-up or master servicing agreement, as applicable) in the immediately succeeding LLP Payment Period, together with applicable VAT thereon to the extent provided therein;
 - (ii) any remuneration then due and payable to the Cash Manager (and any back-up cash manager) and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager (and any back-up cash manager) under the provisions of the Cash Management Agreement (or back-up cash management agreement, as applicable) in the immediately succeeding LLP Payment Period, together with applicable VAT thereon to the extent provided therein;
 - (iii) any remuneration then due and payable to the Back-Up Cash Manager Facilitator and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Back-Up Cash Manager Facilitator under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT thereon to the extent provided therein;
 - (iv) any remuneration then due and payable to the Back-Up Servicer Facilitator and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT thereon to the extent provided therein;

- (v) amounts (if any) due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Account Banks (including costs) pursuant to the terms of the Bank Account Agreements, together with applicable VAT thereon to the extent provided therein;
 - (vi) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT thereon to the extent provided therein;
 - (vii) to the extent that the Issuer, the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, amounts (if any) due and payable to the FSA or to become due and payable in the immediately succeeding LLP Payment Period under the RCB Regulations (other than the initial registration fees) together with applicable VAT thereon to the extent provided therein; and
 - (viii) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor (other than the amounts referred to in paragraph (l) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT thereon to the extent provided therein;
- (d) *fourth*, taking into account any amount paid from the proceeds of a Cash Capital Contribution made by the Seller and applied by the LLP in advance payment of the relevant Interest Rate Swap Provider and/or any amount paid from the LLP Fee Amount Ledger and paid to an Interest Rate Swap Provider, in or towards payment of any amount due to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premium received from the replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreements;
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:
- (i) the amounts due and payable (or to become due and payable in the immediately succeeding LLP Payment Period) to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Provider)) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) taking into account any amounts paid from amounts credited to the Collateral Account, to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any amounts received or receivable from the Interest Rate Swap Provider in respect of the Interest Rate Swap and, if applicable, any amounts (other than in respect of principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this item (f) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest

that is Due for Payment in respect of each Series of Covered Bonds under sub-item (e)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Covered Bond Swap under sub-item (e)(i) above shall be reduced by the amount of the shortfall applicable to the Series of Covered Bonds in respect of which such payment is to be made;

- (f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof, of:
- (i) the amounts (in respect of principal) due and payable to the relevant Covered Bond Swap Provider (or to become due and payable in the immediately succeeding LLP Payment Period) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this item (g) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment in respect of each relevant Series of Covered Bonds under sub-item (f)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Covered Bond Swap under sub-item (f)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (g) *seventh*, in respect of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date (the **Extended Covered Bonds**) and where the Extended Due for Payment Date is one year or less from the relevant LLP Payment Date and any relevant Covered Bond Swap in respect thereof, on a *pro rata* and *pari passu* basis according to the respective amounts thereof:
- (i) the amounts (in respect of principal) due and payable to each relevant Covered Bond Swap Provider (or to become due and payable in the immediately succeeding LLP Payment Period) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
 - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in or towards payment of the Final Redemption Amount or the relevant proportion thereof under the Covered Bond Guarantee in respect of each relevant Series of Extended Covered Bonds,

but, in the case of any such payment, after taking into account any amounts (in respect of principal) received or receivable from the relevant Covered Bond Swap Provider in respect of the relevant Covered Bond Swap corresponding to the Extended Covered Bonds on the LLP Payment Date or in the immediately succeeding LLP Payment Period, **provided that** if the amounts available for distribution under this item (g) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final

Redemption Amount in respect of each relevant Series of Extended Covered Bonds under sub-item (g)(ii) above, the shortfall shall be divided amongst all such Series of Extended Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement in respect of each relevant Series of Extended Covered Bonds under sub-item (g)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (h) *eighth*, in respect of any Extended Covered Bonds where the Extended Due for Payment Date is more than one year from the relevant LLP Payment Date and any relevant Covered Bond Swap in respect thereof, on a *pro rata* and *pari passu* basis according to the respective amounts thereof:
 - (a) the amounts (in respect of principal) due and payable to each relevant Covered Bond Swap Provider or to become due and payable in the immediately succeeding LLP Payment Period *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
 - (b) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* the Final Redemption Amount or the relevant proportion thereof under the relevant Covered Bond Guarantee in respect of each relevant Series of Extended Covered Bonds,

but, in the case of any such payment, after taking into account any amounts (in respect of principal) received or receivable from the relevant Covered Bond Swap Provider in respect of the relevant Covered Bond Swap corresponding to the Extended Covered Bonds on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this item (h) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final Redemption Amount in respect of each relevant Series of Extended Covered Bonds under sub-item (a)(b) above, the shortfall shall be divided amongst all such Series of Extended Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement in respect of each relevant Series of Extended Covered Bonds under sub-item (g)(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;

- (i) *ninth*, to deposit the remaining monies in the Deposit Accounts for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (h) (inclusive) above until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (k) *eleventh*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining monies will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;
- (l) *twelfth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members pursuant to Clauses 5.6 (Designated Members) and 35 (Duties and Covenants of the LLP) (and, if Co-operative Bank is not then a Member of the LLP, towards

repayment of the Issuer Subordinated Loan) of the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to Clauses 10.2 (Liability) and 15.1 (No Enforcement by Asset Monitor) of the Asset Monitor Agreement; and

- (m) *thirteenth*, thereafter any remaining monies will be applied in accordance with the priority of payment set out in Clause 21 (Application and Distribution of Monies when Covered Bonds Repaid) of the LLP Deed.

Any amounts (other than Tax Credits received by the LLP in respect of the Interest Rate Swap Agreement, Swap Collateral Excluded Amounts and any premium received by the LLP used (or to be used) to make a termination payment or any termination payment received by the LLP used (or to be used) to pay any premium in respect of a replacement Interest Rate Swap) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement or, as the case may be, to the Principal Paying Agent in respect of Scheduled Interest that is Due for Payment (or will become Due for Payment) under the Covered Bond Guarantee in respect of each relevant Series of Covered Bonds.

Any amounts (other than Tax Credits received by the LLP in respect of the Covered Bond Swap Agreement, Swap Collateral Excluded Amounts and any premium received by the LLP used (or to be used) to make a termination payment or any termination payment received by the LLP used (or to be used) to pay any premium in respect of a replacement Covered Bond Swap) received by the LLP under a Covered Bond Swap Agreement (whether or not in respect of principal) after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments of interest or principal, as the case may be, in respect of the relevant Series of Covered Bonds under the Covered Bond Guarantee.

Any amounts (other than Tax Credits received by the LLP in respect of an Interest Rate Swap Agreement or a Covered Bond Swap Agreement, Swap Collateral Excluded Amounts and any premium received by the LLP used (or to be used) to make a termination payment or any termination payment received by the LLP used (or to be used) to pay any premium in respect of a replacement Interest Rate Swap) received under the Interest Rate Swap Agreement or any Covered Bond Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date which are not put towards a payment or provision in accordance with items (g)(ii), (h)(ii), (i)(ii) and (j) of the Guarantee Priority of Payments will be credited to the Revenue Ledger or the Principal Ledger (as appropriate) and the relevant LLP Account and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding LLP Payment Date.

Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps and Taxation Credits Received in respect of Swaps

If the LLP receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment will first be used, to the extent necessary (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) with the LLP, unless a replacement Swap Agreement(s) has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap Agreement, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap Agreement(s), unless such termination payment has already been made on behalf of the LLP. Such payments will be made when due in accordance with the terms of the relevant Swap Agreement.

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

Any premium received by the LLP from a replacement Swap Provider(s) to enter into a replacement Swap Agreement(s) which is not applied to pay a termination payment (other than a termination payment that is an Excluded Swap Termination Amount) to the replaced Swap Provider(s) will be credited to the Revenue Ledger and the LLP Accounts and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If the LLP is required under the terms of any Swap Agreement to make a payment to a Swap Provider in consequence of the receipt by a Member of a credit allowance, set-off or repayment in respect of any taxation (a **LLP Tax Payment**), then such member shall pay to the LLP an amount equal to the LLP Tax Payment on the date on which such LLP Tax Payment is due to be made by the LLP under the terms of such Swap Agreement.

If the Swap Provider breaches certain tax representations in the relevant Swap Agreement and a Member of the LLP suffers a loss, the LLP may receive payment of indemnity amounts from the Swap Provider on the affected Member's behalf. The LLP shall account to the Member for such amounts and shall pay amounts upon receipt to the affected Member.

Amounts received by the LLP in accordance with this section shall not be funds of the LLP and will not be construed to be amounts received in respect of Available Revenue Receipts or Available Principal Receipts.

Payments out of the LLP Accounts Upon Enforcement, Realisation and/or Winding-up

Under the terms of the Deed of Charge, all moneys received or recovered by the Security Trustee (or a Receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any LLP Tax Payments, Third Party Amounts or Swap Collateral Excluded Amounts) following the enforcement of the Security, realisation of the Security, after the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP for the benefit of the Secured Creditors in respect of the Secured Obligations, shall be held by it in the LLP Accounts on trust to be applied (save to the extent required otherwise by the 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 (including remuneration payable to it) under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein; and
 - (B) the Security Trustee (including remuneration payable to it) and any Receiver appointed by the Security Trustee under the provisions of the LLP Deed together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (ii) all amounts due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (iii) all amounts due and payable to:

- (A) the Servicer under the provisions of the Servicing Agreement, together with all applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (B) the Cash Manager under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (C) the BNPP Account Bank under the provisions of the BNPP Bank Account Agreement and the Collateral Account Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided in the respective agreements;
 - (D) the Co-op Account Bank under the provisions of the Co-op Bank Account Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (E) the Corporate Services Provider under the provisions of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (F) the Back-Up Cash Manager Facilitator under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
 - (G) the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and
 - (H) the Asset Monitor under the provisions of the Asset Monitor Agreement (other than the amounts referred to in paragraph (d) below), together with applicable VAT (or other similar taxes) thereon, to the extent provided therein;
- (iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement;
 - (v) all amounts due and payable:
 - (A) to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) in accordance with the terms of the relevant Covered Bond Swap Agreement;
 - (B) under the Covered Bond Guarantee, to the Bond Trustee 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 paragraph (a)(v)(B) (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 paragraph (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 to the relevant Swap Provider under the relevant Swap Agreement;
- (c) *third*, after the Covered Bonds have been fully repaid, any remaining moneys shall be applied in or towards repayment in full of all amounts outstanding under the Intercompany Loan Agreement;
- (d) *fourth*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members and/or any member of the LLP Management Committee pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (e) *fifth*, thereafter any remaining moneys shall be applied in or towards payment to the Members pursuant to the LLP Deed.

The above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 28 and 29 of the RCB Regulations. In particular, under the RCB Regulations (as at the date hereof) costs properly incurred by an administrative receiver, administrator, 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 (other than the Issuer) providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in (i) and (ii) above (for example liquidity loans),

shall be expenses of the winding-up, administration, administrative receivership or receivership, as the case may 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.

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, realisation of the security and/or commencement of winding up proceedings against the LLP, such Tax Credits will be used to reimburse the relevant Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Swap. Following the occurrence of an LLP Event of Default and the service of an LLP Acceleration Notice, realisation of the security and/or commencement of winding up proceedings against the LLP, 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.

THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**) consists (or will consist) of Loans and their Related Security sold by the Seller to the LLP from time to time in accordance with the terms of the Mortgage Sale Agreement, as more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement*".

For the purposes hereof:

Initial Portfolio means the portfolio of Loans and their Related Security, particulars of which will be delivered on the First Transfer Date pursuant to the Mortgage Sale Agreement (other than any Loans and their Related Security which have been redeemed in full prior to the First Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), and all right, title, interest and benefit of the Seller in and to:

- (a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Conditions;
- (b) subject where applicable to the subsisting rights of redemption of Borrowers, all Consent Agreements, 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;
- (d) all the estate and interest in the Properties vested in the Seller;
- (e) the proceeds of all claims made by or on behalf of the Seller to which the Seller is entitled under the insurance policies in relation to any such Loan (including the Insurance Policies), and
- (f) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof.

New Portfolio means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (f) above in relation to such New Loans and their Related Security.

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

DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

The **RCB Regulations** and the corresponding implementation provisions, set out in the new RCB Sourcebook to the FSA's Handbook (the **RCB Sourcebook**), came into force in the UK on 6 March 2008 and were subsequently amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714) which came into force on 22 July 2008. In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 22(4) of Directive 85/611/EEC on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting.

The 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).

The FSA performs certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FSA has certain powers under the RCB Regulations. In particular, in certain circumstances the FSA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

On 29 November 2011, the UK Government published the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) (the **Amendment Regulations**). The Amendment Regulations contain a number of changes to the RCB Regulations applicable to covered bond programmes falling under the RCB Regulations, including (but not limited to) the following:

- *Fixed minimum over-collateralisation requirement for principal and fixed minimum coverage requirement for interest* – the total principal amount outstanding on the loans constituting eligible property in the asset pool will be required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8 *per cent.* and a minimum threshold will apply in respect of interest amounts such that the total amount of interest payable in the period of twelve (12) months following any given date in respect of the eligible property in the asset pool will be required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period;
- *Investor reporting, including loan-level data* – new investor reporting requirements will apply in respect of regulated covered bonds; and
- *Asset pool monitor role* – the role of the asset monitor will be formalised. The Amendment Regulations provide that asset pool monitors will be required, on an annual basis, to inspect and assess the Issuer's compliance with certain principles based requirements under the regime and to report on

their findings to the FSA (with additional reporting requirements in the case of Issuer non-compliance).

The Amendment Regulations will come into force on 1 January 2013.

The Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations on 12 October 2011.

Under the RCB Regulations, an issuer may be removed from the register of issuers in certain limited circumstances but the FSA is restricted from removing a regulated covered bond from the register of regulated covered bonds before the expiry of the whole period of validity of the relevant bond. See also "*Risk Factors – UK regulated covered bond regime*" and "*Risk Factors – 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 2000**) (but not in Northern Ireland, until late 2004 under the Limited Liability Partnerships Act (Northern Ireland 2002)). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

Corporate characteristics

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 1985 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2001 (as amended by the Limited Liability Partnerships (Amendment) Regulations 2005) so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

Partnership characteristics

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

Taxation

A limited liability partnership which carries on a trade, profession or other business with a view to profit (and which is not the subject of certain insolvency proceedings) is, generally speaking, treated as a partnership for corporation tax purposes. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are subject to corporation tax in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are subject to corporation tax in relation to the business of that partnership.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee, any Dealer or any Arranger takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no

knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participant and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Covered Bonds

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such participant and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

Transfers of Covered Bonds Represented by Registered Global Covered Bonds

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents, any Dealer or any Arranger will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom law and HM Revenue & Customs (HMRC) published practice and are not intended to be exhaustive. They relate only to the position of persons who are the absolute beneficial owners of their Covered Bonds and all payments made thereon and may not apply to certain classes of persons such as dealers. They do not necessarily apply where the income is deemed for tax purposes to be income of any other person. Any holders of Covered Bonds who are in doubt as to their tax position should consult their professional advisers. The following comments relate only to withholding and do not deal with any other aspect of the United Kingdom taxation treatment that may be applicable to holders of Covered Bonds (including, for instance, income tax, capital gains tax and corporation tax). Prospective holders of Covered Bonds should note that the particular terms of issue of any Series of Covered Bonds as specified in the applicable Final Terms may affect the tax treatment of that and any other Series of Covered Bonds and should be treated with appropriate caution. The comments below do not deal with the tax consequences of any substitution of the Issuer in accordance with Condition 14 of the Covered Bonds.

Holders of Covered Bonds who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of Covered Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Covered Bonds. In particular, holders of Covered Bonds should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Payment of interest by the Issuer in respect of the Covered Bonds

The Issuer, provided that it is and continues to be a bank within the meaning of section 991 of the Income Tax Act 2007 (the ITA), and provided that interest on the Covered Bonds is paid in the ordinary course of business within the meaning of section 878 of the ITA, should be entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax. Interest on the Covered Bonds may also be paid by the Issuer without withholding or deduction for or on account of United Kingdom income tax where (a) the Covered Bonds are and continue to be listed on a "recognised stock exchange", as defined in Section 1005 of the ITA (the London Stock Exchange is a recognised stock exchange for the purposes of Section 1005 of ITA 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 VI of the FSMA) by the UK Listing Authority and admitted to trading on the London Stock Exchange); (b) the maturity of the Covered Bond is less than 365 days from the Issue Date and interest is not payable in respect of a debt which is intended to be or is capable of remaining outstanding for a year or more (the **Short Interest Exemption**); 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) that the person who is beneficially entitled to the interest on the Covered Bonds is within the charge to United Kingdom corporation tax as regards the payment of interest, **provided that** HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the beneficial owner is not within the charge to United Kingdom corporation tax in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

HMRC published a consultation document dated 27 March 2012 entitled "Possible changes to income tax rules on interest", in which the United Kingdom Government has invited views on repealing the Short Interest Exemption from the obligation to withhold or deduct for or on account of United Kingdom income tax. It is not possible to identify at this time to what extent, if at all, these proposals will be implemented.

In other cases, an amount must generally be withheld from payments of interest on the Covered Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary by HMRC under an applicable double taxation treaty.

Covered Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to, or receives interest for the benefit of, a Covered Bondholder (regardless of whether tax is required to be withheld or deducted from such interest), or who either pays amounts payable on the redemption of Covered Bonds which are deeply discounted securities for the purposes of the Income Tax (Trading and other Income) Act 2005 to, or receives such 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 deeply discounted securities where such amounts are paid on or before 5 April 2013. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Covered Bondholder is resident for tax purposes.

Payments by the LLP

If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds), such payment may be subject to United Kingdom withholding tax, whether or not the Covered Bonds are listed on a "recognised stock exchange" within the meaning of Section 1005 of the ITA. The LLP will not be required to pay any additional amounts in the event of a payment being made net of any deduction or withholding.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), Member States are 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, or collected by such person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers

If a payment were to be made or collected through a Member State or dependent or associated territory which has opted for a withholding system and as a consequence of such a system, an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer, the LLP, 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. However, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, such Directive..

The attention of Covered Bondholders is drawn to Condition 7(d) and to the section entitled "*Risk Factors EU Savings Directive*" above.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement (as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated on or about 20 April 2009 agreed with the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under "*Form of the Covered Bonds and Terms and Conditions of the Covered Bonds*" above. The Issuer may pay the Dealers commission from time to time in connection with the sale of any Covered Bonds, and in the Programme Agreement, the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

Transfer Restrictions

As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A, (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;
- (ii) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) that, unless it holds an interest in a Regulation S Global Covered Bond and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is two years after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (iv) that it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, that Covered Bonds offered to Institutional Accredited Investors

will be in the form of Definitive IAI Registered Covered Bonds and that Covered Bonds offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;

- (vi) that the Covered Bonds, other than the Regulation S Global Covered Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A **QUALIFIED INSTITUTIONAL BUYER** (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL **ACCREDITED INVESTOR** (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN INSTITUTIONAL ACCREDITED INVESTOR); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND, PRIOR TO THE DATE WHICH IS TWO YEARS AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OR REGULATION S UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; AND

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Covered Bonds in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Covered Bonds will be issued in definitive registered form, see "*Form of the Covered Bonds*".

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Prospectus and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Covered Bonds is subject to certain restrictions and conditions set forth in the Prospectus and the Covered Bonds (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Covered Bonds except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited investor invests in or purchases securities similar to the Covered Bonds;

- (iv) that the Institutional Accredited Investor is an institution that is an accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Covered Bonds, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;
- (v) that the Institutional Accredited Investor is acquiring the Covered Bonds purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Covered Bonds, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Covered Bonds, it will acquire Covered Bonds having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Covered Bonds in the United States to any one purchaser will be for less than U.S.\$250,000 (or the approximate equivalent in another Specified Currency) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or the approximate equivalent in another Specified Currency) principal amount and no Legended Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person (for whom it is acting must purchase at least U.S.\$100,000 (or the approximate equivalent in another Specified Currency) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$250,000 (or the approximate equivalent in another Specified Currency).

Bearer Covered Bonds, including Temporary Global Covered Bonds, Permanent Global Covered Bonds and Bearer Definitive Covered Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OR REGULATION S UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."

Selling Restrictions

United States

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

In connection with any Covered Bonds which are offered or sold outside the United States in reliance on Regulation S (**Regulation S Covered Bonds**), each Dealer has 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 such Regulations S Covered Bonds (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$250,000 (or the approximate equivalent in another Specified Currency).

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 represents to and agrees and each further Dealer appointed under the Programme will be required to represent and agree with the Issuer that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**), it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by the Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Covered Bonds to the public in that Relevant Member State:

- (a) *Approved prospectus*: if the Final Terms in relation to the Covered Bonds specify that an offer of the 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 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 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, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) *Fewer than 100 offerees*: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) *Other Exempt offers*: 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 (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a Prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Covered Bonds to the public**" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

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 an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the LLP; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-*ter*, first paragraph, letter (b) of CONSOB (the Italian Securities Exchange Commission) Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of Regulation No. 11971.

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 the Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (i) or (ii) above will be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirements imposed by CONSOB or any other Italian authority.

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. Furthermore, they will not directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, Prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other additional or modified restrictions (if any) as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer or sell Covered Bonds a copy of the Prospectus as then amended or supplemented or, unless delivery of the Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The Dealers are not authorised to give any information or to make any representation not contained in the Prospectus in connection with the offer and sale of Covered Bonds to which the Prospectus relates.

This Prospectus may be used by the Dealers for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the Dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the Dealers has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The Dealers are participating in the initial distribution of the Covered Bonds.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by resolutions of the board of directors of the Issuer dated 25 March 2009. The giving of the Covered Bond Guarantee has been duly authorised by a resolution of the LLP Management Committee dated 17 April 2009. The update of the Programme and the issue of Covered Bonds have been duly authorised by resolutions of the board of directors of the Issuer dated 8 September 2010, 15 March 2011 and 23 November 2011 and by the members of the LLP dated 7 October 2011 and 10 October 2012.

Listing of Covered Bonds

The admission of Covered Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the regulated market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond, a Rule 144A Global Covered Bond or a Definitive IAI Registered Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds was granted on 22 April 2009.

Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available to the Covered Bondholders during usual business hours and upon reasonable notice on any weekday (Saturdays, Sundays and public holidays excepted) from the principal office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (i) the constitutive documents of the LLP and the Issuer;
- (ii) the consolidated audited financial statements of the Issuer in respect of the financial periods ended 31 December 2010 and 31 December 2011. The Issuer currently prepares audited accounts on an annual basis;
- (iii) the audited annual accounts of the LLP for the years ended 31 December 2010 and 31 December 2011 and the auditor's report thereon;
- (iv) the most recently published consolidated unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis. The LLP prepares audited non-consolidated accounts on an annual basis;
- (v) the forms of the Global Covered Bonds, the Definitive Covered Bonds, the Coupons and the Talons;
- (vi) a copy of the base prospectus dated 13 October 2011 prepared by the Issuer and the LLP in connection with the Programme;
- (vii) a copy of this Prospectus;
- (viii) a copy of the 2010 Sustainability Report published by The Co-operative Group Limited;
- (ix) any future Prospectus, prospectuses, information memoranda and supplements including Final Terms (save that Final Terms relating to an unlisted Covered Bond will be available for inspection only by the relevant Dealer or Dealers specified in such Final Terms or, upon proof satisfactory to the

Principal Paying Agent or the Registrar, as the case may be, as to the identity of the holder of any Covered Bond to which such Final Terms relate) to this Prospectus and any other documents incorporated herein or therein by reference; and

- (x) each Transaction Document.

In addition, copies of this Prospectus, any documents incorporated by reference and each Final Terms relating to the Covered Bonds which are admitted to trading on the regulated market of the London Stock Exchange will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Clearing Systems

The Bearer Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the Co-operative Bank Group since 30 June 2012, and there has been no material adverse change in the financial position or the prospects of the Issuer or the Co-operative Bank Group since 31 December 2011.

There has been no significant change in the financial or trading position, and no material adverse change in the financial position or the prospects, of the LLP since 31 December 2011.

Litigation

Save as disclosed in the third paragraph on page 52 under "Risk Factors – Regulatory Compliance and litigation Risk", neither the Issuer nor its subsidiaries nor the LLP is or has been involved in any governmental, legal or arbitration proceedings which may have or have had in the 17 months prior to the date hereof, a significant effect on the financial position or profitability of the Co-operative Bank Group or the Issuer or the LLP nor, so far as the Issuer or the LLP is aware, are any such proceedings pending or threatened.

Auditors

The auditor of the Issuer is KPMG Audit plc, chartered accountants and registered auditor, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31 December 2010 and 31 December 2011.

The auditor of the LLP is KPMG Audit plc, chartered accountants and registered auditor who have audited the LLP's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31 December 2010 and 31 December 2011.

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.

The Issuer provides monthly Investor Reports detailing, among other things, compliance with the Asset Coverage Test and certain information on the characteristics of the underlying Portfolio. Investor Reports shall be posted on the Co-operative Bank website at www.britannia.co.uk/bts. The Investor Reports will not form part of this Prospectus. Copies of the applicable Final Terms for each series (including in relation to unlisted Covered Bonds of any Series) are available to Covered Bondholders during normal business hours at the registered office of the Issuer and at the specified office of each of the Paying Agents.

Material Contracts

There are no material contracts having been entered into outside the ordinary course of Issuer's business, and which could result in any member of the Co-operative Bank Group being under an obligation or entitlement that is material to its ability to meet its obligation to Covered Bondholders in respect of the Covered Bonds being issued.

GLOSSARY

1999 Regulations	The Unfair Terms in Consumer Contracts Regulations 1999, as amended;
30/360, 360/360, or Bond Basis	The meaning given in Condition (E);
30E/360 (ISDA)	The meaning given in Condition 4 (G);
30E/360 or Eurobond Basis	The meaning given in Condition 4 (F);
€ 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 and Monetary Union pursuant to the Treaty on the Functioning of the European Union;
£ and Sterling	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;
\$ and U.S. Dollars	The lawful currency for the time being of the United States of America;
¥, Yen and JPY	The lawful currency for the time being of Japan;
Account Banks	The BNPP Account Bank and the Co-op Account Bank;
Account Bank Defaulted Amount	An amount equal to the amount which would have been paid by the Co-op Account Bank but for the occurrence of an Account Bank Non Payment Event;
Account Bank Non Payment Event	Any failure to pay an amount in accordance with (i) Clause 2.2 (Timing of Payment) of the Co-op Bank Account Agreement in the event the same has not been rectified within one Business Day or (ii) the Collection Account Declaration of Trust as a result of an Insolvency Event occurring in respect of the Co-operative Bank;
Account Bank Rating	The short-term, unsecured, unsubordinated and unguaranteed rating by the Rating Agencies which will be P-1 by Moody's and F1 by Fitch and a long-term unsecured, unsubordinated unguaranteed rating of A by Fitch provided that when assessing a Fitch ratings trigger, a transaction party put on "Ratings Watch Negative" by Fitch shall be deemed, while they remain on "Ratings Watch Negative", to be rated one notch below their actual current Fitch rating, or such other short-term or long-term rating to ensure that the Rating Condition is satisfied;
Accrual Period	The relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date;
Accrued Interest	In respect of a Loan as at any date the aggregate of all interest

accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Date immediately preceding the relevant date to (but excluding) the relevant date;

Act	Banking Act 2009;
Actual/Actual or Actual/Actual (ICMA)	The meaning given in Condition (A);
Actual/360	The meaning given in Condition (D);
Actual/365 (Fixed)	The meaning given in Condition (B);
Actual/365 (Sterling)	The meaning given in Condition (C);
Additional Loan Advance	A further drawing (including, but not limited to, Further Advances) in respect of Loans sold by the Seller to the LLP;
Adjusted Aggregate Loan Amount	The meaning given in " <i>Summary of the Principal Documents</i> " on page 187;
Adjusted Required Redemption Amount	The Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of the LLP Accounts, the Pre-Maturity Liquidity Ledger and the Sterling Equivalent of the principal balance of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds) plus or minus any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement(s);
Adjusted True Balance	The meaning given to it on page 187;
Agency Agreement	The agency agreement dated 20 April 2009 as amended and restated on or about the Initial Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agents (as amended and/or supplemented and/or restated from time to time);
Agent	Each of the Paying Agents, the Registrar, the Exchange Agent, any Calculation Agent and the Transfer Agent;
Allocated Loans	The meaning given on page 214;
All Moneys Mortgage	A Mortgage securing an English Loan or a Northern Irish Loan that purports to secure the repayment of Associated Debt as well as a Loan;

All Moneys Mortgage Trust	In respect of an All Moneys Mortgage, the trust to be established (pursuant to the terms of the Mortgage Sale Agreement) on the date that such All Moneys Mortgage is assigned by the Seller to the LLP;
All Moneys Mortgage Trustee	The LLP in its capacity as trustee for itself and the Seller (as the holder of Associated Debt) in respect of the All Moneys Mortgage Trust;
All Moneys Mortgage Trust Property	The All Moneys Mortgage and the proceeds of enforcement of any All Moneys Mortgage;
Amortisation Test	The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
Amortisation Test Aggregate Loan Amount"	The meaning given in " <i>Summary of the Principal Documents</i> " on page 191;
Amortisation Test True Balance	The meaning given in " <i>Summary of the Principal Documents</i> " on page 191;
Amortised Face Amount	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 123;
Applicable Final Terms	The meaning given on page 84;
Approved Conveyancer	<ul style="list-style-type: none"> (a) Any sole principal, partnership or incorporated practice of conveyancers authorised to practise conveyancing by the Council of Licensed Conveyancers; or (b) Such other firm as would be approved by a Reasonable, Prudent Mortgage Lender;
Approved Solicitor	<ul style="list-style-type: none"> (a) Any firm of solicitors authorised to practise law by the Law Society of England and Wales with at least two partners; (b) Any firm of solicitors authorised to practise law by the Law Society of England and Wales having a sole principal; or (c) Such other firm as would be approved by a Reasonable, Prudent Mortgage Lender;
Arrangers	The Royal Bank of Scotland plc, UBS Limited and any other entity appointed as an arranger for the Programme or in respect of any particular issue of Covered Bonds under the Programme and references in this Agreement to the Arranger will be references to the relevant Arranger or, as the case may be, any of the Arrangers;

Arrears Adjusted True Balance	The meaning given in " <i>Summary of the Principal Documents</i> " on page 188;
Arrears of Interest	As at any date in respect of any Loan, the aggregate of all interest (other than Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date;
Asset Coverage Test	The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
Asset Coverage Test Breach Notice	The notice required to be served by the Bond Trustee if the Asset Coverage Test has not been met on two consecutive Calculation Dates;
Asset Monitor	A reputable institution appointed as such under the Asset Monitor Agreement;
Asset Monitor Agreement	The asset monitor agreement entered into on the Initial Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee;
Asset Monitor Report	The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee;
Asset Percentage	The meaning given in " <i>Summary of the Principal Documents</i> " on page 154;
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;
Associated Debt	In relation to an All Moneys Mortgage, the indebtedness a Borrower owes or may owe to the Seller from time to time which is (i) not a Loan or (ii) is not assigned to the LLP pursuant to the terms of the Mortgage Sale Agreement;
Authorised Investments	<ul style="list-style-type: none"> (a) Sterling gilt-edged securities; and (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and the short-term unsecured, unguaranteed and unsubordinated

debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1 by Moody's and F1 by Fitch, or such lower ratings as the relevant Rating Agencies may allow,

provided that such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations;

Authorised Underpayment

A Borrower making either no Monthly Payment under a Loan or a payment in an amount less than the Monthly Payment then due on the Loan, in each case, where the Seller has authorised such underpayment or non-payment or such underpayment or non-payment is an amount not exceeding the aggregate of any previous Overpayments and such authorisation is not connected with the Seller's arrears management policies from time to time;

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 LLP Accounts (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);
- (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 or invest in Substitution Assets); (ii) any Cash Capital Contributions received from a Member and deemed as Principal Receipts; (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreements; and (iv) any Account Bank Defaulted Amounts in replacement of those Available Principal Receipts that have not been paid by Co-operative Bank in its capacity as Co-op Account Bank as a result of an Account Bank Non Payment Event; and
- (c) following repayment of any Hard Bullet Covered Bonds by the Issuer on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the LLP has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger); and
- (d) any Excess Proceeds;

and excluding, for the avoidance of doubt

- (a) any Swap Collateral Excluded Amounts;
- (b) Tax Credits and any amount received by the LLP from a Member in respect of Tax Credits (to the extent otherwise constituting Available Principal Receipts);
- (c) Swap Provider Tax Payments received from Swap Providers (to the extent otherwise constituting Available Principal Receipts); and
- (d) any Co-op Excluded Collateral Amounts;
- (e) that portion of (i) the repurchase price received by the LLP in respect of the repurchase by the Seller of a Fixed Rate Loan or (ii) the sale proceeds from the sale of Selected Loans or (iii) Cash Capital Contributions received from a Member which in each case relates to an amount in respect of any swap termination payment or LLP Fee Amount to be paid by the LLP to the relevant Interest Rate Swap Provider and (iv) any amounts which relate to the Swap Provider Fee Amount;

Available Revenue Receipts

On a relevant Calculation Date, an amount equal to the aggregate of:

- (a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on the LLP Accounts;
- (b) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and Authorised Investments in the previous Calculation Period but excluding amounts received by the LLP under any Interest Rate Swap Agreement or a Covered Bond Swap Agreement (other than any premium received by the LLP not used to make a termination payment or any termination payment received by the LLP not used to pay any premium and any amounts credited to the Reserve Ledger in accordance with the LLP Deed);
- (c) prior to the service of a Notice to Pay amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the LLP Accounts; and
- (e) following the service on the LLP of a Notice to Pay,

amounts standing to the credit of the Reserve Fund to the extent required to pay items (a) to (c) and item (f) of the Guarantee Priority of Payments, taking into account the other funds available to the LLP;

- (f) any Account Bank Defaulted Amounts in replacement of those Available Revenue Receipts that not been paid by Co-operative Bank in its capacity as Co-op Account Bank as a result of an Account Bank Non Payment Event;

less

- (g) Third Party Amounts, which will be paid on receipt in cleared funds to the Seller;

and excluding (for the avoidance of doubt):

- (h) any Swap Collateral Excluded Amounts;
- (i) Tax Credits and any amount received by the LLP from a Member in respect of Tax Credits;
- (j) Swap Provider Tax Payments received from the Swap Provider(s);
- (k) any Cash Capital Contributions received from a Member which relate to an amount in respect of any swap termination payment or LLP Fee Amount to be paid by the LLP to the relevant Interest Rate Swap Provider after the occurrence of a Co-operative Bank Event;
- (l) any amounts received by the LLP which relate to the Swap Provider Fee Amount; and
- (m) any Co-op Excluded Collateral Amounts;

Back-Up Cash Manager Event

Means the Cash Manager ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 (or such other long-term rating specified by Moody's) or by Fitch of at least BBB- (or such other long-term rating which is otherwise specified by Fitch) provided that when assessing a Fitch ratings trigger, a transaction party put on "Ratings Watch Negative" by Fitch shall be deemed, while it remains on "Ratings Watch Negative", to be rated one notch below its actual current Fitch rating;

Back-Up Cash Manager Facilitator

Structured Finance Management Limited, a company incorporated in England and Wales, in its capacity as back-up cash manager facilitator under the Cash Management Agreement together with any successor back-up cash manager facilitator appointed from time to time;

Back-Up Cash Manager Facilitator

The fee letter dated the Programme Date between, *inter alios*,

Fee Letter	the Issuer and the Back-Up Cash Manager Facilitator;
Back-Up Servicing Event	The Servicer ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 (or such other long-term rating specified by Moody's) or by Fitch of at least BBB- (or such other long-term rating which is otherwise specified by Fitch);
Back-Up Servicer Facilitator	Structured Finance Management Limited, a company incorporated in England and Wales, in its capacity as back-up servicer facilitator under the Servicing Agreement together with any successor back-up servicer facilitator appointed from time to time;
Back-Up Servicer Facilitator Fee Letter	The fee letter dated the Programme Date between, <i>inter alios</i> , the LLP and the Back-Up Servicer Facilitator;
Bank Account Agreements	The BNPP Bank Account Agreement and the Co-op Bank Account Agreement;
Basel II Framework	Means a comprehensive framework, the text of which was published by the Basel Committee on Banking Supervision in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: a Revised Framework – Comprehensive Version";
Bearer Covered Bonds	Covered Bonds in bearer form;
Bearer Definitive Covered Bonds	A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 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 or Lead Manager (in the case of syndicated Issues) and having the Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bonds in bearer form) having Coupons and, where appropriate Talons attached thereto on issue;
Bearer Global Covered Bond	The meaning given on page 84;
Beneficiary	Each beneficiary identified in the Mortgage Sale Agreement in relation to the All Moneys Mortgage Trust, together, the

Beneficiaries;

Beneficial Owner	Each actual purchaser of each DTC Covered Bond;
BIS	Department for Business, Innovation and Skills;
BNPP	BNP Paribas Securities Services, London Branch, a bank incorporated and organised under the laws of France as a <i>société en commandite par actions</i> , having its registered office at 3 Rue d'Antin, 75002, Paris, France acting through its offices at 55 Moorgate, London EC2R 6PA;
BNPP Account Bank	BNPP;
BNPP Bank Account Agreement	The bank account agreement entered into on the Initial Programme Date as amended and restated or about the Programme Date between the LLP, the All Moneys Mortgage Trustee, the BNPP Account Bank, the Cash Manager, the Seller and the Security Trustee;
BNPP Deposit Account	The account or accounts in the name of the LLP held with the BNPP Account Bank and maintained subject to the terms of the BNPP Bank Account Agreement and the Deed of Charge, or such additional or replacement account as may for the time being be in place in accordance with the Transaction Documents;
Bond Trustee	HSBC Corporate Trustee Company (UK) Limited, in its capacity as bond trustee under the Trust Deed together with any successor or other bond trustee or additional bond trustees appointed from time to time thereunder;
Borrower	In relation to a Loan, each individual or individuals specified as such in the relevant Mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it;
Britannia Building Society	A former building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office was Britannia House, Leek, Staffordshire ST13 5RG. The business of the Britannia Building Society was transferred to Co-operative Bank on 1 August 2009 and the Britannia Building Society ceased to exist;
Buildings Insurance Policies	All buildings insurance policies relating to Property or Properties taken out (a) in the name of the relevant Borrower, and (b) in the name of the landlord in the case of leasehold properties or commonhold properties where the relevant landlord is responsible for insuring the Property or Properties;
Business Day	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 107;
Calculation Agent	In relation to all or any Series of the Covered Bonds, the person initially appointed as calculation agent in relation to such Covered

Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor or separately appointed calculation agent in relation to all or any Series of the Covered Bonds;

Calculation Date

The 10th day of each month (or, if that day is not a London Business Day, then the immediately following London Business Day). The first Calculation Date will be on the 10th day of June 2009;

Calculation Period

The period from, and including, the first day of each month to, and including, the last day of each month except that (i) for the first Series of Covered Bonds the first Calculation Period means the period from and including 1 April 2009 to and including, the last day of May 2009 and (ii) for the second Series of Covered Bonds, the first Calculation Period means the period from and including the first day of the month in which the second Series of Covered Bonds is issued to and including the last day of the month following the month in which the second Series of Covered Bonds is issued (the **Long Calculation Period**). For the avoidance of doubt the Calculation Periods shall continue to run from, and including, the first day of each month to, and including, the last day of each month until the commencement of the Long Calculation Period and, after the Long Calculation Period shall continue to run from, and including, the first day of each month to, and including, the last day of each month;

Capital Account Ledger

The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time;

Capital Balance

For a Loan at any date the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues;

Capital Contribution

In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed;

Capital Contribution Balance

The balance of each Member's Capital Contributions as recorded from time to time in the relevant Member's Capital Account Ledger;

Capital Contribution in Kind

A contribution of Loans and their Related Security to the LLP in an amount equal to (a) the aggregate of the True Balance of those Loans as at the relevant Transfer Date minus (b) any cash payment paid by the LLP for such Loans and their Related Security on that Transfer Date together with (without double counting) (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 (ii) Capitalised Arrears added to the Principal Amount Outstanding of such Loans and (iii)

the capital element of any Authorised Underpayment under any Flexible Loan Drawing;

Capital Distribution

Any return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration);

Capitalised Arrears

For any Loan at any date, interest or other amounts which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower;

Capitalised Expenses

In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the relevant Mortgage Conditions;

Capitalised Interest

For any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that date);

Capped Rate Loan

A Loan to the extent that and for such time that the interest rate payable by the relevant Borrower on all or part of the Outstanding Principal Balance is variable but will not increase above a fixed rate for a certain period of time by a Seller;

Cash Capital Contribution

A Capital Contribution made in cash;

Cash Management Agreement

The cash management agreement entered into on 20 April 2009 the Initial Programme Date, as amended and restated on or about the Initial Programme Date, between the LLP, Co-operative Bank (in its capacity as Seller, Servicer and Cash Manager), the Back-Up Cash Manager Facilitator and the Security Trustee as amended and restated on the Programme Date and as the same may be further amended, restated, varied and/or supplemented from time to time with the consent of the parties thereto;

Cash Manager

Co-operative Bank, in its capacity as cash manager under the Cash Management Agreement together with any successor cash manager appointed from time to time;

Cash Manager Relevant Event

Occurs if the long-term unsecured, unguaranteed and unsubordinated debt obligation rating of the Cash Manager by Moody's falls below Baa1, or by Fitch falls below BBB+, or the short-term unsecured, unguaranteed and unsubordinated debt obligation rating of the Cash Manager by Fitch falls below F2 provided that when assessing a Fitch ratings trigger, a transaction party put on "Ratings Watch Negative" by Fitch shall be deemed, while they remain on "Ratings Watch Negative", to be rated one notch below their actual current Fitch rating;

CB Collection Account	The account in the name of the Co-operative Bank at a third party financial institution into which amounts in respect of certain Loans originated by the Co-operative Bank or the former Britannia Building Society are collected or such other replacement accounts as are opened with another financial institution from time to time in accordance with the Collection Account Declaration of Trust;
CCA	Consumer Credit Act 1974, as amended;
CCA 2006	Consumer Credit Act 2006;
Central Land Charges Registry	The central land charges registry of England and Wales;
Certificate of Title	A solicitor's or licensed conveyancer's (or, in Scotland, 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;
CGCB	The meaning given on page 103;
Charged Property	The property charged by the LLP pursuant to the Deed of Charge;
Clearing Systems	DTC, Euroclear and/or Clearstream, Luxembourg and will be deemed to include references to any additional or alternative clearing system as is approved by the Issuer, the Principal Paying Agent and the Bond Trustee or as may otherwise be specified in the applicable Final Terms;
Clearstream, Luxembourg	Clearstream Banking, <i>société anonyme</i> ;
CML Code	The mortgage code issued by the Council of Mortgage Lenders;
Collateral Account	The account in the name of the LLP held at the BNPP Account Bank;
Collateral Account Agreement	The collateral account agreement entered into on the Initial Programme Date, as amended and restated on or about the Programme Date, entered into between the Co-operative Bank, the LLP, the BNPP Account Bank and the Security Trustee (as amended and/or supplemented from time to time);
Collection Accounts	The accounts held with the Co-operative Bank into which amounts in respect of certain Loans originated by Co-operative Bank, are collected or such other replacement accounts as are opened with another financial institution from time to time;
Collection Account Declaration of Trust	The declaration of trust declared on or about 2 December 2011 over the Co-operative Bank's beneficial interest in certain collection accounts held in its name with itself and certain

further accounts held with third party financial institutions if established pursuant to the Collection Account Declaration of Trust from time to time;

Common Depository	The common depository for Euroclear and Clearstream, Luxembourg;
Common Safekeeper	An ICSD in its capacity as a common safekeeper or a person nominated by the ICSDs to perform the role of common safekeeper;
Companies Act	The Companies Act 1985 or, to the extent the Companies Act 1985 has been repealed and replaced or to the extent otherwise relevant at the relevant time, the Companies Act 2006 (and, in each case, any regulations made pursuant to the relevant Act);
Conditions	The terms and conditions of the Covered Bonds (as set out in the Trust Deed), and in relation to a particular Series of Covered Bonds as amended and/or supplemented by the relevant Final Terms;
Consent Agreement	An agreement whereby a person in or intended to be in occupation of a Property agrees with the Seller to postpone his or her interest (if any) in the Property so that it ranks after the interest created in the relevant Mortgage;
Co-operative Bank	The Co-operative Bank p.l.c. incorporated in England and Wales (registered number 00990937) whose registered office is at 1 Balloon Street, Manchester, M60 4EP;
Co-op Account Bank	The Co-operative Bank p.l.c.;
Co-op Bank Account Agreement	The bank account agreement entered into on the Initial Programme Date, as amended and restated on or about the Programme Date, made between the LLP, the All Moneys Mortgage Trustee, the Co-op Account Bank, the Cash Manager, the Seller and the Security Trustee;
Co-op Bank Accounts	Means (i) the Co-op Deposit Account and any additional accounts (including any swap collateral account) to be established by the LLP pursuant to the Co-op Bank Account Agreement with the Co-op Account Bank and (ii) the Co-operative Bank Collection Accounts which are the subject of the Collection Account Declaration of Trust;
Co-op Collateral Account Ledger	Means the ledger in connection with the Co-op Deposit Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Co-op Collateral Amounts and any debiting of the same;
Co-op Collateral Amount	An amount equal to the amount deposited with the BNPP Account Bank in the BNPP Deposit Account by the Co-operative Bank to collateralise its obligations under the Co-op Bank Account Agreement (if any) and/or its obligations in relation to the Co-operative Bank Collection Accounts and

recorded on the Co-op Collateral Account Ledger from time to time;

Co-op Collateral Amount Designated Portion

Means the amount agreed between the Cash Manager and the Issuer to collateralise the Co-operative Bank's obligations under the Co-op Bank Accounts established pursuant to the Co-op Bank Account Agreement and credited to the Co-op Collateral Account Ledger pursuant to Paragraph 17.3(a) of Schedule 2 to the Cash Management Agreement;

Co-op Deposit Account

The account or accounts in the name of the LLP held with the Co-op Account Bank and maintained subject to the terms of the Co-op Bank Account Agreement and the Deed of Charge, or such additional or replacement account as may for the time being be in place in accordance with the Transaction Documents;

Co-op Deposit Limit

(i) for so long as the short-term and long-term (as applicable) unsecured, unsubordinated and unguaranteed debt obligations of the Co-operative Bank are rated at least the Account Bank Rating, an unlimited amount; or

(ii) for so long as the short-term and long-term (as applicable) unsecured, unsubordinated and unguaranteed debt obligations of the Co-operative Bank are rated below the Account Bank Rating:

(1) the maximum amount of any guarantee obtained by the Co-operative Bank (in a form acceptable to the Security Trustee) provided by an entity whose short-term and long-term (as applicable) unsubordinated and unguaranteed debt obligations are rated Account Bank Rating; or

(2) the maximum amount of the Co-op Collateral Amount Designated Portion,

in each case in respect of the obligations of the Co-operative Bank in respect of the Co-op Deposit Account; or

(iii) if no such guarantee or collateral amount referred to in paragraph (1) is in place, zero;

Co-operative Bank Collection Accounts

the accounts in the name of the Co-operative Bank established at the Co-operative Bank into which amounts in respect of loans originated by the Co-operative Bank or the former Britannia Building Society are collected;

Co-operative Bank Group

The Co-operative Bank p.l.c. and its Subsidiaries collectively;

Co-operative Bank Event

The meaning given on page 25;

Co-operative Group	Means the Co-operative Bank Group
Co-op Excluded Collateral Amounts	An amount equal to Co-op Collateral Amounts less Account Bank Defaulted Amounts;
Co-op Trust Amounts	All amounts from time to time standing to the credit of the Collection Accounts to the extent such amounts represent payments into the Collection Accounts of sums derived or resulting from Loans originated or purchased by the Seller which have not been sold to the LLP pursuant to the Mortgage Sale Agreement;
Corporate Services Agreement	The corporate services agreement entered into by the Liquidation Member, Holdings, the Corporate Services Provider and the LLP dated the Initial Programme Date as amended and restated on or about the Programme Date;
Corporate Services Provider	Structured Finance Management Limited, a company incorporated in England and Wales in its capacity as corporate services provider to Holdings and to the Liquidation Member under a Corporate Services Agreement, together with any successor corporate services provider appointed from time to time;
Couponholders	The holders of the Coupons (which expression will, unless the context otherwise requires, include the holders of the Talons);
Coupons	The meaning given in "Terms and Conditions of the Covered Bonds" on page 76;
Covered Bond	Each covered bond issued or where applicable 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 or a Covered Bond issued pursuant to Condition 10;
Covered Bond Guarantee	An unconditional and irrevocable guarantee by the LLP in the Trust Deed for the payment of Guaranteed Amounts in respect of the Covered Bonds when the same will become Due for Payment;
Covered Bondholders	The meaning given in "Terms and Conditions of the Covered Bonds" on page 98;
Covered Bond Principal Amount	The principal amount (if any) to be redeemed in respect of each Covered Bond in a Series in accordance with Condition 1(a);
Covered Bond Swap Agreement	Each agreement between the LLP and, a Covered Bond Swap Provider and the Security Trustee governing Covered Bond Swaps entered into with such Covered Bond Swap Provider in the form of an ISDA Master Agreement, including a schedule and credit support annex and one confirmation in relation to each such Covered Bond Swap. Each Covered Bond Swap will relate to a Series of Covered Bonds;

Covered Bond Swaps	Swap transactions governed by the Covered Bond Swap Agreements;
Covered Bond Swap Provider	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement;
Covered Bond Swap Rate	In relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate;
Custodian	Any custodian with whom the relevant Registered Global Covered Bonds have been deposited;
Day Count Fraction	In the case of a Fixed Rate Covered Bond, the meaning given in Condition 4(a) and in the case of a Floating Rate Covered Bond, the meaning given in Condition 4(b);
Dealer	Each of Barclays Bank PLC, BNP Paribas, London Branch, HSBC Bank plc, J.P. Morgan Securities plc, The Royal Bank of Scotland plc and UBS Limited and any other dealers appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the relevant Dealer(s) will, 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 dated 20 April 2009 (as amended and/or supplemented and/or restated from time to time), and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors;
Deed of Postponement	A deed or agreement whereby a mortgagee of or the heritable creditor in relation to a Property agrees with the Seller to postpone its mortgage or standard security (as appropriate) over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;
Defaulted Loan	Any Loan in the Portfolio which is more than three months in arrears;
Defaulted Loans Notice	A notice from the Cash Manager to the Seller identifying any Defaulted Loans;
Deferred Consideration	The consideration payable to the Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priorities of Payments;
Definitive Covered Bond	A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond;

Definitive IAI Registered Covered Bonds	The meaning given in "Form of Covered Bonds" on page 86;
Definitive Regulation S Covered Bond	A Registered Covered Bond in definitive form sold to a non-U.S. persons outside the United States in reliance on Regulation S;
Definitive Rule 144A Covered Bond	A Registered Covered Bond in definitive form sold to QIBs pursuant to Rule 144A;
Dematerialised Loan	A Loan completed on or after 1 January 2004 over a Property located in England or Wales in respect of which the Seller does not retain the Title Deeds;
Deposit Accounts	The BNPP Deposit Account and the Co-op Deposit Account;
Deposit Set Off Amount	For each Borrower whose Loan is included in the Portfolio, the lesser of (a) 100 per cent. of the aggregate balance of each savings account held with the Seller by such Borrower (whether such savings account is a joint account or not and whether such other joint savings account holder is a Borrower under a Loan that is in the Portfolio or not and to avoid double counting, such savings balance will only be included in the calculation once) and (b) the aggregate True Balance of such Borrower's Loan which is included in the Portfolio, in each case as calculated on any day after the last day of the immediately preceding Calculation Period but prior to the Calculation Date;
Designated Account	The meaning given in Condition 5(d);
Designated Bank	The meaning given in Condition 5(d);
Designated Maturity	The meaning given in the ISDA Definitions;
Designated Member	Each Member appointed and registered as such from time to time and having those duties and obligations set out in Sections 8 and 9 of the LLPA 2000, and in the LLP Deed;
Determination Date	The meaning given in the applicable Final Terms;
Determination Period	The meaning given in Condition 4(a);
Direct Participants	The meaning given in "Book-Entry Clearance Systems" on page 233;
Directors	The board of directors for the time being of the Issuer;
Distribution Compliance Period	The period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);
DTC	The Depository Trust Company or its successors;
DTC Covered Bonds	Covered Bonds accepted into DTC's book-entry settlement

system;

DTCC

The meaning given on page 233;

Due for Payment

The requirement by the LLP to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the LLP:

- (a) prior to the occurrence of an LLP Event of Default:
 - (i) on the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of a Notice to Pay on the LLP in respect of such Guaranteed Amounts or if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date (the **Original Due for Payment Date**); and
 - (ii) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Due for Payment Date, but only (A) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms and (B) to the extent that the LLP having received a Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date because the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of the date which falls two Business Days after service of such Notice to Pay on the LLP or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i)) under the terms of the Covered Bond Guarantee or (B) the Extension Determination Date,

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

reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise save as provided in paragraph (b) below; or

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

Earliest Maturing Covered Bonds	At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the LLP Accounts) that has or have the earliest Final Maturity Date, or, if applicable, Extended Due for Payment Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default);
Early Termination Date	The meaning given in the relevant Swap Agreement;
Early Redemption Amount	The meaning given in the relevant Final Terms;
Effective Date	The date on which the LLP delivers notice, in accordance with the Mortgage Sale Agreement, to the Seller that the LLP has obtained the requisite license under the CCA;
Eligibility Criteria	The meaning given on page 163;
English Loans	Loans secured by a Mortgage over a Property located in England or Wales;
EU	European Union;
EURIBOR	Euro-zone inter-bank offered rate;
Euroclear	Euroclear Bank S.A/N.V.;
Excess Proceeds	Moneys received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer;
Exchange Act	The U.S. Securities Exchange Act of 1934, as amended;
Exchange Agent	HSBC Bank plc in its capacity as exchange agent (which expression will include any successor exchange agent);
Exchange Date	On or after the date which is 40 days after a Temporary Global Covered Bond is issued;
Exchange Event	In the case of Bearer Covered Bonds, the meaning given in "Form of the Covered Bonds" on page 85 and in the case of Registered Covered Bonds, the meaning given in "Form of the Covered Bonds" on page 87;

Excluded Scheduled Interest Amounts	Has the meaning given to it in the definition of Scheduled Interest;
Excluded Scheduled Principal Amounts	Has the meaning given to it in the definition of Scheduled Principal;
Excluded Swap Termination Amount	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider;
Existing Covered Bonds	The Covered Bonds of all Series then outstanding;
Extended Covered Bonds	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;
Extended Due for Payment Date	In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date;
Extension Determination Date	In respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds;
Extraordinary Resolution	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed;
Final Maturity Date	The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Final Redemption Amount in accordance with the Conditions, being the Original Final Maturity Date;
Final Redemption Amount	In relation to any Series of Covered Bonds, the amount due on the Final Maturity Date of such Covered Bonds as set out in the relevant Final Terms;
Final Redemption Date	The meaning given in the relevant Final Terms;
Final Terms	The final terms document substantially in the form set out in the Prospectus which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading on the regulated market of the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds and which will constitute final terms for the purposes of article 5.4 of the Prospectus Directive;
First Issue Date	The date on which the Issuer issued a Series of Covered Bonds

for the first time pursuant to the Programme;

First Transfer Date	The date on which the Initial Portfolio was transferred to the LLP pursuant to the Mortgage Sale Agreement or, if earlier, the date on which the Initial Portfolio became subject to the CCA Trust and a Scottish Declaration of Trust;
Fitch	Fitch Ratings Ltd.;
Fixed Interest Period	The meaning given in Condition 4(a);
Fixed Rate Covered Bond	Covered Bonds on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms);
Fixed Rate Loan	A Loan to the extent that and for such time as the interest rate payable by the relevant Borrower on all or part of the Outstanding Principal Balance does not vary and is fixed for a certain period of time by the Seller;
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 interest and principal in a given month and/or take a Payment Holiday;
Flexible Loan Drawing	Any further drawing of moneys made by a Borrower under a Flexible Loan other than the Initial Advance (but including any Capitalised Interest and any refund or redrawing to a Borrower of any Overpayment made by that Borrower);
Flexible Redraw Capacity	The meaning given on page 106;
Floating Rate	The meaning given in the ISDA Definitions;
Floating Rate Convention	The meaning given in "Terms and Conditions of the Covered Bonds" on page 106;
Floating Rate Covered Bonds	Means a Covered Bond which bears interest at a rate determined: <ul style="list-style-type: none">(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or(c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

	as set out in the applicable Final Terms;
Floating Rate Option	The meaning given in the ISDA Definitions;
Following Business Day Convention	The meaning given in "Terms and Conditions of the Covered Bonds" on page 107;
Framework	"International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" published by the Basel Committee on Banking Supervision;
FSA	Financial Services Authority;
FSMA	Financial Services and Markets Act 2000, as amended (from time to time);
Further Advance	In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, excluding the amount of any retention in respect of the Initial Advance and does not include a Flexible Loan Drawing or any advance of further money, following the making of the Initial Advance, which is secured by the same Mortgagee as the Initial Advance, which would result in a Rearrangement;
Global Covered Bond	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require;
Guarantee Priority of Payments	The meaning given in "Terms and Conditions of the Covered Bonds" on page 121;
Guaranteed Amounts	Prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed and/or the Conditions;
Halifax Index	The quarterly non-seasonally adjusted index of increases or decreases in house prices issued by Halifax, a division of Lloyds Banking Group plc in relation to residential properties in the United Kingdom;
Halifax Price Indexed Valuation	In relation to any Property at any date means the Latest Valuation of that property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Latest

	Valuation;
Hard Bullet Covered Bond	Any Covered Bond issued by the Issuer in respect of which the principal is due to be redeemed in full in one amount on the Final Maturity Date of that Covered Bond and which is identified as such in the applicable Final Terms;
Higher Redemption Amount	The amount as specified as applicable in the relevant Final Terms;
HMRC	HM Revenue & Customs;
Holdings	Moorland Covered Bonds Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6845353);
IAI Investment Letter	The meaning given in Condition 2(e);
ICSD	Either Euroclear or Clearstream Luxembourg, and any additional or alternative clearing system as is approved by the Issuer, the Principal Paying Agent and the Bond Trustee or as may otherwise be specified in the applicable Final Terms;
ICTA	Income and Corporation Taxes Act 1988 as amended;
Indexed Valuation	At any date in relation to any Loan secured over any Property: <ul style="list-style-type: none"> (a) where the Latest Valuation of that Property is equal to or greater than the Halifax Price Indexed Valuation as at that date, the Halifax Price Indexed Valuation; or (b) where the Latest Valuation of that Property is less than the Halifax Price Indexed Valuation as at that date, the Latest Valuation plus 85 per cent. of the difference between the Latest Valuation and the Halifax Price Indexed Valuation;
Indirect Participants	The meaning given in " <i>Book-Entry Clearance Systems</i> " on page 233;
Initial Advance	In respect of any Loan, the original principal amount advanced by the Seller to the relevant Borrower and for the avoidance of doubt excluding any Further Advance on Flexible Loan Drawing;
Initial Interest Rate Swap	The initial interest rate swap transaction entered into between the LLP and the Initial Interest Rate Swap Provider;
Initial Interest Rate Swap Agreement	The agreement between the LLP and the Initial Interest Rate Swap Provider governing one or more Interest Rate Swaps in the form of an ISDA Master Agreement, including a schedule, credit support annex and confirmation(s) thereto;
Initial Interest Rate Swap Guarantor	JPMorgan Chase Bank, National Association;

Initial Interest Rate Swap Provider

J.P. Morgan Securities plc in its capacity as interest rate swap provider under the Initial Interest Rate Swap Agreement;

Initial Portfolio

In each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to:

- (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), all Early Repayment Fee Receipts and other sums due or to become due in respect of such Loans and their 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 Conditions;
- (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;
- (d) all the estate and interest in the Properties vested in the Seller;
- (e) the Third Party Buildings Policies in respect of the Loans including the rights to demand, receive, sue for and recover the proceeds of any claim thereunder;
- (f) the Insurance Policies to the extent that they relate to the Portfolio including the rights to demand, receive, sue for and recover the proceeds of any claim thereunder; and
- (g) 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 their 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;

Initial Programme Date	20 April 2009;
Insolvency Act	Insolvency Act 1986, as amended;
Insolvency Event	<p>In respect of the Seller, the Servicer or the Cash Manager:</p> <ul style="list-style-type: none">(a) an order is made or an effective resolution passed for the winding up of the relevant entity; or(b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or(c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied or enforced upon or sued out against the whole or any material part of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or(d) the relevant entity is unable to pay its debts as they fall due, <p>other than where the Seller, Servicer or the Cash Manager is Co-operative Bank and any of the events set out in paragraphs (b) to (d) occurs in connection with a substitution in accordance with Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution);</p>
Insurance Policies	<p>Each of:</p> <ul style="list-style-type: none">(a) the MIG Policies; and(b) the Title Insurance Policies;
Institutional Accredited Investor	An institution that is an "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions;
Interest Amount	The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period;
Intercompany Loan	The term loan entered into on the Initial Programme Date, as amended and restated on or about the Programme Date made, and made between the Issuer, the Cash Manager, the LLP and the Security Trustee and Intercompany Loan Agreement means

	the related amended and restated term loan agreement;
Intercompany Loan Ledger	The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record all payments of interest and repayments of principal on each of the Term Advances;
Interest Commencement Date	In the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms being its date of issue from (and including) when the relevant Covered Bonds start accruing interest;
Interest Determination Date	The Second day on which commercial banks are open for general business (including dealings in foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR);
Interest Payment Date	In relation to any Series of Covered Bonds, the Specified Interest Payment Date or the meaning given in the applicable Final Terms as the case may be;
Interest Period	The period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;
Interest Rate Swap	Each interest rate swap transaction entered into between the LLP and an Interest Rate Swap Provider;
Interest Rate Swap Agreement	Each agreement between the LLP and an Interest Rate Swap Provider governing one or more Interest Rate Swaps in the form of an ISDA Master Agreement, including a schedule, credit support annex and confirmation(s) thereto;
Interest Rate Swap Provider	The Initial Interest Rate Swap Provider together with any successor interest rate swap provider and any New Interest Rate Swap Provider;
Investor Report	The monthly report made available to the Covered Bondholders, the Security Trustee, the Bond Trustee and the Rating Agencies detailing inter alia compliance with the Asset Coverage Test and which are to be posted on the Co-operative Bank website at www.britannia.co.uk/bts ;
ISDA	International Swaps and Derivatives Association, Inc.;
ISDA Definitions	2006 ISDA Definitions, as published by ISDA;
ISDA Master Agreement	The 1992 ISDA Master Agreement (Multicurrency Cross Border), as published by ISDA;

ISDA Rate	The meaning given in Condition 4(b)(ii)(A) (Interest – Interest on Floating Rate Covered Bonds);
Issue Date	Each date on which the Issuer issues Covered Bonds to the Covered Bondholders as specified in the applicable Final Terms;
Issue Price	The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which the Covered Bonds will be issued;
Issuer	The Co-operative Bank p.l.c. (registered number 990937), a public limited liability company incorporated under the laws of England and Wales (and having its registered office at 1 Balloon Street, Manchester, M60 4EP);
Issuer Acceleration Notice	The meaning given in Condition 9(a);
Issuer Call	If specified as applicable in the relevant Final Terms, the option of the Issuer to redeem all or some only of the Covered Bonds pursuant to Condition 6(c);
Issuer Event of Default	The meaning given in Condition 9(a);
Issuer Subordinated Loan	The Issuer's Capital Contribution Balance that will become a subordinated debt obligation to be owed by the LLP to the Issuer if the Issuer ceases to be a Member in accordance with Clause 6 (Termination of Membership) of the LLP Deed;
Land Registry	The body responsible for recording details of land in England and Wales;
Land Registry Transfer	A deed of transfer of a Legal Charge or Legal Charges over Registered Land substantially in the form of the Land Registry Form TR4 with such modifications as may be required from time to time by the Security Trustee or such other form of deed of transfer current at the relevant time for transfers of charges registered at the Land Registry;
Latest Valuation	In relation to any Property, the value given to that Property by the most recent valuation maintained by the Seller (which for the avoidance of doubt may be the Original Valuation), whether a Further Advance, Product Switch or Rearrangement has been granted or otherwise;
Ledger	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Coupon Payment Ledger, the Capital Account Ledger, the Intercompany Loan Ledger, the Yield Reserve Ledger, the Co-op Collateral Account Ledger, the Pre-Maturity Liquidity Ledger, the Retained Principal Ledger and the Swap Collateral Ledger and any additional ledger operated in accordance with the Cash Management Agreement, and together the Ledgers ;
Legended Covered Bonds	The meaning given in Condition 2;

Lending Criteria	The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender;
LIBOR	London Interbank Offered Rate; The meaning given in Condition 2;
Liquidation Member	Moorland Covered Bonds Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6845373);
LLP	Moorland Covered Bonds LLP (formerly Britannia Covered Bonds LLP), a limited liability partnership incorporated in England and Wales (partnership no. OC343979), whose members are Co-operative Bank and the Liquidation Member;
LLPA 2000 or LLP Act	Limited Liability Partnerships Act 2000;
LLP Acceleration Notice	A notice in writing given by the Bond Trustee to the Issuer and the LLP, that (a) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and (b) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with interest in each case as provided in and in accordance with the Trust Deed and thereafter the Security shall become enforceable if any of the LLP Events of Default shall occur and be continuing;
LLP Accounts	Each of the Co-op Deposit Account, the BNPP Deposit Account, the Collateral Account and any additional or replacement accounts opened in the name of the LLP, from time to time;
LLP Deed	The limited liability partnership deed entered into on the Initial Programme Date, as amended and restated on or about the Programme Date, and made between the LLP, Co-operative Bank, in its capacity as Seller, the Issuer, the Liquidation Member, the Bond Trustee and the Security Trustee;
LLP Event of Default	The meaning given in Condition 9(b);
LLP Fee Amount	The amount if any owing by the LLP to the Interest Rate Swap Provider and described as a "Net Payment" pursuant to the Initial Interest Rate Swap Agreement in connection with any Further Advance, Flexible Drawing, Product Switch or Rearrangement which occurred in the immediately preceding Calculation Period;
LLP Fee Amount Ledger	The ledger maintained by the Cash Manager pursuant to the

Cash Management Agreement, to record the crediting of the LLP Fee Amount and any debiting of the same;

LLP Management Committee

The management committee which will act on behalf of the LLP and to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP, which require a unanimous decision of the Members) the Members delegate all matters;

LLP Payment Date

The 21st day of each month or if not a London Business Day the next following London Business Day, commencing on the 21st June 2009 and in respect of the first LLP Payment Date falling after the issue of the second Series of Covered Bonds, shall commence of the 21st day of each month falling after the end of the Long Calculation Period;

LLP Payment Period

The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date and in respect of the first LLP Payment Date the period from and including the Initial Programme Date to but excluding the LLP Payment Date falling in June 2009 and in respect of the first LLP Payment Date falling after issue of the second series of Covered Bonds the period from and including the 21st day of the month occurring before the Long Calculation Period to but excluding the 21st day of the month occurring after the end of the Long Calculation Period;

LLP Sasine Transfer

The transfer document by that name set out in the Mortgage Sale Agreement;

LLP Standard Variable Rate

The LLP standard variable rate applicable to the Loans in the Portfolio, as set, other than in limited circumstances, by the Servicer in accordance with the Servicing Agreement;

LLP Tax Payment

The amount if any where the LLP is required under the terms of any Swap Agreement to make a payment to a Swap Provider in consequence of the receipt by a Member of a credit allowance, set off or repayment in respect of any taxation;

Loan

Any mortgage loan (including, for the avoidance of doubt, any English Loan, any Scottish Loan and any Northern Irish Loan) which is or is to be sold, assigned and transferred by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement and referenced by its mortgage loan identifier number and the Borrower's address and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys (including without limitation, all Further Advances, Flexible Loan Drawings and Product Switches) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding, or, as the context may require, the Borrower's obligations in respect of the same but excludes any mortgage loan which is repurchased by the Seller or (except where the context so requires, in the case of a Loan sold by the LLP

to a Relevant Purchaser) otherwise sold by the LLP and no longer beneficially owned by it;

Loan Account

As the context requires, either (a) all Loans secured on the same Property or (b) an account maintained by the Servicer in respect of a particular Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof;

Loan Agreement

In relation to a Loan, the loan agreement entered into between the relevant Borrower and the Seller, as amended and/or restated from time to time;

Loan Files

The file or files relating to each Loan (including files kept in microfiche format or similar electronic data retrieval system or the substance of which is transcribed and held on an electronic data retrieval system) containing *inter alia* correspondence between the Borrower and the Seller and including mortgage documentation applicable to that Loan, each letter of offer for that Loan, the Valuation Report (if applicable) and, to the extent available, the solicitor's or licensed conveyancer's, or (in Scotland) qualified conveyancer's, Certificate of Title;

Loan Interest Payment Date

In respect of any Term Advance, each Interest Payment Date in respect of the corresponding Series or Tranche of Covered Bonds that funded such Term Advance;

Loan Repurchase Notice

A notice served in accordance with the terms of the Mortgage Sale Agreement served by the LLP on the Seller;

London Business Day

A day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

London Stock Exchange

London Stock Exchange plc's regulated market or any body to which its functions have been transferred;

Long Calculation Period

The meaning given in the definition of Calculation Date;

Losses

All realised losses on the Loans;

Master Definitions and Construction Agreement

The master definitions and construction agreement made between the parties to the Transaction Documents on the Initial Programme Date as amended and restated on or about the Programme Date, as may be amended, restated or varied from time to time;

MCOB

Mortgages and Home Finance: Conduct of Business sourcebook, implemented by the FSA on 31 October 2004 as amended, revised or supplemented from time to time;

Member

Each member of the LLP, from time to time;

MH/CP Documentation

An affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act

1981 and/or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the Property secured thereby;

MIG Policies

The mortgage indemnity guarantee policies with Britsafe;

Minimum Redemption Amount

The amount as specified as applicable in the relevant Final Terms;

Modified Following Business Day Convention

The meaning given in Condition 4(b);

Monthly Payment

The amount which the relevant Mortgage Conditions require a Borrower to pay on each Monthly Payment Date in respect of that Borrower's Loan;

Monthly Payment Date

In relation to a Loan, the date in each month on which the relevant Borrower is required to make a payment of interest and, if applicable, principal for that Loan, as required by the applicable Mortgage Conditions;

Moody's

Moody's Investors Service Limited;

Mortgage

In respect of any Loan each first fixed charge by way of legal mortgage (in relation to an English Loan), each first legal charge or mortgage (in relation to a Northern Irish Loan) and each first ranking standard security (in relation to a Scottish Loan), which is, or is to be, sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, (or prior to the Effective Date, held upon the CCA Trust or, in the case of the Scottish Loans, pursuant to a Scottish Declaration of Trust) which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it;

Mortgage Conditions or Loan Conditions

All the terms and conditions applicable to a Loan, including without limitation those set out in the Seller's relevant mortgage conditions booklet and the Seller's relevant general conditions, each as varied from time to time by the relevant Loan Agreement and the relevant Mortgage Deed;

Mortgage Deed

In respect of any Mortgage, the deed in written form creating that Mortgage;

Mortgage Sale Agreement

The mortgage sale agreement entered into on the Initial Programme Date, as amended and restated on or about the Programme Date, and made between *inter alios* the Seller, the LLP and the Security Trustee;

N(M)

The date on which the FSMA regime relating to the regulation of Mortgages came into effect, being 31 October 2004;

New Interest Rate Swap

Each interest rate swap transaction entered into between the LLP and an Interest Rate Swap Provider other than the Initial Interest Rate Swap;

New Interest Rate Swap Providers	Any entity which accedes to the relevant Transaction Documents and enters into an Interest Rate Swap with the LLP in respect of some or all of the Loans in the Portfolio;
New Loan	Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may sell, assign or transfer to the LLP pursuant to the Mortgage Sale Agreement (or, in the case of Scottish Loans, a Scottish Declaration of Trust, pursuant to the Mortgage Sale Agreement);
New Loan Type	A new type of mortgage loan originated or acquired by the Seller, which the Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate guarantees or it is a Flexible Loan or a Loan by the Co-operative Bank under a brand other than the "Britannia" brand (a Co-op Mortgage), provided that in the case of a Co-op Mortgage it is a product type which has been reviewed for the purposes of the legal opinion given by Allen & Overy LLP on the Programme Date;
New Member	Any new Member who shall be admitted to the LLP after the Initial Programme Date pursuant to the LLP Deed;
New Portfolio	The meaning given in " <i>The Portfolio</i> " on page 229;
New Portfolio Notice	A notice in the form set out in Schedule 12 (New Portfolio Notice) to the Mortgage Sale Agreement subject to any amendment as may be agreed between the parties thereto served in accordance with the terms of the Mortgage Sale Agreement;
New Seller	Any member of the Co-operative Bank Group (other than Co-operative Bank) that is a "connected person" as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents and sells Loans and their Related Security to the LLP;
NGCB	The meaning given on page 103;
NIPs	Non-Investment Products Code;
Northern Irish Loans	Loans secured by Northern Irish Mortgages;
Northern Irish Mortgage	A Mortgage over a Property located in Northern Ireland;
Notice to Pay	The meaning given in Condition 9(a);
NSS	The New Safekeeping Structure for registered global securities which are intended to constitute eligible collateral for

	Eurosystem monetary policy operations;
offer of the Covered Bonds to the public	The meaning give in " <i>Subscription and Sale and Transfer and Selling Restrictions – Selling Restrictions – Public Offer Selling Restrictions under the Prospectus Directive</i> " on page 244;
Official List	Official list of the UK Listing Authority;
OFT	Office of Fair Trading;
Ombudsman	Financial Ombudsman Service under the FSMA;
Optional Redemption Amount	The amount as specified as applicable in the relevant Final Terms;
Optional Redemption Date	The date as specified as applicable in the relevant Final Terms which must be an Interest Payment Dates unless otherwise agreed with the Dealers, the Bond Trustee and any Interest Rate Swap Counterparty;
Order	The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), as amended;
Original Due for Payment Date	Has the meaning given in paragraph (a)(i) of the definition of Due for Payment ;
Original Valuation	In relation to any Property, the value given to that property specified in the original valuation of such Property in the possession of the Seller;
Outstanding Principal Balance	In respect of any Loan on any Determination Date, the aggregate principal balance of the Loan at such date (but avoiding double counting) including the following: <ul style="list-style-type: none"> (a) the Initial Advance; (b) Capitalised Expenses; (c) Capitalised Interest; (d) Capitalised Arrears; and (e) any increase in the principal amount due under that Loan due to any form of Further Advance, <p>in each case relating to such Loan less any prepayment, repayment or payment of the foregoing made on or prior to the Determination Date;</p>
Overpayment	A payment by a Borrower in an amount greater than the amount due on a Monthly Payment Date which (a) is permitted by the terms of such Loan or by arrangement with the Borrower and (b) reduces the True Balance of such Loan;
Partial Portfolio	Part of any portfolio of Selected Loans;

Paying Agents	The meaning given in " <i>Terms and Conditions of the Covered Bonds</i> " on page 239;
Payment Day	The meaning given in Condition 5 in " <i>Terms and Conditions of the Covered Bonds</i> " on page 116;
Permanent Global Covered Bond	A global covered bond in the form or substantially in the form set out in 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), together with the copy of the applicable Final Terms annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the trust presents in exchange for the whole or part of any Temporary Global Covered Bond issued in respect of such Covered Bonds;
Portfolio	The Initial Portfolio and each New Portfolio acquired by the LLP;
Portfolio Lock Event	The meaning given on page 201;
Post-Enforcement Priority of Payments	The meaning given in " <i>Cashflows</i> " on page 226;
Potential Issuer Event of Default	The meaning given in Condition 14 in " <i>Terms and Conditions of the Covered Bonds</i> " on page;
Potential LLP Event of Default	The meaning given in Condition 14 in " <i>Terms and Conditions of the Covered Bonds</i> " on page;
Pre-Acceleration Principal Priority of Payments	The meaning given on page 217;
Pre-Acceleration Priority of Payments	The Pre-Acceleration Principal Priority of Payments and the Pre-Acceleration Revenue Priority of Payments;
Pre-Acceleration Revenue Priority of Payments	The meaning given on page 214;
Pre-Maturity Liquidity Ledger	The ledger on the Deposit Account maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Test has been breached;
Pre-Maturity Test	The meaning given in the section of this Prospectus entitled " <i>Cashflows</i> " on page 209;
Pre-Maturity Test Date	The meaning given in the section of this Prospectus entitled

"Cashflows" on page 209;

Preceding Business Day Convention

The meaning given in Condition 4(b);

Principal Amount Outstanding

In respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof;

Principal Ledger

The ledger in connection with the LLP Accounts of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of the Principal Receipts in accordance with the terms of the LLP Deed;

Principal Paying Agent

HSBC Bank plc at its office at 8 Canada Square, Canary Wharf, London, E14 5HQ or, if applicable, any successor principal paying agent in relation to all or any Series of the Covered Bonds;

Principal Receipts

- (a) principal repayments under the Loans (including payments of arrears, Capitalised Interest, and Capitalised Expenses and Capitalised Arrears);
- (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property);
- (c) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Loan in the Portfolio;
- (d) the proceeds of the repurchase of any Loan by the Seller from the LLP pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date); and
- (e) any deemed Principal Receipts;

Principal Subsidiary

The meaning given on page 128;

Priorities of Payments

The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts in different circumstances;

Product Switch

A variation to the financial terms or conditions included in the Mortgage Conditions applicable to a Loan other than:

- (a) any variation agreed with a Borrower to control or manage arrears on a Loan;
- (b) any variation in the maturity date of a Loan;
- (c) any variation imposed by statute or as a result of UK government policy changes or initiatives aimed at

assisting homeowners (including Borrowers) in meeting payments on their mortgage loans or any variation in the frequency with which the interest payable in respect of the Loan is charged;

- (d) any variation to the interest rate as a result of the Borrowers switching to a different rate by operation of the Loan;
- (e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan;
- (f) any change in the repayment method of the Loan; and
- (g) any partial release of Security, where, after such release, the Loan continues to satisfy the applicable LTV Ratio requirement;

Programme	The £4 billion covered bond Programme of the Co-operative Bank p.l.c;
Programme Agreement	The meaning given in " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " on page 239;
Programme Date	13 October 2011;
Programme Resolution	Has the meaning given to it in Condition 14 (Meetings of Covered Bondholders, Modification, Waiver and Substitution);
Property	A freehold, fee farm grant, leasehold or commonhold property (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 of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC;
Prospectus Directive Regulation	Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing the Prospectus Directive as regards information contained in the prospectuses, as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements;
Purchaser	Any third party or the Seller to whom the LLP offers to sell Selected Loans;
QIB	A qualified institutional buyer within the meaning of Rule 144A;
Quarter Date	The last calendar day of each of February, May, August and November from, and including, November 2011 to, but excluding the Termination Date (as that term is defined in the Initial Interest Rate Swap Agreement);

Quarterly Period	Each period from, and including, one Quarter Date to, but excluding, the next following Quarter Date, provided that, the first Quarterly Period shall commence on, and include, the Effective Date and the final Quarterly Period will end on, but exclude, the Termination Date (as that term is defined in the Initial Interest Rate Swap Agreement);
Rate of Interest	The rate of interest payable from time to time in respect of Fixed Rate Covered Bonds and Floating Rate Covered Bonds, as determined in, or as determined in the manner specified in, the applicable Final Terms;
Rating Agencies	Moody's and Fitch, to the extent such rating agencies are appointed by the Issuer to provide ratings in relation to the Covered Bonds and each a Rating Agency ;
Rating Condition	The condition that will be satisfied in respect of an event or matter if: <ul style="list-style-type: none"> (a) Fitch has been notified of such event or matter; and (b) the LLP, the Issuer, the Bond Trustee and/or the Security Trustee (as applicable), has received a Rating Agency Confirmation from Moody's in respect of such event or matter;
Rating Agency Confirmation	A confirmation (or, in the case of Moody's, affirmation) in writing by Fitch and/or Moody's (as applicable) that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter, provided that if: (a) a confirmation or affirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and (b) a written request for such confirmation, affirmation or response is delivered to that Rating Agency by any of the LLP, the Issuer, the Bond Trustee and/or the Security Trustee, as applicable (each a Requesting Party) and the relevant Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances, the Requesting Party will be entitled to assume that the then current ratings of the Covered Bonds in issue will not be downgraded or withdrawn by such Rating Agency as a result of such action or step. However, nothing herein will in any way affect the right of a Rating Agency to downgrade or withdraw the then current ratings of the Covered Bonds in a manner as it sees fit;
RCB Certificate	The meaning given on page 135;
RCB Regulations	The Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714) and as further amended from time to time;

RCB Sourcebook	The FSA Regulated Covered Bond Sourcebook;
Rearrangement	Any modification, variation, amendment or change to the terms and conditions of a Loan or the parties to a Loan and any drawdown of money or any additional borrowing under a Loan which, in each case, is requested by a Borrower under that Loan and is required to be characterised in accordance with Co-operative Bank's internal policies from time to time, as a rearrangement;
Rearrangement Date	The date on which a Rearrangement is completed;
Rearrangement Transfer Date	The date on which any Loan which was comprised in the Portfolio which was the subject of a Rearrangement is transferred to the LLP pursuant to the Mortgage Sale Agreement;
Reasonable, Prudent Mortgage Lender	The Seller and/or the Servicer, as applicable, acting in accordance with the standards of a reasonably prudent residential mortgage lender lending to Borrowers in England, Wales, Scotland and/or Northern Ireland who generally satisfy the lending criteria of traditional sources of residential mortgage capital;
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;
Record Date	The meaning given in Condition 5(d);
Redeemed Covered Bonds	The meaning given in Condition 6(c);
Redenomination Date	The meaning given on page 119;
Reference Rate	The meaning given in the applicable Final Terms;
Register	The register of holders of the Registered Covered Bonds maintained by the Registrar;
Registers of Northern Ireland	The Land Registry of Northern Ireland and/or the Registry of Deeds in Belfast;
Registers of Scotland	The Land Register of Scotland and/or the General Register of Sasines;
Registered Covered Bonds	Covered Bonds in registered form;
Registered Definitive Covered Bond	A Registered Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed either on issue or in

exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being in the form or substantially in the form set out in Part 8 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon;

Registered Global Covered Bonds	The Rule 144A Global Covered Bonds together with the Regulation S Global Covered Bonds;
Registrar	HSBC Bank plc, 8 Canada Square, London E14 5HQ in its capacity as registrar (and any additional or successor registrar);
regulated mortgage contract	The meaning given in " <i>Regulatory changes by the Office of Fair Trading, the Financial Services Authority and any other regulatory authorities</i> " on page 71;
Regulation S	Regulation S under the Securities Act;
Regulation S Covered Bonds	The meaning given in " <i>Subscription and Sale and Transfer and Selling Restrictions</i> " on page 243;
Regulation S Global Covered Bond	The meaning given in " <i>Form of Covered Bonds</i> " on page 85;
Related Security	<p>In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio which is, or is to be, sold to (or held on trust for) the LLP pursuant to Clause 4 (Sale and Purchase of New Portfolios) of the Mortgage Sale Agreement including (without limitation):</p> <ul style="list-style-type: none">(a) the benefit of all affidavits, declarations, consents, renunciations, guarantees, indemnities, waivers and postponements (including, without limitation, Deeds of Consent, Deeds of Postponement and MH/CP Documentation) from occupiers and other persons having an interest in or rights in connection with the relevant Property or third parties;(b) each right of action of the Seller against any person (including, without limitation, any valuer, licensed or qualified conveyancer, solicitor and any registrar or registry) in connection with any report, valuation, opinion, certificate or other statement of fact or opinion (including, without limitation, each Certificate of Title and Valuation Report) given or received in connection

with all or part of any Loan and its Related Security or affecting the decision of the Seller to make or offer to make all or part of the relevant Loan; and

- (c) the benefit of (including, without limitation, the rights as the insured person under and as notations of interest on, returns of premium and proceeds of claims under) insurance and assurance policies (including, the Buildings Insurance Policies) deposited, charged, obtained, or held in connection with the relevant Loan, Mortgage and/or Property and Loan Files.

All references to Related Security forming part of the trust property, will with respect to any Related Security that constitutes an All Moneys Mortgage, be deemed to refer to the beneficial interest of the LLP in the All Moneys Mortgage Trust declared in respect of that All Moneys Mortgage;

Relevant Date	The meaning given in Condition 7;
Relevant Screen Page	The meaning given in the applicable Final Terms;
Remedial Period	Shall occur in respect of the Initial Interest Rate Swap Agreement if the Co-operative Bank has failed to post collateral as required under the Back to Back Transaction in respect of the Initial Interest Rate Swap and shall continue until (but exclude) the date upon which it is cured;
Representations and Warranties	The representations and warranties made by the Seller set out in the Mortgage Sale Agreement (as the same may be supplemented or amended from time to time);
Repurchase Notice	A notice from the Cash Manager to the Seller identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of a Further Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement;
Required Coupon Amount	In respect of a Term Advance an amount equal to the aggregate of the Sterling Equivalent of (i) (in the case of each Term Advance where a Covered Bond Swap is not in place), interest due from the LLP on a relevant Term Advance on the next following Loan Interest Payment Date and (ii) (in the case of each Term Advance where a Covered Bond Swap is in place) an amount equal to the net amount due from the LLP under a Covered Bond Swap Agreement on the next following LLP Payment Date (other than those amounts due in respect of an Interim Exchange Date or Final Exchange Date) (as each of those terms in defined in the relevant Covered Bond Swap Agreement);
Required Redemption Amount	The meaning given in " <i>Summary of the Principal Documents</i> " on page 176;

Required True Balance Amount	The meaning given in " <i>Summary of the Principal Documents</i> " on page 192;
Reserve Fund	The reserve fund that the LLP holds in the Deposit Accounts which will be credited with part of a Term Advance (in the LLP's discretion) and the proceeds of Available Revenue Receipts up to an aggregate amount equal to the Reserve Fund Required Amount;
Reserve Fund Required Amount	<p>An aggregate amount equal to the Sterling Equivalent of:</p> <p>(a) in relation to each Series of Covered Bonds where a Covered Bond Swap is in place, the aggregate of amounts due to each Covered Bond Swap Provider in the immediately following three months; and/or</p> <p>(b) in relation to each Series of Covered Bonds where a Covered Bond Swap is not in place, the aggregate amount of interest due on each Series of Covered Bonds in the immediately following three months;</p> <p>plus or minus</p> <p>(c) any payments to be made by the LLP at item (c) of the Pre-Acceleration Priority of Payments;</p> <p>plus</p> <p>(d) an amount equal to three-quarters 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;</p> <p>plus</p> <p>(e) £600,000,</p> <p>provided that in determining the amount of the Reserve Fund Required Amount where any amount in respect of the Covered Bonds or the Covered Bond Swaps is determined by reference to a floating rate, the rate shall be at the then current floating rate as at the date on which the amount is calculated;</p>
Reserve Ledger	The ledger on the Deposit Accounts of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts and (where applicable) proceeds of Term Advances to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed;
Reset Date	The meaning given in the ISDA Definitions;
Retained Principal Ledger	The Ledger maintained on the Deposit Accounts to which

amounts will be credited on each LLP Payment Date in accordance with the Pre-Acceleration Principal Priority of Payments;

Revenue Ledger

The ledger on the LLP Accounts 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

- (a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the LLP in respect of the Loans other than the Principal Receipts;
- (b) recoveries of interest from defaulting Borrowers under Loans being enforced;
- (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed; and
- (d) any deemed Revenue Receipts;

Right to Buy Loan

A Loan in respect of a Property made in whole or in part to a Borrower for the purpose of enabling that Borrower to exercise his right to buy the relevant Property under (a) Section 156 of the Housing Act 1985 excluding however such Loan in respect of which the statutory charge referred to in section 155 of the Housing Act 1985 has expired or (b) section 61 of the Housing (Scotland) Act 1987 excluding however such Loan in respect of which the period during which the seller's Standard Security referred to in section 72 of that Act is of effect has expired or (c) Article 4 of the Housing (NI) Order 1983 (as amended) excluding each Loan in respect of which the discount covenant charge referred to in that legislation has expired;

Rule 144A

Rule 144A under the Securities Act;

Rule 144A Global Covered Bond

A Global Covered Bond in registered form representing the Registered Covered Bond of a Tranche sold to QIBs pursuant to Rule 144A and in the form or substantially in the form set out in Part 7 (Form of Registered Global Covered Bond) of Schedule 2 (Forms of Global and Definitive Covered Bonds, Coupons and Talons) to the Trust Deed;

Rules

The rules, regulations and procedures creating and affecting DTC and its operations;

S&P

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.;

Sale Proceeds

The cash proceeds realised from the sale of Selected Loans and their Related Security;

Sarbanes-Oxley Act	The U.S. Sarbanes-Oxley Act of 2002;
Sasine Transfer	A Seller Sasine Transfer or an LLP Sasine Transfer;
Scheduled Adjustment	The meaning given on page 216;
Scheduled Interest	An amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on each Interest Payment Date as specified in Condition 4 (but excluding any additional amounts relating to premiums, default interest or interest upon interest (Excluded Scheduled Interest Amounts) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date), less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7;
Scheduled Payment Date	In relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date;
Scheduled Principal	An amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6(a) and Condition 6(e) (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (Excluded Scheduled Principal Amounts) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specifies that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date;
Scottish Declaration of Trust	Each declaration of trust in relation to Scottish Loans and their Related Security made by the Seller or a New Seller in favour of the LLP pursuant to the Mortgage Sale Agreement substantially in the form set out in Schedule 7 (Scottish Declaration of Trust) thereto;

Scottish Transfer	Each Sasine Transfer and each SLR Transfer;
Scottish Loans	Loans secured by Scottish Mortgages;
Scottish Mortgage	A Mortgage over a Property located in Scotland;
Scottish Sub-Security	Each standard security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.3 (Scottish Sub-Securities) of the Deed of Charge;
Scottish Supplemental Charge	Each supplemental assignment in security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.4 (Scottish Trust Security) of the Deed of Charge;
SEC	U.S. Securities and Exchange Commission;
Secured Creditors	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, any Receiver or other appointee of the Security Trustee or the Bond Trustee, the Covered Bondholders, the Couponholders, the Issuer, the Seller, the Servicer, the BNPP Account Bank, the Co-op Account Bank, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Back-Up Cash Manager Facilitator, the Back-Up Servicer Facilitator, the Paying Agents, the Asset Monitor, the Registrar, the Exchange Agent, the Transfer Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge;
Secured Obligations	Means any and all moneys, obligations and liabilities and all other amounts due, owing, payable or owed by the LLP which the LLP covenants and undertakes in Clause 2 (Covenant to Pay Secured Obligations and Discharged Secured Obligations) of the Deed of Charge to pay and discharge and all claims, demands or damages for breach of any such covenant, and references to Secured Obligations includes references to any of them;
Securities Act	U.S. Securities Act of 1933, as amended;
Security	The meaning given in " <i>Summary of the Principal Documents — Deed of Charge</i> " on page 206;
Security Interest	Any mortgage, sub mortgage, Standard Security, charge, sub charge, pledge, lien (other than a lien arising in the ordinary course of business or by operation of law) assignment in security or other encumbrance or security interest howsoever created or arising;
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 or additional security trustees appointed from time to time thereunder;

Selected Loan Offer Notice	A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount;
Selected Loan Repurchase Notice	A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice;
Selected Loans	Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required True Balance Amount;
Selection Date	The meaning given in Condition 6;
Seller	Co-operative Bank any successor entity to Co-operative Bank under Condition 14 and any New Seller;
Seller Arranged Policy	Any Buildings Insurance Policy arranged by the Seller for the purposes of the Borrower insuring the Property for an amount equal to the full rebuilding cost of the Property;
Seller Sasine Transfer	The transfer document by that name set out in the Mortgage Sale Agreement;
Series	A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;
Series Reserved Matter	In relation to Covered Bonds of a Series: <ul style="list-style-type: none"> (a) any increase, reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds; (b) alteration of the currency in which payments under the Covered Bonds and Coupons are to be made; (c) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of Covered Bonds of any Series); (d) except in accordance with Condition 6(h) or Condition 14, the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of,

shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and

- (e) alteration of this definition or the proviso to paragraph 5 or paragraph 6 of Schedule 4 (Provisions for Meetings of Covered Bondholders) to the Trust Deed;

Servicer	Co-operative Bank in its capacity as servicer under the Servicing Agreement or any successor servicer appointed from time to time;
Servicer Event of Default	The meaning given in " <i>Summary of the Principal Documents</i> " on page 183;
Servicer Termination Event	The meaning given in " <i>Summary of the Principal Documents</i> " on page 183;
Services	The services listed in the Servicing Agreement to be provided by the Servicer pursuant to the relevant Servicing Agreement;
Servicing Agreement	The servicing agreement entered into on the Initial Programme Date, as amended and restated on or about the Programme Date, and made between the LLP, the Servicer, the Seller, the Security Trustee and the Back-Up Servicer Facilitator;
Share Trustee	SFM Corporate Services Limited having its registered office at 35 Great St. Helen's, London, EC3A 6AP;
Specified Currency	The meaning given to it in the applicable Final Terms;
Specified Denomination	The meaning given to it in the applicable Final Terms;
Specified Interest Payment Date	The meaning given in the applicable Final Terms;
Specified Period	The meaning given in the applicable Final Terms;
Staff Product	A staff mortgage product offered to employees of Co-operative Bank;
Standard Documentation	The standard documentation, annexed to the relevant exhibit of the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent

Mortgage Lender;

Sterling Equivalent

- (b) In relation to a Term Advance which is denominated in (i) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance or, if the Covered Bond Swap Agreement has been terminated, the applicable spot rate as determined by the Cash Manager and (ii) Sterling, the applicable amount in Sterling; and
- (c) in relation to a Covered Bond which is denominated in (i) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Covered Bond, or, if the Covered Bond Swap Agreement has been terminated, the applicable spot rate as determined by the Cash Manager, and (ii) Sterling, the applicable amount in Sterling;

Subsidiary

Any company which is for the time being a subsidiary (within the meaning of Section 736 of the Companies Act 1985) or Section 1159 of the Companies Act 2006);

Substitution

The meaning given in Condition 14;

Substitution Assets

Cash or subject to the Rating Condition being satisfied in respect thereof each of:

- (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 and F1+ by Fitch, or at least two of A-1+/AA- by S&P, P-1/Aa3 by Moody's 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 one year or less and which are rated at least P-1/Aa3 by Moody's and F1+ by Fitch, or at least two of AAA/A-1+ by S&P, Aaa/P-1 by Moody's and AAA/F1+ 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 P-1/Aa3 by Moody's and F1+ by Fitch, or at least two of AAA/A-1+ by S&P, Aaa/P-1 by Moody's and AAA/F1+ by Fitch,

provided that:

- (i) such Substitution Assets comply with the requirements of Regulation 2(1)(a) of the RCB Regulations; and
- (ii) the following conditions are met:
 - (A) the substitution asset in question can be transferred to and by the LLP without the relevant transfer or agreement to transfer giving rise to a liability to any stamp duty, stamp duty reserve tax or other similar documentary or registration tax for which the LLP is or may become liable, to account; and
 - (B) payment can be made by the LLP under or in respect of the substitution asset in question without any liability on the part of the payer (or any person by or through whom such payment is made) to withhold or otherwise to account for any tax unless the amounts payable to the LLP are, in accordance with the documentation governing the relevant payments, increased so that the LLP receives the amount which the LLP would have received absent the obligation to withhold or otherwise account for the relevant tax,

and if these conditions are not met, the extent to which they are not met is taken into account by the Cash Manager in determining the purchase price of the Substitution Asset in question;

Substitution Event

The meaning given on page 201;

sub-unit

With respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01;

Successor in Business

The meaning given in Condition 14;

Swap Agreements

The Interest Rate Swap Agreement(s) and the Covered Bond Swap Agreement(s), 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 for 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 Account(s)	All bank accounts opened (if any) with any suitably rated counterparty banks (with the prior consent of the Security Trustee) and designated as such for the purposes of holding collateral posted by the relevant Swap Provider pursuant to the relevant Swap Agreement;
Swap Collateral Available Amounts	Following the termination of a Swap Agreement, the amount (if any) of Swap Collateral which under the terms of the relevant Swap Agreement, the LLP is not required to pay to the relevant Swap Provider by way of a termination payment;
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 following termination of the Swap, including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement;
Swap Collateral Ledger	The ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement which may comprise one or more sub-ledgers to record the credits and debits of the Swap Collateral to the relevant Swap Collateral Account;
Swap Provider Default	The occurrence of an Event of Default or Swap Provider Downgrade Event (each as defined in each of the relevant Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in the relevant Swap Agreement), as applicable;
Swap Provider Downgrade Event	The occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement;
Swap Provider Fee Amount	The amount (if any) owing by the Initial Interest Rate Swap Provider to the LLP and described as a "Net payment" pursuant to an Interest Rate Swap Agreement in connection with any Further Advance, Flexible Drawing, Product Switch or Rearrangement which occurred in the immediately preceding Quarterly Period;

Swap Provider Tax Payments	The meaning given in the LLP Deed;
Swap Providers	Any Covered Bond Swap Provider and any Interest Swap Provider, and each a Swap Provider ;
Swaps	The Covered Bond Swap(s) together with the Interest Rate Swap(s);
Talons	The talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Covered Bonds (other than Zero Coupon Covered Bonds), such talons being in the form or substantially in the form set out in the Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and includes any replacements for Talons issued pursuant to Condition 10 (Replacement of Covered Bonds, Coupons and Talons) of the Conditions;
TARGET2 System	Trans-European Automated Real-Time Gross Settlement Express Transfer System;
Tax Credit	A credit against any Tax or any relief or remission for Tax (or its repayment);
Temporary Global Covered Bond	A temporary global covered bond in the form or substantially in the form set out in the Trust Deed together with the copy of the applicable Final Terms annexed thereto with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the trust presents;
Term Advance	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;
Third Party Amounts	Each of: <ul style="list-style-type: none"> (a) payments of insurance premiums, if any, due to the Seller in respect of any Seller Arranged Policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Further Advance which is not purchased by the Seller to reimburse the Seller); (b) amounts under an unpaid direct debit which are repaid by the Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account;

- (c) Payments by the Borrower of any fees (including Early Repayment Fees) and other charges which are due to the Seller;
- (d) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the LLP;
- (e) any amounts due or arising from any overpayment by any person or arising from any reimbursement by any person of any such overpayment (including, for the avoidance of doubt, where arising from the failure of a direct debit);
- (f) (subject to any right to refuse or withhold payment or of set-off that has arisen by reason of the Borrower's breach of the terms of the relevant Mortgage or Loan) any amount payable to a Borrower under the terms of the Mortgage or the Loan to which that Borrower is a party (other than a Further Advance);
- (g) any amounts owed to the Seller pursuant to Clause 6 (Trust of Moneys) of the Mortgage Sale Agreement;
- (h) any amount received from a Borrower for the express purpose of payment being made or having been made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the LLP;
- (i) any amounts representing overpayments made on behalf of a Borrower by the Department of Work and Pensions which it subsequently seeks to recover; and
- (j) amount paid to the Seller by way of a cheque which the Seller is unable to recoup from the bank of such payee or which cheque is dishonoured for any reason whatsoever,

which amounts may be paid daily from moneys on deposit in the LLP Accounts.

Title Deeds

In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents which relate to the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage;

Tracker Rate Loan

A Loan to the extent that and for such period that its Mortgage Conditions provide that it is subject to an interest rate which is linked to a variable interest rate other than the Variable Mortgage Rate;

Tranche

Covered Bonds which are identical in all respects (including as to listing);

Transaction Documents

- (a) Mortgage Sale Agreement (and any documents entered into pursuant to the Mortgage Sale Agreement, including, without limitation, each Scottish Declaration of Trust);
- (b) Servicing Agreement;
- (c) Asset Monitor Agreement;
- (d) Intercompany Loan Agreement;
- (e) LLP Deed;
- (f) Cash Management Agreement;
- (g) each Interest Rate Swap Agreement;
- (h) each Covered Bond Swap Agreement;
- (i) the BNPP Bank Account Agreement;
- (j) the Co-op Bank Account Agreement;
- (k) Collateral 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) Supplemental Trust Deed;
- (p) Agency Agreement;
- (q) Programme Agreement;
- (r) each set of Final Terms (as applicable in the case of each issue of listed Covered Bonds);
- (s) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement);
- (t) Master Definitions and Construction Agreement; and
- (u) any other agreement or document from time to time designated as such by the Issuer, the LLP and the Bond

Trustee and/or the Security Trustee;

Transfer Agent	The meaning given in "Terms and Conditions of the Covered Bonds" on page 97;
Transfer Certificate	The meaning given in Condition 2(e);
Transfer Date	Each of the First Transfer Date and the date of transfer of any New Portfolio to the LLP in accordance with the Mortgage Sale Agreement;
True Balance	<p>For any Loan as at any given date, the aggregate (but avoiding double counting) of:</p> <ul style="list-style-type: none">(a) the original principal amount advanced to the relevant Borrower and any further amount (including any Further Advance and Flexible Loan Drawing) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage;(b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by the related Mortgage; and(c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by the related Mortgage, <p>in each case, as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Further Advances committed to be made but not made by the end of the Business Day immediately preceding that given date;</p>
Trust Deed	The meaning given in "Terms and Conditions of the Covered Bonds" on page 97;
UCITS Directive	The meaning given on page 230;
Unfair Practices Directive	The meaning given under "Consumer Protection From Unfair Trading Regulations 2008" on page 78;
UK Listing Authority	The UK Listing Authority which is the Financial Services Authority in its capacity as the competent authority for the

purposes of Part VI of the FSMA;

UTCCR

Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083), as amended, and the Unfair Terms in Consumer Contracts Regulations 1994 (SI 1994/3159);

Valuation Report

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

Valuer

An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant time either a member of a firm which was on the list of Valuers approved by or on behalf of the Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the Seller acting for the Seller in respect of the valuation of a Property;

Vesting Date

The date on which all of Britannia Building Society's property, rights and liabilities were transferred to Co-operative Bank pursuant to Sections 97 -102D of the Building Societies Act 1986, as modified by an order under Section 3 of the Building Society (Funding) and Mutual Societies (Transfer) Act 2007;

Yield Reserve

The reserve fund that the LLP will be required to establish in the Deposit Accounts which will be credited with that part of a Cash Capital Contribution (in the LLP's discretion) up to an aggregate amount equal to the Yield Reserve Required Amount;

Yield Reserve Required Amount

The amount notified by the Seller to the LLP from time to time equal to the amount necessary to ensure that Clause 4.4(c) of the Mortgage Sale Agreement is met as of any relevant Transfer Date;

Yield Shortfall Test

The test as to whether the aggregate amount of interest on the Loans, amounts available to be withdrawn from the Yield Reserve and amounts under the Interest Rate Swap Agreement to be received by the LLP during the Relevant LLP Payment Period would give a yield on the Loans of at least LIBOR plus 0.10 per cent.; and

Zero Coupon Covered Bonds

Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

ISSUER

The Co-operative Bank p.l.c.

1 Balloon Street
Manchester
M60 4EP

THE LLP

Moorland Covered Bonds LLP

Newton House
Leek
Staffordshire ST13 5RG

SECURITY TRUSTEE AND BOND TRUSTEE

HSBC Corporate Trustee Company (UK) Limited

8 Canada Square
London E14 5HQ

PRINCIPAL PAYING AGENT, REGISTRAR AND EXCHANGE AGENT

HSBC Bank plc
8 Canada Square
London E14 5HQ

LEGAL ADVISERS

*To the Issuer, the LLP and the Seller
as to English and United States law*

Allen & Overy LLP
One Bishops Square
London
E1 6AD

*To the Issuer, the LLP and the Seller
as to Scots law*

Tods Murray LLP
Edinburgh Quay
133 Fountainbridge
Edinburgh EH3 9AG

To the Issuer, the LLP and the Seller as to Northern Irish Law

Cleaver Fulton Rankin Solicitors
50 Bedford Street
Belfast
BT2 7FW

*To the Arrangers and Dealers as to English and United
States law*

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

*To the Security Trustee and the Bond Trustee as to
English law*

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

AUDITOR

To the LLP and the Issuer

KPMG Audit Plc
15 Canada Square
London E14 5GL

ARRANGERS

The Royal Bank of Scotland plc

135 Bishopsgate
London EC2M 3UR

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf, London
E14 4BB

BNP Paribas London Branch
10 Harewood Avenue
London NW1 6AA

HSBC Bank plc
8 Canada Square
London E14 5HQ

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf London E14 5JP

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

UBS Limited
1 Finsbury Avenue
London EC2M 2PP