

# Bradford & Bingley<sup>®</sup>

## Bradford & Bingley plc

(incorporated with limited liability in England and Wales)

€15 billion

## Covered Bond Programme

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

## Bradford & Bingley Covered Bonds LLP

(a limited liability partnership incorporated in England and Wales)

Under this €15 billion covered bond programme (the **Programme**), Bradford & Bingley plc (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below).

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

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 €15 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 appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this offering circular (the **Offering Circular**) to the **relevant Dealer(s)** shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

Application has been made to the Commission de Surveillance du Secteur Financier (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme to be admitted to trading on the Bourse de Luxembourg, which is the Luxembourg Stock Exchange's regulated market for the purposes of Directive 2004/39/EC (the **Luxembourg Stock Exchange's regulated market**) and to be listed on the official list of the Luxembourg Stock Exchange. This document comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) but is not a prospectus for the purposes of Section 12(a)(2) or any other provision of or rule under the Securities Act.

Application will be made to the FSA for the Issuer, the Programme and Covered Bonds previously issued under the Programme to be admitted to the register of issuers and the register of regulated covered bonds, as appropriate, under The Regulated Covered Bonds Regulations 2008 (SI 2008/346) (the **Regulated Covered Bonds Regulations 2008** or the **RCB Regulations**).

References in this Offering Circular to Covered Bonds being listed and all related references shall mean that such Covered Bonds are intended to be admitted to trading on the Luxembourg Stock Exchange's regulated market and have been listed on the official list of the Luxembourg Stock Exchange's regulated market. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under *Terms and Conditions of the Covered Bonds*) of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (each a **Final Terms Document**) which, with respect to Covered Bonds to be listed on the official list of the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Programme provides that Covered Bonds may be listed on such other or further stock exchange(s) as may be agreed between the Issuer, the LLP, the Bond Trustee (as defined below) and the relevant Dealer(s). The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market. **An investment in Covered Bonds issued under the Programme involves certain risks. See *Risk Factors* for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds.**

The Covered Bonds and the Covered Bond Guarantee (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 intended to be listed on the official list of the Luxembourg Stock Exchange) a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

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

**Arranger for the Programme**

**HSBC**

The date of this Offering Circular is 28 April 2008.

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

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

**This Offering Circular 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 Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.**

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

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

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

**Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, the LLP, the Seller, the Arranger, any of the Dealers, the Bond Trustee or the Security Trustee to any person to subscribe for or to purchase any Covered Bonds. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and/or the LLP and/or the Seller is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers, the Bond Trustee and the Security Trustee expressly do not**

undertake to review the financial condition or affairs of the Issuer, the LLP or the Seller during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Covered Bonds. The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

As set forth in the applicable Final Terms Document, the Covered Bonds are being offered and sold (a) 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 (b) 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.

**THE COVERED BONDS HAVE NOT BEEN RECOMMENDED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.**

**NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE 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 RSA 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.**

For a more complete description on offers, sales and transfers, see “*Terms and Conditions of the Covered Bonds*” and “*Subscription and Sale and Transfer and Selling Restrictions*”.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the LLP, the Seller, the Arranger, the Dealers, the Bond Trustee and the Security Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the LLP, the Seller, the Arranger, the Dealers, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance

with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Covered Bonds in the United States, the United Kingdom, Japan, The Netherlands, the Republic of Italy, Switzerland and Germany, see also in this regard *Subscription and Sale* and the Final Terms Document for any particular Tranche of Covered Bonds.

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

In connection with the issue of any Tranche of Covered Bonds, the Dealer (if any) disclosed as the stabilising manager (or persons acting on behalf of any stabilising manager) in the applicable Final Terms Document may over-allot Covered Bonds (provided that, in the case of any Tranche of Covered Bonds to be admitted to trading on the official list of the Luxembourg Stock Exchange, the aggregate principal amount of Covered Bonds allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) 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 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.

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

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

#### AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the Covered Bonds, so long as the Covered Bonds are “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer and the LLP will promptly furnish, upon request of a holder of a Covered Bond, to such holder and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if, at the time of such request, the Issuer is neither a reporting company under Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b).

#### ENFORCEABILITY OF JUDGMENTS

The Issuer is a company incorporated with limited liability in England and Wales. Most of its assets are located outside the United States. In addition, all of its officers and directors reside outside the United States and most of the assets of these persons are located outside the United States. As a result,

**it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons or to enforce against any of them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.**

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**PRINCIPAL CHARACTERISTICS OF THE PROGRAMME**

<b>Issuer:</b>	Bradford & Bingley Plc
<b>Guarantor:</b>	Bradford & Bingley Covered Bonds LLP
<b>Regulated Covered Bonds:</b>	The Issuer will on or before 30 April 2008 apply for the Issuer and the Programme and any Covered Bonds previously issued under the Programme to be registered under the RCB Regulations
<b>Nature of eligible property:</b>	Residential mortgage loans, Substitution Assets up to the prescribed limit of 10 per cent. and Authorised Investments
<b>Compliant with the Banking Consolidation Directive (Directive 2006/48/EC)<sup>1</sup>:</b>	Yes
<b>Location of eligible residential property underlying Loans:</b>	England, Wales or Scotland
<b>Maximum Loan to Value Ratio (given credit under the Asset Coverage Test):</b>	75 per cent.
<b>Maximum Asset Percentage:</b>	91 per cent.
<b>Asset Coverage Test:</b>	As set out on page 142
<b>Amortisation Test:</b>	As set out on page 146
<b>Reserve Fund:</b>	Available Revenue Receipts credited to the Reserve Fund if the Issuer's short-term unsecured, unsubordinated and unguaranteed debt obligations fall below A-1+ by S&P, F1+ by Fitch and P-1 by Moody's).
<b>Extended Maturities:</b>	Available
<b>Hard Bullet Maturities:</b>	Not Available
<b>Asset Monitor:</b>	KPMG Audit Plc
<b>Asset Segregation:</b>	Yes
<b>Namenschuldverschreibungen option:</b>	No

<sup>1</sup> The Programme is intended to be compliant with the Banking Consolidation Directive once the Issuer has been accepted to the register of issuers and for the Programme and any Covered Bond previously issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the CSSF shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the auditor's report and audited consolidated and non-consolidated annual financial statements of the Issuer for the financial years ended 31 December 2007 and 31 December 2006, see *General Information — Documents Available* and *General Information — Auditors* for a description of the financial statements currently published by the Issuer; and
- (b) the auditor's report and audited non-consolidated annual financial statements of the LLP for the financial years ended 31 December 2007 and 31 December 2006,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document all, or the relevant portion of which is deemed to be incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. Any information not listed in the cross-reference list but included in the documents incorporated by reference, is given for information purposes only.

The Issuer and the LLP will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference (other than the Issuer's audited annual and unaudited interim financial statements, in relation to which, see below) unless such documents have been modified or superseded as specified above. Requests for such documents should be directed either to the Issuer or the LLP, at their respective offices set out at the end of this Offering Circular. The Issuer's audited annual and unaudited interim financial statements are available online, without charge, from the Issuer's website at [www.bbg.co.uk](http://www.bbg.co.uk). In addition, such documents (including the Issuer's audited annual and unaudited interim financial statements) will be available free of charge from the principal office in Luxembourg of Dexia Banque Internationale à Luxembourg (the **Luxembourg Listing Agent**) for Covered Bonds listed on the official list of the Luxembourg Stock Exchange and from the internet site of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu). The Issuer and the LLP will, in connection with the listing of the Covered Bonds on the official list of the Luxembourg Stock Exchange, so long as any Covered Bond remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer or the LLP which is not reflected in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Covered Bonds to be listed on the official list of the Luxembourg Stock Exchange. The Issuer and the LLP have each undertaken to the Arranger in the Programme Agreement (as defined in *Subscription and Sale*) that they will comply with Section 87G of the Financial Services and Markets Act 2000 (**FSMA**).

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

### Cross Reference List

**Financial Statements**  
**Commission Regulation (EC)**  
**No. 809/2004, Annex IX, 11.1**

Annual Report 2006

Annual Report 2007

**Bradford & Bingley plc**  
Consolidated Balance Sheet

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**LLP**

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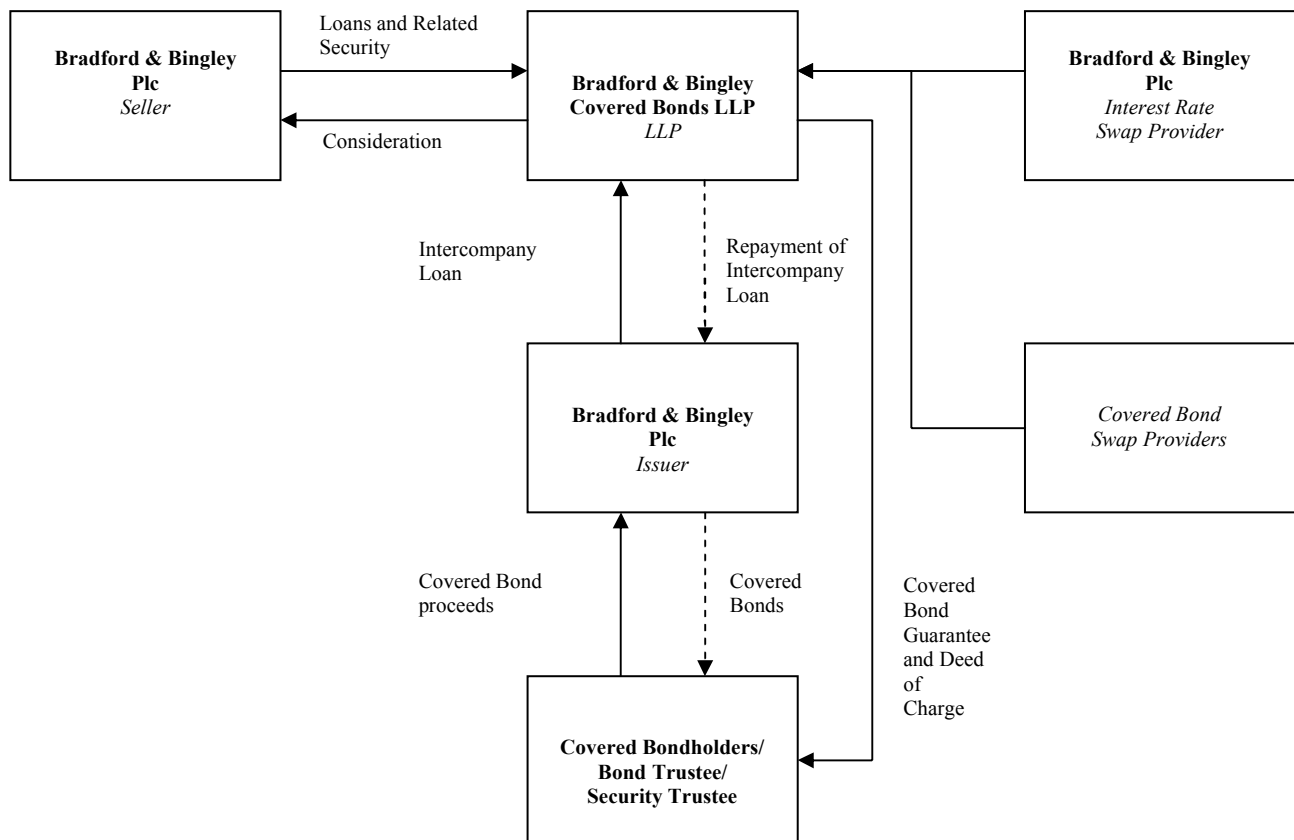
## **GENERAL DESCRIPTION OF THE PROGRAMME**

Under the terms of the Programme, the Issuer may from time to time issue Covered Bonds including, without limitation, index linked Covered Bonds, dual currency Covered Bonds and zero coupon Covered Bonds in accordance with and subject to all applicable laws and regulations and denominated in any currency, subject as set out herein. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer prior to the issue of the Covered Bonds and will be set out in the Terms and Conditions of the Covered Bonds endorsed on, attached to, or incorporated by reference into, the Covered Bonds, as modified and supplemented by the applicable Final Terms Document attached to, or endorsed on, such Covered Bonds, as more fully described under *Form of the Covered Bonds*.

## STRUCTURE OVERVIEW

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

### Structure Diagram



### Structure Overview

- **Programme:** Under the terms of the Programme, the Issuer will issue Covered Bonds to Covered Bondholders on each issue date (each, an **Issue Date**). The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.
- **Intercompany Loan Agreement:** Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to the gross proceeds of each Series or, as applicable, Tranche of Covered Bonds. The Term Advances will not be repaid by the LLP until all amounts payable under the corresponding Series of Covered Bonds have been repaid in full by the Issuer. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP under the Intercompany Loan Agreement will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee.

- *Covered Bond Guarantee:* Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following the occurrence of an Issuer Event of Default, the service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional and unsubordinated obligations of the LLP, secured as provided in the Deed of Charge. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee will be limited to the assets of the LLP from time to time. Payments made by the LLP under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable (each as defined below).
- *The proceeds of Term Advances:* The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, after swapping the same into Sterling under the relevant Covered Bond Swap Agreement) (a) to purchase the Initial Portfolio and each New Portfolio, consisting of Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit. To protect the value of the Portfolio under the terms of the LLP Deed, the LLP and the Seller (in its capacity as a Member of the LLP) will be obliged to ensure that the Asset Coverage Test (as described below) will be satisfied on each Calculation Date.
- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the LLP on any Transfer Date will be a combination of (a) a cash payment paid by the LLP to the Seller; and/or (b) the Seller being treated as having made a Capital Contribution to the LLP in an amount equal to the difference between the Current Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) paid by the LLP in respect of such Loans; and/or (c) the right of the Seller (pursuant to and in accordance with the LLP Deed) to receive a share of the LLP Income Profits and amounts (if any) standing to the credit of the Members' reserve from time to time.
- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the Portfolio, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.
- *Cashflows:* Prior to service of a Notice to Pay on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP under the Covered Bond Guarantee the LLP will:
  - apply Available Revenue Receipts to pay interest due on the Term Advances and/or to make certain payments to the Members in accordance with their respective entitlements to income under the LLP Deed, but only after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses, amounts due to the Interest Rate Swap Providers, amounts due to the Covered Bond Swap Providers, amounts to be credited (if any) to the Reserve Fund and interest due and payable on the Term Advances). For further details of the Pre-Acceleration Revenue Priority of Payments, see *Cashflows* below; and
  - apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of certain items ranking higher in the relevant Pre-Acceleration Principal

Priority of Payments. For further details of the Pre-Acceleration Principal Priority of Payments, see *Cashflows* below.

Following service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP) the LLP will use all monies (other than Third Party Amounts) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the LLP in the Guarantee Priority of Payments. In such circumstances, the Members 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.

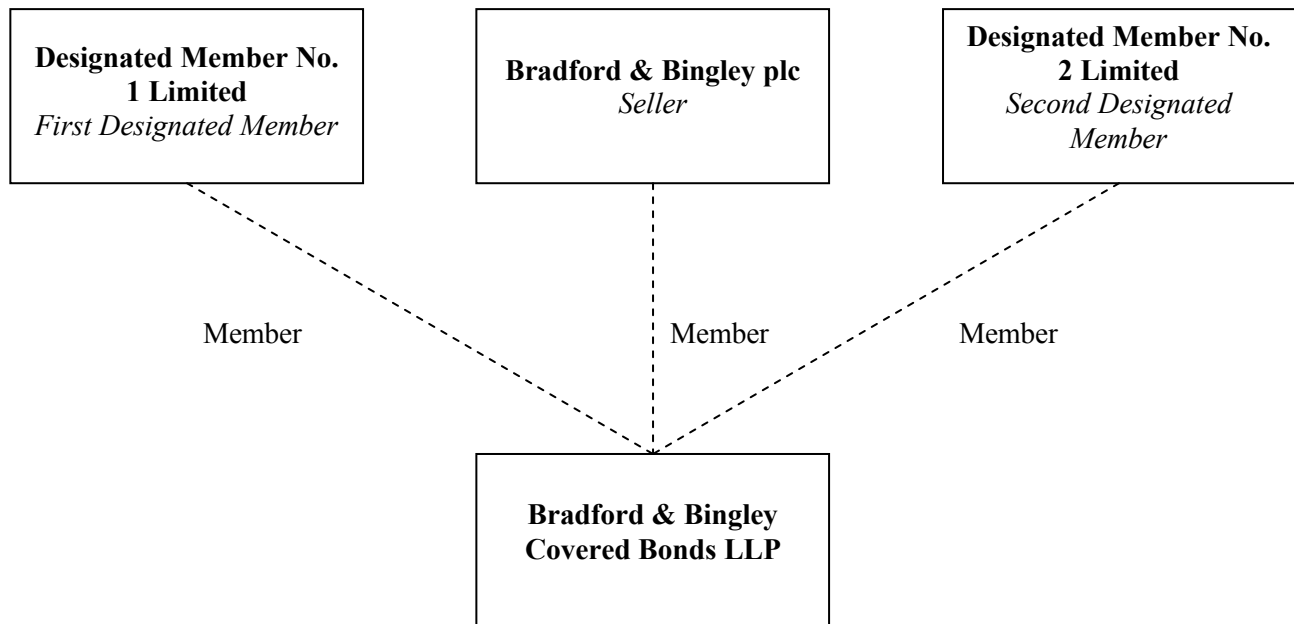
Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the Covered Bonds will become immediately due and repayable (if not already immediately due and payable following the occurrence of an Issuer Event of Default) and the Bond Trustee will then have a claim against the LLP under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds and the security created by the LLP over the Charged Property will become enforceable. Any moneys received or recovered by the Security Trustee following enforcement of the security created by the LLP in accordance with the Deed of Charge (but prior to the 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.

- *Asset Coverage:* The Programme provides that the assets of the LLP are subject to an asset coverage test in respect of the Covered Bonds. Accordingly, for so long as Covered Bonds remain outstanding, the LLP and the Seller (in its capacity as a Member of the LLP) must ensure that on each Calculation Date, the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding from time to time. If the same has not been remedied on or before the next Calculation Date, a breach of the Asset Coverage Test will constitute an Issuer Event of Default, which will entitle the Bond Trustee to serve an Issuer Acceleration Notice on the Issuer 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 is, and each such Covered Bond shall thereupon immediately become, due and payable. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.
- *Amortisation Test:* In addition, following service of a Notice to Pay on the LLP (but prior to an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security) and for so long as Covered Bonds remain outstanding, the LLP and the Seller (in its capacity as a Member) must ensure that on each Calculation Date following an Issuer Event of Default the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding from time to time. The Cash Manager will test the Amortisation Test on each Calculation Date following an Issuer Event of Default and service of a Notice to Pay on the LLP. A breach of the Amortisation Test will constitute an LLP Event of Default, which will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP declaring the Covered Bonds immediately due and repayable and entitle the Security Trustee to enforce the Security over the Charged Property.
- *Extendable obligations under the Covered Bond Guarantee:* An Extended Final Maturity Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms Document. This means that if the Issuer fails to pay the Final Redemption Amount of the relevant

Series of Covered Bonds on the Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the LLP on or before the Extension Determination Date (for example because following the service of a Notice to Pay on the LLP, the LLP has or will have insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds), then payment of the unpaid amount pursuant to the Covered Bond Guarantee shall be automatically deferred and shall become due and payable one year later on the Extended Final Maturity Date (subject to any applicable grace period). However, any amount representing the Final Redemption Amount (as defined below) due and remaining unpaid on the Extension Determination Date may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date. Interest will continue to accrue on any unpaid amount during such extended period and be payable on the Original Due for Payment Date and on the Extended Final Maturity Date in accordance with Condition 4(a).

- *Servicing:* Bradford & Bingley plc (in its capacity as Servicer), has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which the Servicer has agreed to provide administrative services in respect of the Loans and their Related Security sold by Bradford & Bingley plc (in its capacity as Seller) to the LLP.
- *Third Party Member:* A third party (not being a member of the Bradford & Bingley Group) may become a Member of the LLP, subject to meeting certain conditions precedent including, but not limited to, written confirmation from the Rating Agencies that this would not adversely affect the then current ratings of all outstanding Covered Bonds.
- *The Regulated Covered Bonds Regulations 2008:* On or prior to 30 April 2008, the Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and any Covered Bonds previously issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds previously issued under the Programme will be so registered or so regulated. The timetable for recognition by the FSA is expected to take not more than six months. Covered Bondholders will be notified promptly by the Issuer upon receipt from the FSA of its final decision on the application.
- *Further Information:* For a more detailed description of the transactions summarised above relating to the Covered Bonds, see, amongst other relevant sections of this Offering Circular, Summary of the Programme, Terms and Conditions of the Covered Bonds, Summary of the Principal Documents, Credit Structure, Cashflows and The Portfolio, below.

## Ownership Structure of Bradford & Bingley Covered Bonds LLP



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

## SUMMARY OF THE PROGRAMME

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

**Issuer:** Bradford & Bingley plc, a public limited liability company incorporated in England and Wales (registered no. 03938288).

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

**The LLP:** Bradford & Bingley Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC306627). The Members of the LLP on the Programme Date are the Seller and the Designated Members. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and Substitution Assets and to provide, and if necessary, make payments under the Covered Bond Guarantee. The LLP will hold the Portfolio in accordance with the terms of the Transaction Documents.

The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following the occurrence of an Issuer Event of Default, the service of an Issuer Acceleration Notice on the Issuer and the service on the LLP of a Notice to Pay. The obligations of the LLP under such guarantee and the other Transaction Documents to which it is a party are secured by the assets from time to time of the LLP and recourse against the LLP is limited to such assets.

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

**Seller:** Bradford & Bingley plc, which is in the business of originating and acquiring residential mortgage loans and conducting other banking activities.

For a more detailed description of Bradford & Bingley plc, see *The Issuer*, below.

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

**Cash Manager:** Bradford & Bingley plc has also been appointed to, *inter alia*, provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test and the Amortisation Test pursuant to the terms of the Cash Management Agreement.



<b>Issuing and Principal Paying Agent, Agent Bank, Exchange Agent, Registrar and Transfer Agent:</b>	Citibank N.A., London Branch, acting through its offices at 21st Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed pursuant to the Agency Agreement as issuing and principal paying agent, exchange agent, registrar, transfer agent and agent bank.
<b>Bond Trustee:</b>	Citicorp Trustee Company Limited, having its registered office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed to act as Bond Trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the terms of the Trust Deed.
<b>Security Trustee:</b>	Citicorp Trustee Company Limited, having its registered office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has been appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself and the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders, the Receiptholders and the Couponholders)), the Issuer, the Seller, the Servicer, the Account Bank, the GIC Provider, the Stand-by Account Bank, the Stand-by GIC Provider, the Corporate Services Providers, the Cash Manager, the Swap Providers, the Paying Agents, the Exchange Agent, the Registrar, the Transfer Agent, the Calculation Agent, the Luxembourg Paying Agent, the Collateral Account Bank and any other person which becomes a Secured Creditor (the <b>Secured Creditors</b> ) under the Deed of Charge.
<b>Asset Monitor:</b>	KPMG Audit Plc, having its registered office at 8 Salisbury Square, London EC4Y 8BB has been appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.
<b>Covered Bond Swap Providers:</b>	Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay) by entering into the Covered Bond Swap Agreements with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of such Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to put in place other arrangements to maintain the then current ratings of the Covered Bonds (which may include obtaining a guarantee of its obligations from an appropriately rated guarantor or providing collateral for its obligations).
<b>Interest Rate Swap Provider:</b>	Bradford & Bingley plc (in its capacity as the Interest Rate

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

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

- GIC Provider:** National Westminster Bank plc has agreed to act as GIC Provider to the LLP pursuant to the terms of the Guaranteed Investment Contract.
- Account Bank:** National Westminster Bank plc has agreed to act as Account Bank to the LLP pursuant to the terms of the Bank Account Agreement.
- Collateral Account Bank:** HSBC Bank plc whose registered office is at 8 Canada Square, London E14 5HQ has agreed to act as provider of a euro denominated bank account to the LLP (the **Collateral Account**) pursuant to the terms of the Collateral Bank Account Agreement.
- Stand-by GIC Provider:** Citibank N.A., London Branch, acting through its offices at 21st Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has agreed to act as Stand-by GIC Provider to the LLP pursuant to the terms of the Stand-by Guaranteed Investment Contract.
- Stand-by Account Bank:** Citibank N.A., London Branch, acting through its offices at 21st Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB has agreed to act as Stand-by Account Bank to the LLP pursuant to the terms of the Stand-by Bank Account Agreement and, in certain circumstances giving rise to the termination of the Bank Account Agreement, will perform the duties set out in the Stand-by Bank Account Agreement.
- First Designated Member:** Designated Member No. 1 Limited (the **First Designated Member**), a special purpose vehicle incorporated in Jersey as a private limited company (registered no. 86839). The First Designated Member is 100 per cent. owned by Holdings.
- Holdings:** Ivybond Holdings Limited (**Holdings**), a special purpose vehicle incorporated in Jersey as a private limited company (registered no. 86840). A trustee (the **Share Trustee**) holds all of the shares of Holdings on trust for general charitable purposes.
- Jersey Share Trustee:** Structured Finance Management Offshore Limited, having its

registered office at 47 Esplanade, St. Helier, Jersey JE1 0BD.

<b>Jersey Corporate Services Provider:</b>	Structured Finance Management Offshore Limited, (the <b>Jersey Corporate Services Provider</b> ) having its registered office at 47 Esplanade, St. Helier, Jersey JE1 0BD, has been appointed to provide certain corporate services to Holdings and the First Designated Member pursuant to the Jersey Corporate Services Agreement.
<b>Second Designated Member:</b>	Designated Member No. 2 Limited (the <b>Second Designated Member</b> ), and, together with the First Designated Member, the <b>Designated Members</b> ), a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 05058582). SFM Corporate Services Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, holds all the shares of the Second Designated Member on trust for general charitable purposes.
<b>UK Share Trustee:</b>	SFM Corporate Services Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP.
<b>UK Corporate Services Provider:</b>	Structured Finance Management Limited (the <b>UK Corporate Services Provider</b> and the <b>LLP Corporate Services Provider</b> , and, together with the Jersey Corporate Services Provider, the <b>Corporate Services Providers</b> ), having its registered office at 35 Great St. Helen's, London EC3A 6AP, has been appointed to provide certain corporate services to the Second Designated Member pursuant to the UK Corporate Services Agreement and to the LLP pursuant to the LLP Corporate Services Agreement (together with the Jersey Corporate Services Agreement, the <b>Corporate Services Agreements</b> ).
<b>Third Party Member:</b>	Any third party (not being a member of the Bradford & Bingley Group) who (subject to meeting certain conditions precedent set out in the LLP Deed including, but not limited to, written confirmation from the Rating Agencies that their joining would not adversely affect the then current ratings of all outstanding Covered Bonds) becomes a Member of the LLP (a <b>Third Party Member</b> ).
<b>Description:</b>	Covered Bond Programme.
<b>Arranger:</b>	HSBC Bank plc
<b>Dealers:</b>	Any Dealer or Dealers appointed from time to time in accordance with the Programme Agreement.
<b>Certain Restrictions:</b>	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</i> ).
<b>Programme Size:</b>	Up to €15 billion (or its equivalent in other currencies)

outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

- Distribution:** Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in *Subscription and Sale*, below.
- Specified Currencies:** Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms Document).
- Redenomination:** The applicable Final Terms Document may provide that certain Covered Bonds may be redenominated in euro. If so, the redenomination provisions will be set out in the applicable Final Terms Document.
- Maturities:** Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms Document, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
- Issue Price:** Covered Bonds may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
- Form of Covered Bonds:** The Covered Bonds may be issued in bearer or registered form, see *Form of the Covered Bonds*. Covered Bonds in registered form (**Registered Covered Bonds**) will not be exchangeable for Covered Bonds in bearer form (**Bearer Covered Bonds**) and vice versa.
- Each Registered Covered Bond will be deposited on or around the relevant Issue Date with a common depository for Euroclear and/or Clearstream, Luxembourg or a depository for DTC and/or any other relevant clearing system.
- Each Temporary Global Covered Bond will be exchangeable for a Permanent Global Covered Bond or, if so specified in the relevant Final Terms, for Definitive Covered Bonds.
- Each Bearer Covered Bond (i) will either be issued in new global note form, as specified in the relevant Final Terms, and will be deposited on or around the relevant Issue Date with a common safekeeper for the International Central Securities Depositories or (ii) will not be issued in new global note form, as specified in the relevant Final Terms, and will be deposited on or around the relevant Issue Date with a common depository for the International Central Securities Depositories.

**Fixed Rate Covered Bonds:** Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms Document).

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

- (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 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. (ISDA) and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms Document).

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

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

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

**Dual Currency Covered Bonds:** Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Covered Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Final Terms Document).

**Zero Coupon Covered Bonds:**

Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment, as described in Condition 6(j).

**Redemption:**

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

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

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

The applicable Final Terms Document may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) shall be deferred until the Extended Final Maturity Date provided that, any amount representing the amount due on the Final Maturity Date as set out in the relevant Final Terms Document (the **Final Redemption Amount**) due and remaining unpaid on the date falling three Business Days after the expiry of seven days from (and including) the Final Maturity Date of the relevant Series of Covered Bonds (the **Extension Determination Date**) may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Extension Determination Date (for example, because following service of a Notice to Pay on the LLP, the LLP has or will have insufficient moneys to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in sufficient time to pay in part the Final Redemption Amount, such partial repayment shall be made as described in Condition 5(h). Interest will continue to accrue and be payable

on any unpaid amount up to the Extended Final Maturity Date in accordance with Condition 5 and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Original Due for Payment Date and Extended Final Maturity Date.

**Denomination of Covered Bonds:**

Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms Document save that the minimum denomination of each Covered Bond will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency and save that the minimum denomination of each Covered Bond admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €50,000 (or if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

**Taxation:**

All payments in respect of the Covered Bonds will be made without withholding or deduction for or on account of taxes imposed by the Tax Jurisdiction, subject as provided in Condition 7. In the event that any such withholding or deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 7, or to pay any additional amounts in respect of any amount required to be withheld or deducted for or on account of taxes from a payment by the LLP under the Covered Bond Guarantee.

**Cross Default:**

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

**Status of the Covered Bonds:**

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

**Covered Bond Guarantee:**

Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that an Issuer Event of Default occurs, an Issuer Acceleration Notice is served on the Issuer and a Notice to Pay is served on the LLP or, if earlier, an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP. The obligations of the LLP under the Covered Bond Guarantee

will accelerate against the LLP upon the service of an LLP Acceleration Notice. The obligations of the LLP under its guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.

**Approval, admission to trading and listing:**

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme after the date hereof to be admitted to trading on the official list of the Luxembourg Stock Exchange's regulated market and to be listed on the official list of the Luxembourg Stock Exchange. The Covered Bonds may also be listed, quoted and/or traded on or by such other or further competent listing authority(ies), stock exchange(s) and/or quoted system(s) as may be agreed between the Issuer and the relevant Dealer(s) in relation to each Series.

Unlisted Covered Bonds may also be issued.

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

**The Regulated Covered Bond Regulations 2008**

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

**Governing Law:**

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

**Selling Restrictions:**

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



## **RISK FACTORS**

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

### **General Investment Considerations**

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

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

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

#### ***Obligations under the Covered Bonds***

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

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

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

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after converting the

same into Sterling if necessary) (i) to acquire Loans and their Related Security from the Seller and/or (ii) to acquire Substitution Assets up to the prescribed limit to extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

- (a) to acquire Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
  - (b) (subject to complying with the Asset Coverage Test) to make a return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (**Capital Distribution**) to any Member (other than the Designated Members) by way of distribution of that Member's equity in the LLP in an amount equal to the Term Advance (or the Sterling Equivalent thereof) or part thereof; and/or
  - (c) to acquire Substitution Assets up to the prescribed limit, and/or
  - (d) if an existing Series, or Tranche of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to such Series or Tranche and/or
  - (e) to deposit all or part of such proceeds into the GIC Account; and
- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
  - on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Rating Agencies (addressed to the Issuer, the Bond Trustee and the Security Trustee) that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

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

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

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

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

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

To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient moneys available to pay in part the Guaranteed Amounts corresponding to the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds, the LLP shall make partial payment of the relevant Final Redemption Amount in accordance with the Guarantee Priority of Payments and as described in Conditions 5(h) and 6(a). Payment of all unpaid amounts shall be deferred automatically until the applicable Extended Final Maturity Date provided that, any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date. The LLP is not required to notify the Covered Bondholders of such automatic deferral. The Extended Final Maturity Date will fall one year after the Final Maturity Date. Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 and the LLP will pay Guaranteed Amounts, constituting Scheduled Interest on each Original Due for Payment Date and the Extended Final Maturity Date. In these circumstances, except where the LLP has failed to apply money in accordance with the Guarantee Priority of Payments, failure by the LLP to make payment in respect of the Final Redemption Amount on the Final Maturity Date (subject to any applicable grace period) (or such later date within the applicable grace period) shall not constitute an LLP Event of Default. However, failure by the LLP to pay the Guaranteed Amounts corresponding to the Final Redemption Amount on or the balance thereof or prior to the Extended Final Maturity Date and/or Guaranteed Amounts constituting Scheduled Interest on any Scheduled Payment Date will (subject to any applicable grace periods) be an LLP Event of Default.

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

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

### ***UK Banking (Special Provisions) Act 2008***

Under the Banking (Special Provisions) Act 2008 (the **Act**), until 21 February 2009 the UK Treasury has wide powers to make certain orders in respect of a UK authorised deposit-taking institution (such as the Issuer, the Seller, the Servicer, the Account Bank and the Interest Rate Swap Provider) and, in certain circumstances, certain corporate related corporate undertakings (such as the LLP). The orders which may be made under the Act in respect of relevant deposit-taking institutions (and/or, in certain circumstances, certain related corporate undertakings) relate to (amongst other things) (i) transfers of securities issued by relevant entities (such as the Covered Bonds) (and/or securing that rights of holders of securities cease to be exercisable by such holders, discontinuing the listing of securities and/or varying or nullifying the terms of securities), (ii) transfers of property, rights and liabilities of relevant entities notwithstanding any restrictions, requirements or interest (and/or modifying related interests, rights or liabilities of third parties), (iii) the disapplication or modification of laws, (iv) the imposition of a moratorium on the commencement or

continuation of any legal process in relation to any body or property and/or (v) the dissolution of any relevant entity. Significantly, orders may have retrospective effect (as from not earlier than three months before 21 February 2008) and may make provision for nullifying the effect of transactions or events taking place after the time in question.

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

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

### ***Limited Secondary Market***

There is, at present, a secondary market for the Covered Bonds but it is neither active nor liquid, and there can be no assurance that an active or liquid 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 an active or liquid secondary market develops, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield.

### ***Liquidity in the secondary market may adversely affect the market value of the Covered Bonds***

As at the date of this Offering Circular, the secondary market for mortgage-backed securities is experiencing disruptions resulting from reduced investor demand for such securities. This has had a materially adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities experiencing very limited liquidity. Structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties have been forced to sell mortgage-backed securities into the secondary market. The price of credit protection on mortgage-backed securities through credit derivatives has risen materially. Limited liquidity in the secondary market may continue to have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. Consequently, whilst these market conditions continue to persist, an investor in Covered Bonds may not be able to sell or acquire credit protection on its Covered Bonds readily and market values of Covered Bonds are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to Covered Bondholders.

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

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

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

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

The ratings assigned to the Covered Bonds address:

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

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

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

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

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

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

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

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

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

***European Monetary Union***

If the United Kingdom joins the European Monetary Union prior to the maturity of the Covered Bonds, there is no assurance that this would not adversely affect the realisable value of the Portfolio or any part thereof or

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

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

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

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law (and, in relation to the Scottish Loans, Scots law) in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible change to English law or Scots law (including any change in regulation which may occur without a change in primary legislation) or administrative practice in the United Kingdom after the date of this Offering Circular or can any assurance be given as to whether any such change would adversely affect that ability of the Issuer to make payments under the Covered Bonds or the ability of the LLP to make payments under the Covered Bond Guarantee.

### ***UK regulated covered bond regime***

The Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and any Covered Bonds previously issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations 2008 (SI 2008/346) (the **RCB Regulations**). As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds previously issued under the Programme will be so registered or regulated. The exact timetable for assessment by the FSA of the Issuer's application is unknown and although the RCB Regulations provide that the FSA must notify its decision on an application within six months of the application being made, there is no assurance that the assessment process will not take longer. Furthermore, where the FSA requests additional information from the Issuer within such six month period, the FSA is permitted six months from the date of receipt of such additional information. While the Issuer considers that its application for admission should be accepted by the FSA, the FSA holds significant discretion in this regard and certain aspects of the new regime are unclear. As such, there is a risk that the FSA may reject the Issuer's application.

The new legislative framework for UK covered bonds contemplated by the RCB Regulations is intended to meet the requirements set out in Directive 85/11/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). The FSA will notify the European Commission of an issuer's inclusion in the register of issuers, a covered bond included in the register of regulated covered bonds and the status of the guarantee offered in respect of such covered bonds once the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made, covered bonds are not UCITS compliant.

While the new legislative framework contemplated by the RCB Regulations has been shaped to accommodate certain aspects of existing UK covered bond structures (such as that contemplated in respect of the Covered Bonds previously issued under the Programme), changes are required to such structures to meet the requirements of the RCB Regulations. Covered Bondholders should be aware that significant amendments have been made to certain provisions of the Programme (including certain provisions of the

Transaction Documents) as a result of the RCB Regulations. In particular, following the realisation of the Security and/or the commencement of winding-up proceedings in respect of the LLP, from the date of application of the RCB Regulations to the LLP, all funds available to the LLP will be paid and applied in accordance with the Post-Enforcement Priority of Payments (subject to "*Expenses of the insolvency officeholders*" below). In addition, the RCB Regulations and the RCB Sourcebook impose certain new ongoing obligations and liabilities on both the Issuer and the LLP. In this regard, the LLP is required amongst other things following the insolvency of the Issuer, to make arrangements for the maintenance and administration of the asset pool such that certain asset capability and quality related requirements are met. The FSA may take certain actions in respect of the Issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing the Issuer from the register of issuers, directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP and/or restricting the ability of the Seller to transfer further Loans to the LLP. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). There is a risk that any such enforcement actions by the FSA may reduce the amounts available to pay Covered Bondholders. With respect to the risks referred to above, see also "*Cashflows*" and "*Description of the UK Regulated Covered Bonds Regime*" below for further details.

### ***Expenses of insolvency officeholders***

Under the RCB Regulations (assuming such regulations apply to the LLP), following the realisation of any asset pool security and/or a 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 claims of the other Secured Creditors in an administration of the LLP. It appears that these costs and expenses would include costs incurred by an insolvency officeholder (including an administrative receiver, liquidator or administrator) in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English law which provides that in general the expenses of any administration or winding-up rank ahead of unsecured debts and the claims of any floating-chargeholder but not ahead of the claims of any fixed charge-holder.

While a provision has been included in the Deed of Charge such that, in certain post-enforcement scenarios, each Secured Creditor agrees in effect that, amongst other things, if it receives certain subordinated amounts 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 H.M. Revenue & Customs) in relation to such subordination provisions.

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

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

Significant changes to the United Kingdom insolvency regime have been enacted since 2000, including the Insolvency Act 2000, the relevant provisions of which came into force on 1 January 2003. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting in place a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. The moratorium provisions of the Insolvency Act 2000 do not



expressly state that they apply to Limited Liability Partnerships (such as the LLP). Prior to 1 October 2005, there was some doubt as to whether the moratorium provisions of the Insolvency Act 2000 applied to limited liability partnerships such as the LLP. However, on 1 October 2005, the Limited Liability Partnership (Amendment) Regulations 2005 made it clear that the moratorium provisions apply to limited liability partnerships subject to certain modifications.

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

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

### ***English law security and insolvency considerations***

On the Initial Programme Date, the LLP entered into the Deed of Charge pursuant to which it granted the Security over the Charged Property, in order to secure its obligations in respect of the Covered Bond Guarantee and its other obligations under the Transaction Documents (see *Summary of the Transaction Documents — Deed of Charge*). In certain circumstances, including the occurrence of certain insolvency events in respect of the LLP, the ability to realise the Security may be delayed and/or the value of the relevant 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 insolvency law).

In addition, it should be noted that, to the extent that any assets of the LLP are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, member states of the European Union (**Member States**) are required to provide to tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in

that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent on 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 agreed to adopt similar measures (a withholding system in the case of Switzerland).

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 Directive.

### **Legal investment considerations may restrict certain investments**

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

### **Factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme**

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

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

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

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.

### ***Trading in the Clearing Systems***

In relation to the issue of any Covered Bonds which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are smaller than that minimum denomination, should definitive Covered Bonds be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Covered Bonds unless and until such time as his holding becomes an integral multiple of the minimum denomination.

### ***Risks related to the structure of a particular issue of Covered Bonds***

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

#### ***Covered Bonds subject to optional redemption by the Issuer***

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

#### ***Index Linked Covered Bonds and Dual Currency Covered Bonds***

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

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

### ***Partly-paid Covered Bonds***

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

### ***Variable rate Covered Bonds with a multiplier or other leverage factor***

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

### ***Inverse Floating Rate Covered Bonds***

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

### ***Fixed/Floating Rate Covered Bonds***

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

### ***Covered Bonds issued at a substantial discount or premium***

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

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

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

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

### ***Impact of Regulatory Changes***

The Issuer is subject to financial services laws, regulations, administrative actions and policies in each location in which the Issuer operates. Changes in supervision and regulation, in particular in the UK, could materially affect the Issuer's business, the products and services offered and/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.

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

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

Following service of an Issuer Acceleration Notice on the Issuer, a Notice to Pay will be served by the Bond Trustee on the LLP. However, a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds will not automatically result in the service of an Issuer Acceleration Notice. The Bond Trustee may, but is not obliged to, serve an Issuer Acceleration Notice unless and until requested or directed by all Series of Covered Bondholders then outstanding in accordance with Condition 10(a).

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

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

Subject to any grace period, if the LLP fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other LLP Event of Default occurs, then the Bond Trustee may accelerate the obligations of the LLP under the Covered Bond Guarantee by service of an LLP Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 7). Following service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement and realisation of the Security shall be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the Deed of Charge, and Covered Bondholders will receive amounts from the LLP on an accelerated basis. If an LLP Acceleration Notice is served on the LLP then the Covered Bonds may be repaid sooner or later than expected or not at all.

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

Following the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice, the Bond Trustee may receive moneys from the Issuer, or any administrator, receiver, liquidator or other similar official appointed in relation to the Issuer (the **Excess Proceeds**). The Excess Proceeds will be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable and will be held by the LLP in the GIC Account and the Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other moneys from time to

time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the LLP). However, the obligations of the LLP under the Covered Bond Guarantee are unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any such obligations.

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

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

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

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

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

Covered Bondholders should note that the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is greater than the aggregate Principal Amount Outstanding (or, where applicable, the Sterling Equivalent thereof) of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there being a shortfall (although there is no assurance of this). The LLP and the Seller (in its capacity as Member) must ensure that following the occurrence of an Issuer Event of Default, the Amortisation Test is met on each Calculation Date and a breach of the Amortisation Test will constitute an LLP Event of Default and will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP (see *Summary of the Principal Documents — LLP Deed — Asset Coverage Test and Credit Structure — Asset Coverage Test*). The Asset Coverage Test and the Yield Shortfall Test have in the aggregate been structured to ensure that the Asset Pool is sufficient to pay amounts due on the Covered Bonds and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. However no assurance can be given that the Asset Pool will yield sufficient amounts for such purpose.

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

The LLP has entered into agreements with a number of third parties, which have agreed to perform services for the LLP. In particular, but without limitation, the Servicer has been appointed to service Loans in the Portfolio sold to the LLP and the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the LLP. In the event that any of these parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if the Servicer has failed to adequately administer the Loans,

this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described in the following two investment considerations.

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

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

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

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

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

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

will be exposed to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the Intercompany Loan or the Covered Bond Guarantee.

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

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

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

With respect to any Covered Bond Swaps, the LLP will pay a monthly amount, on the 16th day of each month or, if not a Business Day, the next following Business Day (each **LLP Payment Date**), to each Covered Bond Swap Provider by reference to LIBOR three-month Sterling deposits. Each Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to 12 months or until amounts are due and payable by the LLP under the Covered Bond Guarantee (after the service of a Notice to pay on the LLP). If a Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with the LLP's payment obligations under the Covered Bond Guarantee. Hence, the difference in timing between the obligations of the LLP and the Covered Bond Swap Providers under the Covered Bond Swaps may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

#### ***Change of counterparties***

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

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

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

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

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

### ***Northern Irish Loans***

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

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

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

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the LLP (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the Charged Property for the security to be said to “fix” over those assets. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets.

In particular, the expenses of any winding up or administration, and the claims of any preferential creditors, would rank ahead of the claims of the Security Trustee in this regard. The Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the United Kingdom tax authorities). However, certain employee claims (in respect of contributions to pension schemes and wages) still have

preferential status. In this regard, it should be noted that the LLP has agreed in the Transaction Documents not to have any employees.

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

### ***Liquidation Expenses***

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Leyland Daf [2004] UKHL 9*. 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 is not clear whether the provisions referred to above currently apply in respect of limited liability partnerships in general and/or to owners under the RCB Regulations. If such provisions do apply, or were subsequently to be applied to, the LLP and the RCB Regulations did not apply to the LLP, then as a result of the changes described above, upon the enforcement of the floating charge security granted by the LLP, floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be reduced by at least a significant proportion of any liquidation expenses. There can be no assurance that the Covered Bondholders will not be adversely affected by such a reduction in floating charge realisations.

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

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

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

*Amortisation Test:* Pursuant to the terms of the LLP Deed, the LLP and Bradford & Bingley plc (in its capacity as Member of the LLP) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to the service of an LLP Acceleration Notice and/or the commencement of

winding-up proceedings against the LLP and/or the realisation of the Security, the Amortisation Test Aggregate Loan Amount is an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding under the Covered Bonds then outstanding. The Amortisation Test is intended to ensure (but without any guarantee) that the assets of the LLP do not fall below a certain threshold which in turn should ensure that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee and senior expenses that rank in priority to or *pari passu* with amounts due on the Covered Bond.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following the occurrence of an Issuer Event of Default, service on the Issuer of an Issuer Acceleration Notice and service on the LLP of a Notice to Pay (but prior to the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement, see *Summary of the Principal Documents — LLP Deed — Method of Sale of Selected Loans and their Related Security*. In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP may only give warranties or indemnities in respect of those Selected Loans and their Related Security in very limited circumstances for example where the giving of such warranties or indemnities would materially affect the realisable price of the Selected Loans and their Related Security being sold. In addition, there is no assurance that the Seller would give any warranties or representations in respect of the Selected Loans and

their Related Security. Any Representations or Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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

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

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

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

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

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

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

a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

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

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

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

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

If any of the risks described in the first two bullet points above were to 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 might be affected.

Subject to notice being given to the Borrowers of the sale and/or assignment of the Loans and their Related Security to the LLP, independent set-off rights which a Borrower has against the Seller or the relevant Originator (such as, for example, set-off rights associated with such Borrower holding deposits with the Seller or the relevant Originator) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims, including analogous rights in

Scotland, arising out of a transaction connected with such Loan) will not be affected by that notice and will continue to exist.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



***Regulation of residential mortgage activities in the United Kingdom may have an impact on the Seller, the LLP and/or the Servicer and may adversely affect the interests of Covered Bondholders***

In the United Kingdom, regulation of residential mortgage activities by the FSA under the FSMA came into force on 31 October 2004, the date known as **N(M)**.

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 was 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 the Scottish equivalent) 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.

On and after N(M), each person carrying on a regulated mortgage activity by way of business has to hold authorisation and permission from the FSA to carry on that activity (subject to certain exceptions). These activities are: (a) entering into a regulated mortgage contract as lender, (b) administering a regulated mortgage contract (i.e. notifying the borrower of changes in interest rates or mortgage payments and of other matters under the contract, and collecting payments due under the contract from the borrower), (c) advising in respect of a regulated mortgage contract, (d) arranging in respect of a regulated mortgage contract, and (e) agreeing to carry on any of these activities. If requirements as to authorisation and permission of lenders and brokers are not complied with, a regulated mortgage contract would be unenforceable against the borrower except with the approval of a court, and the unauthorised person may commit a criminal offence.

In addition, each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation and permission from the FSA (subject to certain exceptions). If requirements as to issue and approval of financial promotions are not complied with, a regulated mortgage contract would be unenforceable against the borrower except with the approval of a court, and the person communicating the promotion may commit a criminal offence.

An unauthorised person who administers a regulated mortgage contract may commit a criminal offence, but this would not render the contract unenforceable against the borrower. The LLP does not have to be an authorised person under the FSMA in order to acquire legal or beneficial title to a regulated mortgage contract. The Seller (and each Originator) needs authorisation and permission from the FSA to enter into and, where applicable, advise on and administer regulated mortgage contracts. In relation to administration, if the Servicing Agreement terminates, the LLP would have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement servicer having the required FSA authorisation and permission. In addition, on and after N(M), no variation has been or will be made to a Loan, 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 advising or arranging in respect of, administering or entering into a regulated mortgage or agreeing to carry on any of these activities, if the LLP would be required to be authorised under the FSMA to do so.

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

A borrower who is a private person is entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or under any other mortgage loan that the borrower has taken. The exercise of any such set-off rights by Borrowers may adversely affect sale proceeds of the Portfolio and/or the ability to make payments under the Covered Bond Guarantee.

Any credit agreement intended to be a regulated mortgage contract under the FSMA might instead be wholly or partly regulated by the Consumer Credit Act 1974 (the CCA) or treated as such, or unregulated, and any credit agreement intended to be 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.

So as to avoid dual regulation, it is intended that regulated mortgages contracts under the FSMA will not be regulated by the CCA, and relevant regulations 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. In November 2007, HM Treasury and the UK Department for Business Enterprise and Regulatory Reform (the **DBERR**), formerly known as the Department of Trade and Industry, published a joint consultation on additional clarification on the question of dual regulation. A court order under section 126 of the CCA is, however, in any event necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a regulated mortgage to the extent that it would, apart from this exemption, be regulated by the CCA or treated as such.

Prior to N(M), in the United Kingdom, self-regulation of mortgage business existed under the Mortgage Code (the **Mortgage Code**) issued by Council of Mortgage Lenders (**CML**). The Seller subscribed to the Mortgage Code. Membership of the CML and compliance with the Mortgage Code were voluntary. The Mortgage Code set out a minimum standard of good mortgage practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998, lender-subscribers to the Mortgage Code were not permitted to accept mortgage business introduced by intermediaries who were not registered with (before 1 November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. The Mortgage Code ceased to have effect on N(M).

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on consumer credit. This proposal applied to certain mortgage loan products. This proposal, and an amended proposal published in October 2004, met with significant opposition. In October 2005, the European Commission published a further amended form of the proposed directive on consumer credit, which provides that loans not exceeding €50,000 (subject to certain exceptions) will be regulated but does not apply to loans secured by a land mortgage. The Proposed directive completed its second reading in January 2008, with its limit amended to €75,000 when the proposed directive is adopted, member states will have a further two years in which to bring implementing legislation into force. In December 2007, the European Commission published a White Paper on mortgage credit, setting out its tasks for 2008 to 2010 and its view that it is too early to decide on whether a mortgage would be appropriate.

Until the final text of the proposed consumer credit directive, any initiatives from the White Paper process and UK implementing legislation are published, it is not certain what effect the adoption or implementation of the directive or initiatives will have on the Loans.

***Regulation of distance contracts could lead to some of the agreements relating to the Loans being cancellable, which may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee***

The Financial Services (Distance Marketing) Regulations 2004 apply to, among other things, 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, would not be cancellable under these regulations. Certain other credit agreements would 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 fourteenth day after the day on

which the cancellable agreement is made, where all the prescribed information has been received or, if later, the borrower receives the last of the prescribed information.

If a 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 Seller or (as the case may be) the Originator to the Borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the Borrower sending notice of cancellation or, if later, the Seller or (as the case may be) 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 provided in relation to the contract is to be treated as never having had effect.

***Regulation of consumer credit activities in the United Kingdom may have an impact on the Seller, the LLP and/or the Servicer and may adversely affect the interests of Covered Bondholders***

In the United Kingdom, the OFT is responsible for the issue of licences under and the enforcement of the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take action when necessary with regard to the mortgage market in the United Kingdom. (except to the extent of the regulation of the market by the FSA under the FSMA, as described under "*Regulation of residential mortgage activities in the United Kingdom may have an impact on the Seller, the LLP and/or the Servicer and may adversely affect the interests of Covered Bondholders*").

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

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

Any credit agreement intended to be a regulated mortgage contract under the FSMA or unregulated might instead be wholly or partly regulated by the CCA, or be treated as such, because of technical rules on: (a) determining whether any credit under the CCA arises, or whether the 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 (or, in Scotland, a standard security) securing a credit agreement to the extent that the credit agreement is regulated by the CCA or treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend the credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under section 75 of the CCA in certain circumstances: (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier, and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the mortgage loan or under any other mortgage loan that the borrower has taken (or exercise analogous rights in Scotland). Any such right of set-off exercised by a Borrower may adversely affect sale proceeds of the Portfolio and/or the ability to make payments in full when due under the Covered Bond Guarantee.

The Consumer Credit Act 2006 (the **CCA 2006**) was enacted on 30 March 2006 to amend the CCA. As and when implemented, the CCA 2006 updates and augments the CCA.

The "extortionate credit" regime has been replaced by an "unfair relationship" test. The new test applies to credit agreements made on or after 6 April 2007, and will apply retrospectively to existing credit agreements on and after 6 April 2008. The new test explicitly imposes liability to repay the borrower on both the originator and any assignee. In applying the new unfair relationship test, the courts will be able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair", as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in United Kingdom legislation, due to the Unfair Contract Terms Act 1977, the Unfair Terms in Consumer Contracts Regulations 1994 and the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA principles may also be relevant, and apply to the way contract terms are used in practice and not just the way they are drafted. Once the borrower alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary.

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

The DBERR is expected to make shortly an order removing the financial limit of £25,000 for CCA regulation for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements, and except for buy-to-let loans that satisfy prescribed conditions and are made before 1 October 2008. The DBERR aims to make an order by July 2008 by which buy-to-let loans that satisfy prescribed conditions and are made on or after 1 October 2008 will be exempt agreements under the CCA.

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

These changes to the CCA may adversely affect payments in respect of the Covered Bonds, such that these payments could be reduced or delayed.

The Seller (and the Originators) have interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or the Ombudsman, then a credit agreement, 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 made by the county court and are not binding on other courts.

The Mortgage Sale Agreement contains representations and warranties given by the Seller to, among others, the LLP that none of the Loans sold, or to be sold, to the LLP pursuant to the agreement is wholly or partly regulated by the CCA or treated as such.

No assurance can be given that additional regulations 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, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the Seller, the LLP and/or the Servicer and their respective businesses and operations. This may adversely affect payments in respect of the Covered Bonds such that these payments could be reduced or delayed.

***Regulation of unfair terms could lead to some terms of the agreements relating to the Loans being unenforceable***

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

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

If a term is unfair, for example, if a term permitting a lender to vary the interest rate is found to be unfair, the borrower would not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, would be able, as against the lender, or any assignee such as, in this case, 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 under any other mortgage loan that the Borrower has taken (or exercise analogous rights in Scotland). Any such non-recovery, claim or set-off may adversely affect the ability to make payments in full when due in respect of the Covered Bonds.

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

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

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

In July 2007, the FSA published the Unfair Contract Terms Regulatory Guide, which is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations. In August 2002, the Law Commission for England and Wales and the Scottish Law Commission published a Joint Consultation Paper on proposals to rationalise the UK's Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair terms, was published in February 2005. The Law Commissions have a duty under section 3 of the UK's Law Commissions Act 1965 to keep the law under review for a number of purposes, including its simplification. The proposals are primarily to simplify the legislation on unfair terms. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that: (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer, and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, would affect the Loans.

No assurance can be given that any changes enacted in the 1999 Regulations, or any changes adopted in guidance on interest variation terms, would not have a material adverse effect on the Seller, the LLP and/or the Servicer.

### ***Jurisdiction of the Ombudsman may adversely affect payments in respect of the Covered Bonds***

Under the FSMA, the Financial Ombudsman Service is required to make decisions on, certain 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 occurring before N(M) may be dealt with by the Financial Ombudsman Service. Complaints brought before the Financial Ombudsman Service for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

As the Financial Ombudsman Service is required to make decisions on the basis of, among other things, the principles of fairness rather than precedent, and may make a money award to the Borrower in question, it is not possible to predict how any future decision of the Financial Ombudsman Service in relation to a Borrower would affect the ability of the Issuer or the LLP to make payments in full when due in respect of the Covered Bonds.

In August 2006, the Financial Ombudsman Service, having discussed the matter with the FSA, announced that mortgage exit administration fees raised an issue with wider implications. While there is no material difference in the way each individual case that is referred is dealt with, it should be noted that the Financial Ombudsman Service will take into account any guidance issued, or decisions made, by the FSA.

The FSA issued a statement on mortgage exit administration fees on 26 January 2007. The FSA stated that each lender had to decide by 28 February 2007 which option it would adopt for its current customers to ensure that they had a clear understanding of the fees that would be payable on exit. The FSA stated that it was unlikely to investigate further a lender that opted to apply no charge or to charge the original (or no

more than the original) mortgage exit administration fee. The FSA stated that it expected lenders to treat past customers who complain about the level of the mortgage exit administration fee in the same way as the lender will treat comparable current customers. The FSA issued a follow-up communication on 19 November 2007 emphasising that the statement on mortgage exit administration fees should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges.

### ***General***

No assurance can be given that additional regulations or guidance from the DBERR, the FSA, the Financial Ombudsman, the Office of Fair Trading or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments may have a material adverse effect on the Seller, the LLP and/or the Servicer and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio or any part thereof in a timely manner and/ or the realisable value of the Portfolio or any part thereof and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due.

### ***Implementation of the Unfair Commercial Practices Directive may adversely affect payments in respect of the Covered Bonds***

In May 2005, the European Parliament and the Council adopted a directive on unfair business-to-consumer commercial practices. 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.

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

The DBERR has published consultation papers, most recently in May 2007 and a UK government response in February 2008, on implementing the Unfair Practices Directive into United Kingdom law. The FSA is taking the Unfair Practices Directive into account in reviewing its relevant rules, such as MCOB. Member States had until 12 June 2007 in which to bring national implementing legislation into force (although the United Kingdom legislation will come into force on 26 May 2008, subject to a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies. It is too early to predict what effect the implementation of the Unfair Practices Directive would have on the Loans and accordingly on the ability of the Issuer to make payments to the Covered Bondholders.

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

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the proposed framework was published in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" (the "**Framework**"). The Framework is being implemented in stages: the Basel II standard approach and the Foundation IRB approach for credit risk was implemented from 1 January 2007 and the most advanced Basel II IRB approach and the advanced measurement approach (AMA) for operational risks was required to be implemented from 1 January 2008. However, the Framework is not self-implementing and, accordingly, implementation dates in participating countries are dependent on the relevant national implementation process in those countries. In the U.K., Basel II and the EU Capital Requirements Directive have been implemented through the Prudential Sourcebook for Banks, Building Societies and Investment Firms (**BIPRU**) and the Capital Requirements Regulations 2006 SI 2006/3221,

although the most advanced approaches referred to above have only become available from 1 January 2008. As and when implemented, the Framework could affect risk-weighting of the Covered Bonds for investors who are subject to capital adequacy requirements that follow the Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the application of the Framework and any relevant implementing measures (including, in the EEA, the EU Capital Requirements Directive). Proposals and guidelines for implementing the Framework in certain participating jurisdictions are still in development and no predictions can be made as to the precise effect of potential changes on the Covered Bonds, any investor of Covered Bonds or otherwise.

#### ***Pensions Act 2004***

Under the Pensions Act 2004 a person that is ‘connected with’ or an ‘associate’ of an employer under an occupational pension scheme, can be subject to either a contribution notice or a financial support direction. As the LLP is a member of the Bradford & Bingley Group, it may be treated as ‘connected to’ an employer under an occupational pension scheme which is within the Bradford & Bingley Group.

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

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

If a contribution notice or financial support direction were to be served on the LLP this could adversely affect the interests of the Covered Bondholders.

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

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



## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without receipts, interest coupons and/or talons attached, or registered form, without receipts, interest coupons 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 in reliance on Rule 144A or Regulation D under the Securities Act.

### Bearer Covered Bonds

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

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

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

Upon delivery of a Temporary Bearer Global Covered Bond, Euroclear and/or Clearstream, Luxembourg and/or such other agreed clearing system will credit purchasers with nominal amounts of Covered Bonds of the relevant Tranche equal to the nominal amounts thereof for which they have paid.

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 in NGCB form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a permanent global covered bond without receipts and

interest coupons or talons attached (a **Permanent Global Covered Bond** and, together with the Temporary Global Covered Bonds, the **Bearer Global Covered Bonds** and each a **Bearer Global Covered Bond**) of the same Series or (b) for Bearer Definitive Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms Document and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms Document), in each case against certification of non-U.S. beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer Definitive Covered Bonds is improperly withheld or refused.

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

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

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

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

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

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

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

### **Registered Covered Bonds**

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

The Registered Covered Bonds of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (**QIBs**).

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

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

The Rule 144A Global Covered Bonds will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

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

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

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. The Issuer will promptly give notice to Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 14 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 paragraph (iii) of the definition of Exchange Event, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Registrar.

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

### **Transfer of Interests**

Interests in a Rule 144A Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interests in a Regulation S Global Covered Bond representing the same series and Tranche of Covered Bonds, and vice versa. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see *Subscription and Sale and Transfer and Selling Restrictions*.**

### **General**

Pursuant to the Agency Agreement (as defined under *Terms and Conditions of the Covered Bonds*), the Principal Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) 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 Document or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

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

## FORM OF FINAL TERMS DOCUMENT

*Set out below is the form of Final Terms Document which, subject to any necessary amendment, will be completed for each Tranche of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms Document but denotes directions for completing the Final Terms Document.*

[Date]

### **Bradford & Bingley plc**

***Issue of [Regulated] Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably and unconditionally guaranteed as to payment of principal and interest by Bradford & Bingley Covered Bonds LLP under the €15 billion Covered Bond Programme***

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

## PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 14 May 2007, which constitutes a base prospectus for the purposes of Directive 2003/71/EC (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular is available for viewing at the registered office of the Issuer, at the London office of the Principal Paying Agent and at the office of the Luxembourg Paying Agent.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [original date] [and the supplemental Offering Circular 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 Offering Circular [and the supplemental Offering Circular] which together constitute a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Offering Circulars dated [current date] and [original date]. Copies of such Offering Circulars are available for viewing at the registered office of the Issuer and at the London office of the Principal Paying Agent].

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms Document.]*

*[When adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.]*

1. (a) Issuer: Bradford & Bingley plc

- (b) Guarantor: Bradford & Bingley Covered Bonds LLP
2. (a) Series Number: [ ]
- (b) Tranche Number: [ ]
- [If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible]*
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:
- (a) [Series: [ ]
- (b) Tranche: [ ]]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
6. Specified Denominations<sup>2</sup>: [ ] *[N.B. The minimum denomination of each Covered Bond admitted to trading on a regulated exchange in the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or such other higher amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. If an issue of Covered Bonds is (i) NOT admitted to trading on a regulated exchange in the European Economic Area; and (ii) only offered to qualified investors and/or fewer than 100 natural or legal persons per Member State of the European Economic Area other than qualified investors or otherwise complies with the European Economic Area selling restrictions in the section entitled Subscription and Sale in the Offering Circular, then the minimum denomination of €50,000 does not apply].*
7. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [ ]

<sup>2</sup> If Covered Bonds are offered or sold in The Netherlands with a denomination of less than euro 50,000 (or its foreign currency equivalent) then they may only be offered or sold as a block or package having an aggregate value of at least euro 50,000 (or its foreign currency equivalent) and a selling restriction to this effect should be included in the Final Terms Document or offered or sold to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) and selling restrictions to this effect should be included in the Final Terms Document.

8. Final Maturity Date: [Fixed rate – specify date/  
Floating rate – Interest Payment Date  
falling in or nearest to [specify month]]
9. Extended Final Maturity Date of Guaranteed Amounts corresponding to Final Redemption Amount under the Covered Bond Guarantee: [Fixed rate – specify date/  
Floating rate – Interest Payment Date  
falling in or nearest to [specify month];  
in each case falling one year after the Final Maturity Date] Guarantee:
10. Interest Basis: [[ ] per cent. Fixed Rate]  
[[LIBOR/EURIBOR] +/- [ ] per cent.  
Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
[specify other](further particulars specified below)
11. Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Instalment]  
[Partly Paid]  
[specify other]
12. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Covered Bonds into another Interest Basis or Redemption/Payment Basis]
13. Put/Call Option: [Investor Put/Issuer Call]  
[(further particulars specified below)]
14. (a) Status of the Covered Bonds: Senior
- (b) Status of the Guarantee: Senior
- (c) [Date [Board] approval for issuance of Covered Bonds and Guarantees obtained:] [N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Covered Bonds or related Guarantees]
15. Method of distribution: [Syndicated/Non-syndicated]

### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE<sup>3</sup>

16. **Fixed Rate Covered Bond Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear] *(If payable other than annually, consider amending Condition 4)*

<sup>3</sup> This section relates to interest payable under the Covered Bonds, including under the Covered Bond Guarantee.

- (b) Interest Payment Date(s):  in each year up to and including the Final Maturity Date or the Extended Final Maturity Date, if applicable]/ *[specify other] subject to amendment in accordance with the Business Day Convention / not adjusted (NB: This will need to be amended in the case of long or short coupons)*
- (c) Fixed Coupon Amount(s):  per  in nominal amount
- (d) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
- (e) Day Count Fraction:  30/360 or Actual/Actual (ICMA) or *specify other*
- (f) Determination Date(s):  in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA)]*
- (g) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds:  None/*Give details*

**17. Floating Rate Covered Bond Provisions**  Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) Specified Period(s)/Specified Interest Payment Date(s):  *NB: Specify the Specified Period(s)/Specified Interest Payment Date(s) up to and including the Extended Final Maturity Date, if applicable*
- (b) Business Day Convention:  Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*[specify other]*
- (c) Additional Business Centre(s):
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined:  Screen Rate Determination/ISDA Determination/*specify other*
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):
- (f) Screen Rate Determination:



- Reference Rate: [ ]  
*(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*
  
  - Interest Determination Date(s): [ ]  
*(Second London Business Day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR) NB: Specify the Interest Determination Date(s) up to and including the Extended Final Maturity Date, if applicable*
  
  - Relevant Screen Page: [ ]  
*(In the case of EURIBOR, if not Reuters page EURIBOR 01 ensure it is a page which shows a composite rate or amend the fall back provisions appropriately) [+LIBOR Reuters page LIBOR 01]*
- (g) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
- (h) Margin(s): [ +/- ] [ ] per cent. per annum
- (i) Minimum Rate of Interest: [ ] per cent. per annum
- (j) Maximum Rate of Interest: [ ] per cent. per annum
- (k) Day Count Fraction: [Actual/365  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
*(See Condition 4 for alternatives)*
- (l) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Conditions: [ ]

- 18. Zero Coupon Covered Bond Provisions<sup>4</sup>** [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Any other formula/basis of determining amount payable: [ ]
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 6(e)(iii) and (j) apply/specify other] *(Consider applicable day count fraction if not U.S. dollar denominated)*
- 19. Index Linked Interest Provisions** [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Index/Formula/other variable: [give or annex details]
- (b) Calculation Agent responsible for calculating the principal and/or interest due: [ ]
- (c) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [ ]
- (d) Interest Determination Date: [ ]
- (e) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [ ] *[include description of market disruption or settlement disruption events and adjustment provisions, if appropriate]*
- (f) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (g) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/specify other]
- (h) Additional Business Centre(s): [ ]
- (i) Minimum Rate/Amount of Interest: [ ] per cent. per annum
- (j) Maximum Rate/Amount of [ ] per cent. per annum

<sup>4</sup> Zero Coupon Covered Bonds not to be issued with an Extended Final Maturity Date unless otherwise agreed with the Dealers and the Bond Trustee.

Interest:

(k) Day Count Fraction: [ ]

20. **Dual Currency Interest Covered Bond Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a) Rate of Exchange/method of calculating Rate of Exchange: [give details]

(b) Calculation Agent, if any, responsible for calculating the principal/interest payable: [ ]

(c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ] [include description of market disruption or settlement disruption events and adjustment provisions, if appropriate]

(d) Person at whose option Specified Currency(ies) is/are payable: [ ]

#### **PROVISIONS RELATING TO REDEMPTION**

21. **Issuer Call:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a) Optional Redemption Date(s): [ ]

(b) Optional Redemption Amount/Net Present Value of each Covered Bond and method, if any, of calculation of such amount(s)/values: NB Optional Redemption Dates must be Interest Payment Dates unless otherwise agreed with the Dealers and the Bond Trustee [ ] per Covered Bond of [ ] specified denomination

(c) If redeemable in part:

(i) Minimum Redemption Amount: [ ]

(ii) Maximum Redemption Amount: [ ]

(d) Notice period (if other than as set out in the Conditions): [ ]  
*(NB: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee)*

22. **Investor Put:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s): [ ] per Covered Bond of [ ] specified denomination
- (c) Notice period (if other than as set out in the Conditions): [ ]  
*(NB: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee)*
23. Final Redemption Amount of each Covered Bond: [Nominal Amount/specify other/see Appendix]
24. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition 5(e)): [ ]

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

25. Form of Covered Bonds: [Bearer Covered Bonds:
- (a) [Form:] [Temporary Global Covered Bond exchangeable on and after the Exchange Date for a Permanent Global Covered Bond which is exchangeable for Covered Bonds in definitive form [upon the occurrence of an Exchange Event/upon 60 days' notice]]
- [Temporary Global Covered Bond exchangeable for Covered Bonds in definitive form]
- [Registered Covered Bonds:
- Regulation S Global Covered Bond registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg]

- (b) New Global Covered Bond] [Yes][No]
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details] *(Note that this item relates to the place of payment and not Interest Period end dates to which items 18(c) and 20(f) relate)*
27. Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: [Not Applicable/give details. NB: a new form of Temporary Global Covered Bond and/or Permanent Global Covered Bond may be required for Partly Paid issues]
29. Details relating to Instalment Covered Bonds:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable *(If Redenomination is applicable, specify the terms of the redenomination in an annex to the Final Terms Document)*
31. Other terms or special conditions: [Not Applicable/give details]

## DISTRIBUTION

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

36. Additional United States Tax Considerations: [Not Applicable/*give details*]

#### **LISTING AND ADMISSION TO TRADING APPLICATION**

This Final Terms Document comprises the final details required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the €15,000,000,000 Covered Bond Programme of Bradford & Bingley plc.

#### **RESPONSIBILITY**

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

## PART B — OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (a) Listing: [Luxembourg/other (*specify*)/None]
- (b) Admission to trading: [Application has been made for the Covered Bonds to be admitted to trading on  with effect from .] [Not Applicable.]
- (c) Estimate of total expenses related to admission to trading:

### 2. RATINGS

Ratings: The Covered Bonds to be issued have been rated:  
[S&P:   
[Fitch:   
[Moody's:   
[[Other]:   
(*The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

### 3. NOTIFICATION

The Commission de Surveillance du Secteur Financier [*has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.

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

[Save for any fees payable to the Dealers, so far as the Issuer and the LLP are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. – *Amend as appropriate if there are other interests*]

### 5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) [Reasons for the offer:] [  ]
- (ii) [Estimated net proceeds: ] [  ]
- (iii) [Estimated total expenses: ] [  ] [*N.B.: If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.*]

**6. YIELD** (*Fixed Rate Covered Bonds Only*)

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

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

[Need to include details of where information about the past and future performance and volatility of the index/formula can be obtained.]

[Need to include a description of any market disruption or settlement disruption events that affect the underlying.]

[Need to include adjustment rules in relation to events covering the underlying.]

[Where the underlying is a security the name of the issuer of the security and its ISIN or other such security identification code.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

[Where the underlying is an interest rate a description of the interest rate.]

[Where the underlying is a basket of underlyings disclosure of the relevant weightings of each underlying in the basket.]

**8. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT** (*Dual Currency Covered Bonds Only*)

[Need to include details of where information about the past and future performance and volatility of the relevant rates can be obtained.]

**9. OPERATIONAL INFORMATION**

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



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

[Note that the designation “yes” simply means that the Covered Bonds are intended upon issue to be deposited with one of Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [Include this text if “yes” selected in which case the Covered Bonds must be issued in NGCB form]

Signed on behalf of the Issuer:

Signed on behalf of the LLP:

By:  
*Duly authorised*

By:  
*Duly authorised*

*If the applicable Final Terms Document specifies any modification to the Terms and Conditions of the Covered Bonds as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7 (except Condition (b)), 12, 13, 14, 15 (insofar as such Covered Bonds are not listed or admitted to trade on any stock exchange) or 18, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Covered Bonds of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.*

## TERMS AND CONDITIONS OF THE COVERED BONDS

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

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Bradford & Bingley plc (the **Issuer**) constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) originally dated 21 May 2004 (the **Initial Programme Date**) and as supplemented on 12 April 2006 and on 14 May 2007 and 28 April 2008 (the **Programme Date**) made between the Issuer, Bradford & Bingley Covered Bonds LLP as guarantor (the **LLP**) and Citicorp Trustee Company Limited as bond trustee (in such capacity, the **Bond Trustee**, which expression shall include any successor as Bond Trustee) and Citicorp Trustee Company Limited as security trustee (in such capacity, the **Security Trustee**, which expression shall include any successor as Security Trustee). Covered Bonds of such Series may be in bearer form (**Bearer Covered Bonds**) or in registered form (**Registered Covered Bonds**), as specified in the applicable Final Terms Document.

Save as provided for in Conditions 10 and 15 references herein to the **Covered Bonds** shall be references to the Covered Bonds of this Series and shall mean:

- (i) in relation to any Covered Bonds represented by a global covered bond (a **Global Covered Bond**), units equal to the lowest denomination specified in the relevant Final Terms Document (**Specified Denomination**) in the currency specified in the relevant Final Terms Document (**Specified Currency**);
- (ii) any Global Covered Bond;
- (iii) any definitive Covered Bonds in bearer form (**Bearer Definitive Covered Bonds**) issued in exchange (or part exchange) for a Global Covered Bond in bearer form; and
- (iv) any definitive Covered Bonds in registered form (**Registered Definitive Covered Bonds** and together with the Bearer Definitive Covered Bonds, the **Definitive Covered Bonds**) issued in exchange (or part exchange) for a Global Covered Bond in registered form.

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated the Initial Programme Date as amended and restated on 12 April 2006 and on the Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee and Citibank N.A., London Branch, as issuing and principal paying agent and agent bank (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), as exchange agent (the **Exchange Agent**, which expression shall include any successor exchange agent), as registrar (the **Registrar**, which expression shall include any successor registrar) and as transfer agent and the other transfer agents named therein (the **Transfer Agent**, which expression shall include any additional or successor transfer agents and together with the Paying Agents, the Exchange Agent and the Registrar, the **Agents**).

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

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

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

As used herein, **Tranche** means an issue of Covered Bonds which are identical in all respects (including as to listing) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (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.

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

The security for the obligations of the LLP under the Covered Bond Guarantee and the other Transaction Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a deed of charge (such deed of charge as amended and/or supplemented and/or restated from time to time, the **Deed of Charge**) originally dated the Initial Programme Date and as supplemented on 12 April 2006 and 28 April 2008 and made between the LLP, the Bond Trustee, the Security Trustee and the other Secured Creditors.

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

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms Documents for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the specified office of each of the Paying Agents and any Covered Bondholder must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity. The Covered Bondholders, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents and the applicable Final Terms Document which are applicable to them and to have notice of each Final Terms Document 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 Document and/or the master definitions and construction agreement made between the parties to the Transaction Documents on the Initial Programme Date as amended and restated on 12 April 2006 and on or about the Programme Date (the **Master Definitions and Construction Agreement**), a copy of each of which may be obtained as described above.

## 1. Form, Denomination and Title

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

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

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

The applicable Final Terms Document will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Principal Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. A Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. **Exchange Event** means that (i) in the case of Bearer Global Covered Bonds and Registered Global Covered Bonds registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system is available or (ii) in the case of Registered Global 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, and no alternative clearing system is available, or (iii) in the case of Bearer Global Covered Bonds and Registered Global Covered Bonds, the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Global Covered Bond in definitive form.

Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in these Conditions are not applicable. Bearer Definitive Covered Bonds are issued with Receipts, only in respect of Instalment Covered Bonds, and references to Receipts and Receiptholders in these Conditions are only applicable to such Covered Bonds. Bearer Definitive Covered Bonds will also be issued with Talons attached, if applicable and specified in the Final Terms Document.

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

For so long as The Depository Trust Company (**DTC**) or its nominee is the registered holder of a Global Covered Bond or so long as any of the Covered Bonds are represented by a Global Covered Bond held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than DTC, Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of DTC, Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by DTC, Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified together with the amount of such holding) shall be treated by the Issuer, the LLP, each Agent 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 Agent and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond) and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

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

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

## **2. Transfers of Registered Covered Bonds**

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

Transfers of beneficial interests in 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 Registered Definitive Covered Bonds or for a beneficial interest in another Registered Global Covered Bond only in the Specified 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), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Definitive Covered Bond may be transferred in whole or in part (in the Specified Denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request.

Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 to the Agency Agreement).

Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Definitive Covered Bond 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 Definitive Covered Bond, a new Registered Definitive Covered Bond 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 to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; 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.

Such transferee may take delivery through a Rule 144A Covered Bond in global or definitive form. Prior to the end of the applicable Distribution Compliance Period, beneficial interests in Regulation S Global 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 any participant in DTC, or indirectly through any participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

**(f) *Transfers of interests in Rule 144A Covered Bonds***

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

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through the accounts of Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Rule 144A Covered Bond where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

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

Upon the transfer, exchange or replacement of Rule 144A Covered Bonds, or upon specific request for removal of the legend, the Registrar shall deliver only Rule 144A Covered Bonds or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

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

Holders of Registered Covered Bonds in definitive form may exchange such Covered Bonds for interests in a Registered Global Covered Bond of the same type at any time.

**(h) Definitions**

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

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

**Rule 144A Covered Bonds** means 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;

**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 to non-U.S. persons in reliance on Regulation S;

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

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

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

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

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

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

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

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



Any payment made by the LLP under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 10) discharge *pro tanto* the obligations of the Issuer under the Covered Bonds, Receipts and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

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

#### 4. Interest

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

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

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

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

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

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

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms Document:
  - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms Document) that would occur in one calendar year; or

- (B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
- (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 (I) the number of days in such Determination Period and (II) 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 (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Final Terms Document, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

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

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

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

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

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

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

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

Such interest will be payable in respect of each Interest Period. In these Conditions, the expression **Interest Period** shall mean the period from (and including) an Interest Payment

Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

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

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

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

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

(ii) *Rate of Interest*

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

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

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

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

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

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

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

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

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

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms Document) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the

Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

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

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

If the applicable Final Terms Document 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 (iii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

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

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

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

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

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

- (i) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that

portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms Document, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms Document, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (A) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (B) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms Document, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date or, as the case may be, the Extended Final Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (vii) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Bond Trustee and any competent listing authority, stock exchange and/or quotation system on or by which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds are for the time being listed, quoted and/or traded and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter and in the case of any notification to be given to the Luxembourg Stock Exchange on or before the first Business Day of each Interest Period. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to each competent listing authority, stock exchange and/or quotation system on or by which the relevant Floating Rate Covered Bonds or Index Linked Interest Covered Bonds are for the time being listed, quoted and/or traded and to the Covered Bondholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for general business in London.

- (viii) *Determination or Calculation by Bond Trustee*

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal

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

(ix) *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 Calculation Agent or the Bond Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the LLP, the Principal Paying Agent, the Calculation Agent, the other Paying Agents, the Bond Trustee and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith or manifest error) no liability to the Issuer, the LLP, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

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

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

(d) *Interest on Partly Paid Covered Bonds*

In the case of Partly Paid Covered Bonds (other than Partly Paid Covered Bonds which are Zero Coupon Covered Bonds) interest will accrue as aforesaid on the paid-up nominal amount of such Covered Bonds and otherwise as specified in the applicable Final Terms Document.

(e) *Accrual of interest*

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

**5. Payments**

(a) *Method of payment*

Subject as provided below:

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

Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

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 State and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank. All payments in respect of Bearer Covered Bonds will be made to accounts located outside the United States, or by cheque mailed to an address outside of the United States, except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment in these Conditions, the Trust Deed, the Agency Agreement and the Final Terms Document, but without prejudice to the provisions of Conditions 7 and 8. References to Specified Currency will include any successor currency under applicable law.

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

Payments of principal and interest (if any) in respect of Bearer Definitive Covered Bonds will (subject as provided below) be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Definitive Covered Bonds, and payments of interest in respect of Bearer Definitive Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States.

Payments of instalments of principal (if any) in respect of Bearer Definitive Covered Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5(a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Definitive Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Definitive Covered Bond to which it appertains. If any Bearer Definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be payable only on surrender of such Covered Bond together with all unmatured Receipts appertaining thereto. Receipts presented without the Bearer Definitive Covered Bond to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer or the LLP. Upon the date on which any Bearer Definitive Covered Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Covered Bonds in definitive bearer form (other than Dual Currency Covered Bonds, Index Linked Covered Bonds or Long Maturity Covered Bonds (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing



Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

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

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

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

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

**(d) *Payments in respect of Registered Covered Bonds***

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Register**) at the close of business on the third Business Day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a **Designated Account** or (ii) the principal amount of

the Covered Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a **Designated Bank** (as defined below). For these purposes, Designated Account means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

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

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

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

None of the Issuer, the LLP, the Bond Trustee 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 (other than in relation to the Excess Proceeds) or the Bond Trustee shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer or, as the case may be, the LLP and the Bond Trustee will be discharged by payment to, or to the order of, the 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 (or, as provided in the Trust Deed, the Bond Trustee), as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the LLP or the Bond Trustee to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the 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:

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

**(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 payment due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) London; and
  - (C) any Additional Financial Centre specified in the applicable Final Terms Document; and

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

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

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

- (i) any additional amounts which may be payable with respect to principal under Condition 7 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the final redemption amount (as defined in the relevant Final Terms Document) (the **Final Redemption Amount**) of the Covered Bonds;
- (iii) the Early Redemption Amount of the Covered Bonds;
- (iv) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (v) in relation to Covered Bonds redeemable in instalments, the amount that can be redeemed on each Instalment Date in relation to the Covered Bonds (**Instalment Amounts**);
- (vi) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6(e));
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds;
- (viii) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds; and
- (ix) in relation to Dual Currency Covered Bonds, the principal payable in any relevant Specified Currency.

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

**(h) Partial payment**

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

**6. Redemption and Purchase**

**(a) Redemption at maturity**

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

Without prejudice to Condition 10, if an Extended Final Maturity Date is specified as applicable in the Final Terms Document for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms Document (or after the expiry of the grace period set out in Condition 10(a)(i)) and, the LLP or the Cash Manager on its behalf determines that the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two London Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (in each case after expiry of the grace period set out in Condition 10(b)(i)) under the terms of the Covered Bond Guarantee and (b) the Extension Determination Date, then (subject as provided below), payment of the unpaid amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Final Maturity Date provided that, any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date.

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

The LLP shall notify the relevant holders of the Covered Bonds (in accordance with Condition 14), any relevant Covered Bond Swap Provider(s), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the Registrar (in the case of Registered Covered Bonds) as soon as reasonably practicable and in any event at least one Business Day prior to the dates specified in (a) and (b) of the second 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 10(b)(i)) and (b) the Extension Determination Date under the Covered Bond Guarantee apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above.

Any discharge of the Issuer's obligations in respect of the Covered Bonds as the result of the payment of Excess Proceeds to the Bond Trustee in accordance with Condition 10 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).

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

For the purposes of these Conditions:

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

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

**(b) *Redemption for tax reasons***

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if the Covered Bond is neither a Floating Rate Covered Bond, an Index Linked Interest Covered Bond nor a Dual Currency Interest Covered Bond) or on any Interest Payment Date (if the Covered Bond is either a Floating Rate Covered Bond, an Index Linked Interest Covered Bond or a Dual Currency Interest Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and the Agent and, in accordance with Condition 14, the Covered Bondholders (which notice shall be irrevocable), if the Cash Manager notifies the Bond Trustee in writing that there will be sufficient funds available to pay any termination payments due to the relevant Covered Bond Swap Provider(s) and the Issuer satisfies the Bond Trustee immediately before the giving of such notice that:

- (i) the Issuer has, will, or may become obliged to make any deduction or withholding as provided for or referred to in Condition 7 as a result of any change or proposed change in, or amendment or proposed amendment to, the laws or regulations of a tax jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment or proposed change or amendment is to become effective on or after the date on which agreement is reached to issue the first Tranche of the relevant series of the Covered Bonds; or
- (ii) the Issuer will be required to account to any taxing authority in the Tax Jurisdiction for any amount (other than any tax withheld or deducted from interest payable on the Covered Bonds) calculated by reference to any amount payable in respect of the Covered Bonds, Receipts or Coupons, provided that no such notice of redemption shall be given earlier than

90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Bond Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Covered Bondholders, the Receiptholders and the Couponholders. Covered Bonds redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in Condition 6(e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

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

- (i) not less than 30 nor more than 60 days' notice to the Covered Bondholders in accordance with Condition 14; and
- (ii) not less than 15 nor more than 30 days before the giving of the notice referred to in (i), notice to the Bond Trustee, the Principal Paying Agent and (in the case of the redemption of Registered Covered Bonds) the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms Document together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such partial redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms Document. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg, 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 14 not less than 30 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by Definitive Covered Bonds shall bear the same proportion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of Definitive Covered Bonds outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Covered Bonds represented by a Global Covered Bond shall be equal to the balance of the Redeemed Covered Bonds. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6(c) and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 14 at least 30 days prior to the Selection Date.

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

If an investor put is specified in the applicable Final Terms Document (the **Investor Put**), then if and to the extent specified in the applicable Final Terms Document, upon the holder of this Covered Bond giving to the Issuer, in accordance with Condition 14, not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice provided that the Cash Manager has notified the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s), redeem subject to, and in accordance with, the terms specified in the applicable Final Terms Document in whole (but not in part) such Covered Bond on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms Document, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

If this Covered Bond is in definitive form, to exercise the right to require redemption of this Covered Bond, the holder of this Covered Bond must deliver such Covered Bond, on any Business Day (as defined in Condition 4(b)(i)) falling within the above-mentioned notice period at the specified office of the Principal Paying Agent, accompanied by a duly signed and completed notice of exercise of the Investor Put in the form (for the time being current) obtainable from the specified office of the Principal Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

(e) **Early Redemption Amounts**

For the purpose of Conditions 6(b) above and 6(j) below and Condition 10, each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

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

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

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield (compounded annually) (as defined in the relevant Final Terms Document) expressed as a decimal; and

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



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

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 (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365) or (c) on such other calculation basis as may be specified in the applicable Final Terms Document.

**(f) *Instalments***

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms Document. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 5(e) above. In the case of Bearer Definitive Covered Bonds, all instalments (other than the final instalment) will be paid against surrender of the relevant Receipt (which must be presented with the Covered Bond to which it appertains) and for all Covered Bonds in the case of the final instalment against surrender of the relevant Covered Bond, all as more fully described in Condition 5.

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

Partly Paid Covered Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms Document.

**(h) *Purchases***

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

**(i) *Cancellation***

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6(h) above and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds) and cannot be held, reissued or resold.

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

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 6(a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided

in Condition 6(e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Principal Paying Agent or the Bond Trustee or the Registrar and notice to that effect has been given to the Covered Bondholders in accordance with Condition 14.

**(k) *Redemption due to illegality***

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent and the Registrar, subject to the Cash Manager notifying the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s) and, in accordance with Condition 14, all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP under the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.

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

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

**7. *Taxation***

All payments of principal and interest in respect of the Covered Bonds, Receipts and Coupons by the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Tax Jurisdiction unless such withholding or deduction is required by law.

In the event of a withholding or deduction being made by the Issuer in respect of tax levied by the Tax Jurisdiction on a payment made by it, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond, Receipt or Coupon presented for payment:

- (a) in the Tax Jurisdiction; or
- (b) by or on behalf of a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bond, Receipt or Coupon by reason of his having some connection with the Tax Jurisdiction other than the mere holding of such Covered Bond, Receipt or Coupon; 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 or prior to such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(f)); 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 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, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (f) by or on behalf of a holder who is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority but fails to do so.

As used herein:

- (i) **Tax Jurisdiction** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due and payable, except that, if the full amount of the moneys payable has not been duly received by the Bond Trustee, the Registrar or the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 14.

## 8. **Taxation of Payments under the Covered Bond Guarantee**

Any additional amounts which the Issuer is required to pay pursuant to Condition 7 will not constitute Guaranteed Amounts for the purposes of the Covered Bond Guarantee.

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

## 9. **Prescription**

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor, subject in each case to the provisions of Condition 5(b).

There shall not be included in any Coupon sheet, or 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(b) or any Talon which would be void pursuant to Condition 5(b).

## 10. Events of Default and Enforcement

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

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

- (i) default is made by the Issuer for a period of seven days or more in the payment of any principal, or redemption amount or for a period of 14 days or more in the payment of interest on the Covered Bonds of any Series when due; or
- (ii) a default is made in the performance or observance by the Issuer of any obligation (other than any obligation for the payment of principal, redemption amount or interest in respect of the Covered Bonds of any Series) under the provisions of the Covered Bonds of any Series or the Trust Deed or any other Transaction Document to which the Issuer is a party which (unless certified by the Bond Trustee, in its opinion, to be incapable of remedy) shall continue for more than 30 days (or such longer period as the Bond Trustee may permit) after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given to the Issuer by the Bond Trustee in accordance with the Trust Deed; or
- (iii) an order is made or an effective resolution passed for the liquidation or winding up of the Issuer (except a liquidation or winding up for the purpose of a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by the Bond Trustee or an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 15); or
- (iv) the Issuer ceases to carry on its business or substantially all its business (except a cessation for the purpose of a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by the Bond Trustee or an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 15); or
- (v) proceedings shall be initiated against the Issuer under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 15); or a receiver, administrator,

trustee or other similar official shall be appointed in relation to the Issuer or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within 30 days; or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, sequestration, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by the Bond Trustee or an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 15) or shall make a conveyance, assignment for the benefit of, or shall enter into any composition with, its creditors generally; or

- (vi) the Issuer shall be unable to pay its debts (other than any debts disputed in good faith) as they fall due (within the meaning of section 123(1)(b) to (e) (inclusive) and section 123(2) of the Insolvency Act (as that section may be amended)) or shall admit inability to pay its debts as they fall due or shall stop payment in respect of any debts that are due (save, in the case of stopping payments, in respect of any obligation for the payment of principal, redemption amount or interest in respect of the Covered Bonds of any Series) or shall be adjudged or found bankrupt or insolvent; or
- (vii) a failure to satisfy the Asset Coverage Test (as set out in the LLP Deed) on any Calculation Date which has not been cured by the LLP by the next following Calculation Date, provided that any breach of the Asset Coverage Test arising solely as a result of the application of the assumption of an Asset Percentage applied in accordance with the Moody's substitution test provided by Moody's in respect of the calculation of the Asset Percentage will not constitute an Issuer Event of Default.

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

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 10(c).

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

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

**(b) *LLP Events of Default***

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

- (i) default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amount when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payment of a Guaranteed Amount when Due for Payment under Condition 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) a default is made in the performance or observance by the LLP of any obligation binding upon it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed or any other Transaction Document to which the LLP is a party which (unless certified by the Bond Trustee, in its opinion, to be incapable of remedy when no such continuation and notice as is hereinafter mentioned will be required) shall continue for more than 30 days (or such longer period as the Bond Trustee may permit) after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given to the LLP by the Bond Trustee in accordance with the Trust Deed; or
- (iii) an order is made or an effective resolution passed for the liquidation or winding up of the LLP; or
- (iv) the LLP ceases to carry on its business or substantially all its business; or
- (v) proceedings shall be initiated against the LLP under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order); or a receiver, administrator, trustee or other similar official shall be appointed in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable

- liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
  - (vii) the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect; or
  - (viii) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any Calculation Date following an Issuer Event of Default; or
  - (ix) the LLP creates or permits to subsist any security interest over the whole or any part of its assets, or (other than as envisaged by the Transaction Documents) incurs any indebtedness or enters into any contracts, agreements or undertakings.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 10(c) and the Covered Bondholders shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 7) as provided in the Trust Deed in respect of each Covered Bond.

**(c) Enforcement**

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

In exercising any of its powers, trusts, authorities and discretions under Condition 10 the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series together as a single class and shall not have regard to the interests of any other Secured Creditors.

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

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

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

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London and/or in Luxembourg (in the case of Bearer Covered Bonds, Receipts, Coupons or Talons) 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 14 upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

**12. Principal Paying Agent, Paying Agents, Registrar, Transfer Agent and Exchange Agent**

The names of the Principal Paying Agents, the other Paying Agents, the Registrar, the Transfer Agent, the Exchange Agent and their 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. Neither the Principal Paying Agent nor the Registrar may 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 Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) the Issuer will, so long as any 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 western Europe;
- (c) so long as any of the Covered Bonds are listed, quoted and/or traded on or by any competent listing authority, on any stock exchange or quotation system, there will at all times be a Paying Agent 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 competent listing authority, stock exchange or quotation system;
- (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 will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform, to such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(e). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate



effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Covered Bondholders in accordance with Condition 14.

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

### **13. 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 9. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relevant Coupon sheet matures.

### **14. Notices**

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

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) and such notice by mail in connection with the Registered Covered Bonds, the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed, quoted and/or traded on or by any competent listing authority, stock exchange or quotation system and the rules of that competent listing authority, stock exchange or quotation system so require, such notice will be published in a daily newspaper of general circulation

in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the seventh day after the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg.

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

The Trust Deed contains provisions for convening meetings of the Covered Bondholders of any Series to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Covered Bonds of such Series or the related Receipts and/or Coupons or of any of the Transaction Documents (subject as provided below and in the Trust Deed). Such a meeting may be convened by the Issuer, the LLP or the Bond Trustee and shall be convened by the Issuer if required in writing by Covered Bondholders of a Series holding not less than 25 per cent. of the principal amount of the Covered Bonds of such Series for the time being remaining outstanding. The quorum at any such meeting in respect of any Series for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. of the aggregate principal amount of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders of such Series whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds of a Series, the related Receipts or the Coupons or the Trust Deed (including a reduction or cancellation of the amount payable in respect of such Covered Bonds by the Issuer or under the Covered Bond Guarantee, the alteration of the currency in which payments under such Covered Bonds are to be made (other than a redenomination into euro), the alteration of the majority required to pass an Extraordinary Resolution or the sanction of any scheme or proposal for the exchange of such Covered Bonds in respect of such Series (each, a **Series Reserved Matter** all as more particularly set out in the Trust Deed)), the quorum shall be one or more persons holding or representing not less than two-thirds of the principal amount of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the principal amount of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of the Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 10 or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the principal amount of the Covered Bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Series of Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Sterling, the nominal amount of the Covered Bonds of any

Series not denominated in Sterling shall be converted into Sterling at the relevant Covered Bond Swap Rate.

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

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

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

In respect of any modification, waiver, authorisation or determination that is proposed on or after that date on which the Issuer is admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, prior to the Bond Trustee agreeing to any modification, waiver, authorisation or determination pursuant to this Condition 15, the Issuer must send written confirmation to the Bond

Trustee that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations 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 Covered Bondholders of all Series of Covered Bonds for the time being outstanding, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Security Trustee and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Bond Trustee and the Security Trustee shall have regard to the general interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

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

Trust Deed provides that any such assumption shall be notified to the holders of all Series of Covered Bonds in accordance with the relevant terms and conditions of such Covered Bonds and the other Secured Creditors.

For the purposes hereof:

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

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

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

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

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

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (a) 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, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders or the other Secured Creditors and (c) 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 (a) 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; (b) 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; (c) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test or the Amortisation Test; or (d) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

#### **17. Substitution**

- (a) Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Covered Bondholders, may agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders, to the substitution of any successor in business to the Issuer or of a Subsidiary either of the Issuer or of any successor in business to the Issuer in place of the Issuer as principal debtor under the Trust Deed, the Covered Bonds, the Receipts, the Coupons and all other Transaction Documents provided in the case of a Subsidiary in respect of the Trust Deed, the Covered Bonds, the Receipts, the Coupons and the Transaction Documents shall be guaranteed by the Issuer or such successor in business in a form satisfactory to the Bond Trustee.
- (b) Any such substitution shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and, unless the Bond Trustee agrees otherwise, any such substitution shall be notified by the Issuer to the Covered Bondholders as soon as practicable thereafter in accordance with Condition 14.
- (c) It shall be a condition of any substitution pursuant to this Condition 17 that any successor to the Issuer, including any successor in business or the Subsidiary of the Issuer or of such Successor in Business, is included in the register of Issuers pursuant to the RCB Regulations and that all other provisions (including Regulation 20 of the RCB Regulations) are satisfied prior to the substitution of the Issuer.

#### **18. Further Issues**

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

#### **19. 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.

## 20. **Governing Law**

The Trust Deed, the Agency Agreement, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents (other than (i) certain documents to be granted pursuant to the Jersey Corporate Services Agreement; (ii) each declaration of trust in relation to the sale of Scottish Loans and their Related Security to the LLP which will be governed by Scots law (each a **Scottish Declaration of Trust**); and (iii) certain other documents to be granted pursuant to the Deed of Charge which will be governed by Scots law) are governed by, and shall be construed in accordance with, English law and the Issuer and the LLP agree that the courts of England are the most appropriate and convenient court to settle any dispute arising from or connected with the Covered Bonds and accordingly, that they will not agree to the contrary unless specifically stated to the contrary.

## USE OF PROCEEDS

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after swapping the proceeds of the Term Advances into Sterling (if necessary) under the relevant Covered Bond Swap) either (i) to purchase New Portfolios, consisting of Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

- (a) to acquire Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
- (b) (subject to complying with the Asset Coverage Test) to make a Capital Distribution to any Member; and/or
- (c) to acquire Substitution Assets up to the prescribed limit; and/or
- (d) if an existing Series, or Tranche of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to such Series or Tranche; and/or
- (e) to deposit all or part of such proceeds into the GIC Account.



## THE ISSUER

### Introduction and Constitution

Bradford & Bingley plc (registered number 03938288) is an authorised institution under the Financial Services and Markets Act 2000 and has its registered office at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA. Its switchboard number is +44 (0)1274 555555. It is the successor to Bradford & Bingley Building Society (the **Society**), which was a “building society” within the meaning given to that term in the Building Societies Act 1986 (as amended by the Building Societies Act 1997). Bradford & Bingley plc, together with its subsidiaries, is also referred to as the Issuer and/or the Group in this section of the Offering Circular.

The principal objects of the Issuer, which are set out in Clause 4 of its Memorandum of Association, are, inter alios, to carry on throughout the world the business of banking in all aspects, to carry on financial business and financial operations of all kinds and do all such other things as may be incidental or conducive to the attainment of the foregoing.

### History and Development of the Issuer

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

### Business Overview

The Issuer’s principal operating areas primarily relate to mortgages and savings. Its activities include:

- lending, through which the Issuer sells its own residential mortgages and secured commercial property loans to borrowers; and
- savings and other financial services, whereby the Issuer sells its own manufactured savings products and a range of financial services products to the public. These financial services products are, in the main, provided by third parties and include general insurance, wealth and personal loan products, with insurance and protection products being provided by Legal & General plc.

The Issuer also has a number of subsidiaries that are engaged in offshore deposit-taking and treasury activity. Insurance products sold include home, automobile and creditor insurance, some of which bear the “Bradford & Bingley” brand and are underwritten by various insurers.

### Strategy of the Issuer

#### *Mortgages*

The Issuer continues to follow its primary objective of growing secured lending assets selectively and funding them with an appropriate mix of funding sources including retail, wholesale and securitisation. In addition, the retail financial services business requires minimal capital, provides a stable, cost-effective source of funding and generates non-interest income that improves the Issuer’s overall return on equity.

Bradford & Bingley’s strategy is based on developing sources of sustainable competitive advantage in sectors of the UK mortgage market that offer superior long-term potential for growth and profitability.

The Issuer has chosen to compete in markets that have attractive fundamentals. The Issuer’s current core markets, buy-to-let, self-cert, lifetime and other niche products each offer good risk-adjusted returns. These

products are more complex than mainstream mortgages, and the additional expertise required to manufacture and distribute these loans provides the basis for building sustainable competitive advantage.

The Issuer's main business is lending secured on property. The lending business had total balances of £40.4bn as at 31 December 2007. The Issuer develops and manufactures branded lending products focusing on a range of niche areas of the lending market and providing mortgages for individuals who require a more specialist product than those available in the mainstream market. The Issuer believes it can capitalise on the higher margins available in these areas. Residential lending accounted for 98 per cent. of the total lending book at 31 December 2007 with the remainder as commercial lending and housing association lending. The Issuer's lending business has two main areas:

- Residential lending provides mainly specialist mortgages, the majority of which are manufactured and sold by Mortgage Express, a wholly-owned subsidiary of the Issuer, under its own brand, via intermediaries and third parties. A range of specialist and standard mortgages are also sold through the Issuer's branch network, under the Bradford & Bingley brand. The Issuer offers innovative mortgages in a range of niche markets. It has been a key player in the development of the buy-to-let lending product for the retail investment property market in the UK and according to statistics published by the Council of Mortgage Lenders, is the market-leading lender in terms of total outstanding loans as at December 2007. For a buy-to-let loan, Mortgage Express requires that the amount of the loan is no more than 85 per cent. of the value of the property when the loan is made. The majority of buy-to-let loans currently in the Portfolio have a rental income that is in excess of 130 per cent. of the monthly payments, although loans with a rental income of 125 per cent. of monthly payments are contained in the Portfolio and further such loans may be added to the Portfolio in the future. In a small proportion of longer term fixed rate loans this cover level is currently set at 120 per cent.. The majority of Mortgage Express products are sold through intermediaries throughout the UK and are also available through Mortgage Express Online. All Mortgage Express lending is fully secured on UK residential property. As the Issuer has developed its specialist lending strategy. Mortgage Express has become the primary driver of the Issuer's balance sheet growth. Buy-to-let lending accounted for 59 per cent. of residential lending balances at 31 December 2007 with other specialist loans accounting for a further 24 per cent.
- Commercial Lending provides corporate customers with loans secured on income-producing property or pre-let development schemes, while housing association lending provides funding to housing associations throughout the UK. Housing associations are non-profit organisations that provide affordable rented homes for people unable to satisfy their housing needs in the open market. During 2007 the Group sold portfolios of commercial property and housing association loans aggregating £4.0 billion of assets. Following these sales, the Group retained £1,022 million of commercial property and housing association loans as at 31 December 2007 that remain part of the Group's ongoing business.

While the Issuer's primary focus is on organic lending, mortgage portfolio acquisitions provide an opportunistic alternative channel and in 2007 the Issuer acquired £4.3 billion of loan portfolios.

### ***Savings and other financial services***

The Issuer's retail business is run through the Group's nationwide network of 197 branches and 140 franchise outlets and also through internet and telephone channels.

The Retail business offers customers a range of retail financial services which includes Bradford & Bingley savings products, the broking of a wide range of insurance products and the sale of Legal & General investment, protection and pension products. The business contributes a small but important share of the Issuer's earnings and enhances the Issuer's return on capital.

The Group provides a wide range of savings options offering notice, instant access and regular savings accounts and fixed and variable interest rate terms. These retail deposits are core to the Issuer's operations and fulfil an important role by generating a significant source of cost-effective funding and being the primary

means of introducing new customers to the Issuer's products and services. Retail deposits amounted to £21.0bn, 41 per cent. of the Group's total liabilities, as at 31 December 2007.

The primary focus of the Savings business has historically been via the High Street network of branches and agencies accounting for 69 per cent. of the retail deposit balances. The Issuer also has an established phone/post "direct" operation and a website to tap into this fast-growing segment of the market accounting for 20 per cent. of retail deposit balances. The internet-based account aided the strong growth in Savings balances in 2006. In addition, the Group operates a retail deposit subsidiary business in the Isle of Man holding off-shore deposits amounting to 11 per cent. of balances.

The Issuer's remaining Retail business offers customers a choice of financial services products through the branch network and direct channels. Products include general insurance and personal loan products manufactured by third parties.

### ***Principal Subsidiaries of the Issuer***

The Issuer is the ultimate parent company within the Bradford & Bingley group of companies with profits of the Group being generated by activities carried on by various different companies within the Group. The Issuer's principal trading subsidiaries as of the 31 December 2007 are listed below:

	<b>Country of registration</b>	<b>Major activity</b>	<b>Class of shares held</b>	<b>Interest</b>	
<b>Direct</b>					
Bradford & Bingley International Ltd	Isle of Man	Offshore deposit-taking	Ordinary	100 per cent.	
Bradford & Bingley Investments	England	Holding company	Ordinary	100 per cent.	
Bradford & Bingley Treasury	England	Treasury Activities	Ordinary	100 per cent.	
Services (Ireland)					
<b>Indirect</b>					
Mortgage Express	England	Residential mortgage lending	Ordinary	100 per cent.	

### **Results for the Year Ended 31 December 2007**

The Issuer achieved an underlying profit before tax of £351.6 million, being an increase of 5 per cent. on the previous year. The Group's total assets (including the assets of wholly owned subsidiaries) increased by 15 per cent. to £52.0 billion driven by the success of specialist mortgage operations and includes the impact of the sale of commercial property and housing association loans.

The Issuer's residential loan book grew by 27 per cent., this contributing to a total residential book of £39.4 billion. Under two separate transaction in November 2007, a total of £4.0bn of commercial and housing association assets were sold. Following the sale the size of the commercial and housing association lending book was £1.0 billion.

On the funding side of the business, retail savings balances increased by £1.3 billion to £21.0 billion. Wholesale funds increased to £27.8 billion, including £15.8 billion of funding secured on mortgage assets.

## Board of Directors

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

### Directors

Ian M. Cheshire Non-Executive Director

### Other Directorships

B&Q International Co., Ltd  
 B&Q plc  
 Castorama Belgium  
 Castorama Benelux  
 Castorama Holding SA  
 Castorama RUS LLC  
 Castowest SARL  
 Kingfisher Information  
 Technology Services (UK)  
 Limited  
 Kingfisher plc  
 Kingfisher SA  
 Lorlan SA  
 Medicinema Enterprises Limited  
 ProLand Corporation LLC

### Directors

Nicholas J. Cosh Non-Executive Director

### Other Directorships

Hornby Industries Limited  
 Hornby plc  
 ICAP plc  
 Kiln plc  
 R J Kiln & Co. Limited

Michael D. Buckley Non-Executive Director

Bramdean Alternatives Limited  
 DCC plc  
 M&T Corporation

Steven J. Crawshaw Group Chief Executive

Bradford City Centre

		SURC Limited
		CML Premises Limited
Robert S. Dickie	Group Operations Director	No External Directorships
Roger D. Hattam	Group Product and Marketing Director	No External Directorships
Roderick D. Kent	Chairman, Non-Executive Director	Close Brothers Group Plc
		Britel Fund Nominees Limited
		Britel Fund Trustees Limited
		BT Pension Scheme Trustees Limited
		E.F. Investments
		Esme Fairbairn (Nominee) Ltd.
		Grosvenor Group Limited
		Grosvenor Limited
		Grosvenor UK Finance PLC
		Hermes Pensions Management Limited
		Whitbread Group plc
		Whitbread Pension Trustees Limited
Louise A.V.C. Patten	Non-Executive Director	Brixton plc
		Marks and Spencer Group plc
Mark Stevens	Group Sales Director	No External Directorships
Stephen P. Webster	Non-Executive Director	Wolseley plc
Christopher P. Willford	Group Finance Director	Aire Valley Funding 1 Limited
		Aire Valley Funding 2 Limited
		Aire Valley Funding 3 plc

Aire Valley Holdings Limited

Aire Valley Mortgages 2004 – 1  
plc

Aire Valley Mortgages 2005 – 1  
plc

Aire Valley Mortgages 2006 – 1  
plc

Aire Valley Mortgages 2007 – 1  
plc

Aire Valley Mortgages 2007 – 2  
plc

Aire Valley PECO Limited

Aire Valley Trustee Limited

Aire Valley Warehousing 1  
Limited

Aire Valley Warehousing 2  
Limited

Aire Valley Warehousing 3  
Limited

Legalese Limited

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

There are no material potential conflicts of interest between the duties owed to the Issuer by the Directors listed above and their private interests or other duties.

## BRADFORD & BINGLEY GROUP

### FINANCIAL INFORMATION

#### Financial Summary

The following is a summary of the audited consolidated income statement of the Issuer and its subsidiaries for the two years ended 31 December 2006 and 31 December 2007:

	<b>Total 2006</b>	<b>Total 2007</b>
Interest receivable and similar income .....	2,383.0	2,967.5
Interest expense and similar charges .....	<u>(1,872.8)</u>	<u>(2,419.8)</u>
<b>Net Interest Income</b> .....	<b>510.2</b>	<b>547.7</b>
Fee and commission income .....	91.7	81.7
<b>Net Fee and Commission Income</b> .....	<b>91.7</b>	<b>81.7</b>
Gains less losses on sale of debt securities .....	2.1	6.5
Fair value movements on financial instruments .....	0.2	(73.2)
Other operating income .....	<u>5.2</u>	<u>9.6</u>
<b>Net Operating Income</b> .....	<b>609.4</b>	<b>572.3</b>
Administrative expenses .....	(361.0)	(280.2)
Loan impairment loss .....	(7.4)	(22.5)
Investment impairment loss .....	-	(94.4)
Loss on sale of assets .....	-	(58.0)
Non-operating income .....	<u>5.7</u>	<u>8.8</u>
<b>Profit before taxation</b> .....	<b>246.7</b>	<b>126.0</b>
Taxation .....	<u>(69.0)</u>	<u>(32.8)</u>
<b>Profit after taxation</b> .....	<b>177.7</b>	<b>93.2</b>
<b>Profit for the financial year</b> .....	<b><u>177.7</u></b>	<b><u>93.2</u></b>

## THE LLP

### Introduction

The LLP was incorporated in England and Wales on 23 January 2004 as a limited liability partnership (registered number OC306627) with limited liability under the LLPA 2000 by the Seller, Mortgage Express (a wholly owned subsidiary of the Seller) and the First Designated Member as its Members. The membership of Mortgage Express was terminated as of 25 February 2004. The Second Designated Member was admitted as a Member of the LLP on 27 April 2004. The registered office of the LLP is at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA, however its principal place of business is at 35 Great St. Helen's, London EC3A 6AP and its telephone number is +44 (0) 20 7398 6300. The LLP has no subsidiaries.

### Principal Activities

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

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

### Members

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

<u>Name</u>	<u>Registered Office</u>
Bradford & Bingley plc .....	Croft Road Crossflatts, Bingley West Yorkshire BD16 2UA
Designated Member No. 1 Limited .....	47 Esplanade St. Helier Jersey JE1 0BD
Designated Member No. 2 Limited .....	35 Great St. Helen's London EC3A 6AP

The LLP has no employees.

There are no material potential conflicts of interest between the duties owed to the LLP by the Members listed above and their private interests or other duties.



### Directors of the Members

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Jonathan Eden Keighley .....	35 Great St. Helen's London EC3A 6AP	Director
Robert William Berry .....	35 Great St. Helen's London EC3A 6AP	Director

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

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

## 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 (such Trust Deed as modified or supplemented and/or restated from time to time (the **Trust Deed**)), is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

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

### Covered Bond Guarantee

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

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

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

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and (following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP or, if earlier, service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce the same or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any 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 10(b) failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default.

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

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

For the purposes hereof:

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

- (a) prior to the occurrence of an LLP Event of Default on the later of:
  - (i) the date on which the Scheduled Payment Date in respect of such Guaranteed Amounts is reached, or, if later, the day which is two Business Days following service of the Notice to Pay on the LLP in respect of such Guaranteed Amounts or if the applicable Final Terms Document specified that an Extended Final Maturity Date is applicable to the relevant Series of Covered Bonds, the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Final Maturity Date or such other Interest Payment Date(s) as specified in the relevant Final Terms Document (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 Final Maturity Date, but only (A) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Final Maturity Date pursuant to the terms of the applicable Final Terms Document and (B) to the extent that the LLP, having received a Notice to Pay no later than the date falling two Business Days prior to the Extension Determination Date, does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, as the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (I) the date which falls two Business Days after service of such Notice to Pay on the LLP or, if later, the Final Maturity Date (in each

case, after the expiry of the grace period set out in Condition 10(b)(i)) under the terms of the Covered Bond Guarantee and (II) the Extension Determination Date,

or if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or (b) following the occurrence of an LLP Event of Default, the date on which the LLP Acceleration Notice is served on the Issuer and the LLP.

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

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

**Scheduled Interest** means an amount equal to the amount in respect of interest which would have been due and payable under the Covered Bonds on each Interest Payment Date as specified in Condition 5 falling on or after service of a Notice to Pay on the LLP (but excluding any additional amounts relating to premiums, default interest or interest upon interest (**Excluded Scheduled Interest Amounts**) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following an LLP Acceleration Notice) if the Covered Bonds had not become due and payable prior to their Final Maturity Date and (if the Final Terms Document specified that an Extended Final Maturity Date is applicable to the relevant Covered Bonds) if the maturity date of the Covered Bonds had been the Extended Final Maturity Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Final Maturity Date) or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the relevant Final Terms Document less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7.

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

**Scheduled Principal** means an amount equal to the amount in respect of principal which would have been due and payable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 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 Document specifies that an Extended Final Maturity Date is applicable to the relevant Covered Bonds, if the maturity date of the Covered Bonds had been the Extended Final Maturity Date.

### ***Governing Law***

The Trust Deed is governed by English law.

## **Intercompany Loan Agreement**

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the gross proceeds of the issue of the related Covered Bonds to the LLP by way of a term advance (each such term advance, a **Term Advance**) pursuant to a term loan agreement dated the Initial Programme Date between the Issuer, the LLP and the Security Trustee (the **Intercompany Loan Agreement**). Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms Document, and will be converted into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP (a) 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 (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP: (i) to acquire Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (ii) (subject to complying with the Asset Coverage Test) to make a Capital Distribution to any Member; and/or (iii) to acquire Substitution Assets up to the prescribed limit; and/or (iv) if an existing Series, or Tranche of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to such Series or Tranche; and/or (v) to deposit all or part of such proceeds into the GIC Account. Each Term Advance will bear interest at a rate of interest with reference to LIBOR or EURIBOR, as the case may be, or such other appropriate rate as corresponds to the applicable Series or Tranche, as applicable, of Covered Bonds for one-month deposits equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments. Prior to the service of a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the relevant Pre-Acceleration Principal Priority of Payments. However any failure by the LLP to pay any amounts due on the Term Advances will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds.

The amounts owed by the LLP to the Issuer under the Term Advance(s) will be reduced by: (a) any amounts paid by the LLP under the terms of the Covered Bond Guarantee to redeem the Covered Bonds which originally financed such Term Advances and any amounts paid in respect of any items ranking in priority of payments under the relevant Covered Bonds; and (b) the Principal Amount Outstanding of any Covered Bonds which originally financed such Term Advances and which have been purchased by the LLP in accordance with Condition 6(h).

## **Governing Law**

The Intercompany Loan Agreement is governed by English law.

## **Mortgage Sale Agreement**

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

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

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

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

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

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

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

For the purposes hereof:

**Additional Loan Advance** means any further loan and/or additional advance (including, but not limited to, Further Advances) other than the Initial Advance.

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

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

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

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

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

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

**English Loan** means Loans secured by a Mortgage over a Property located in England or Wales.

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

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

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

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

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

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

**Mortgage** means each first fixed charge by way of legal mortgage (in relation to an English Loan) and each first ranking standard security (in relation to a Scottish Loan), sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, which secures the repayment of a Loan.

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

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

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

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

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

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

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

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

**Scottish Declaration of Trust** means each declaration of trust in relation to Scottish Loans and their Related Security made by the Seller in favour of the LLP or by the relevant Originator with the consent of the 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 Mortgage** means a Mortgage over a Property located in Scotland.

**Scottish Loans** means Loans secured by Scottish Mortgages.

**Scottish Sub-Security** means each standard security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.2 of the Deed of Charge substantially in the form set out in Schedule 3 thereto.

**Scottish Supplemental Charge** means each assignation in security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.3 (Scottish Trust Security) of the Deed of Charge substantially in the form set out in Schedule 5 thereto.



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

***Eligibility Criteria***

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

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

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

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

For the purposes hereof:

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

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

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

English Loans will be sold by the Seller to the LLP by way of equitable assignment. The sale of Scottish Loans by the Seller to the LLP will be given effect by way of 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 offering circular to a sale and equitable assignment of Loans are to be read as references to the making of such Scottish Declarations of Trust and references to a legal

assignment of Loans are to be read as references to the granting of assignments of such Scottish Loans pursuant to the Mortgage Sale Agreement). Such beneficial interest (as opposed to the legal title) cannot be registered or recorded in the Registers of Scotland. As a result, legal title to all of the Loans will remain with the Seller or where the Loans have been originated by an Originator, the relevant Originator until the LLP's interest in the Loans is perfected by legal transfers or assignments (as appropriate) being delivered by the Seller or the relevant Originator to the LLP and notice of the sale is given by the Seller and/or, as applicable, an Originator to the Borrowers. Legal assignment or assignment (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described below.

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

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

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of 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 and, where applicable, the Originator in favour of the LLP and the Security Trustee.

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

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

For the purposes hereof:

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

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

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

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

- (a) an order is made or an effective resolution passed for the liquidation or winding up of the relevant entity; or
- (b) the relevant entity ceases to carry on its business or substantially all its business; or
- (c) proceedings shall be initiated against the relevant entity under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws; or a receiver, administrator, trustee or other similar official shall be appointed in relation to the relevant entity or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within 30 days; or if the relevant entity shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or
- (d) the relevant entity shall be unable to pay its debts as they fall due (within the meaning of section 123(1)(b) to (e) (inclusive) and section 123(2) of the Insolvency Act (as those sections may be amended)) or shall admit inability to pay its debts as they fall due or shall be adjudged or found bankrupt or insolvent.

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

**Property** means a freehold or leasehold property (or in Scotland a heritable property or a property held under a long lease) which is subject to a Mortgage.

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

**Registers of Scotland** means the Land Register of Scotland and/or the General Register of Sasines.

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

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

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

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

### ***Representations and warranties***

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

- each Loan was originated by the Seller or an Originator not less than three calendar months prior to the relevant Transfer Date;
- each Loan was originated in pounds Sterling and is denominated in pounds Sterling (or was originated and is denominated in euro should the euro be adopted as the lawful currency for the time being of the United Kingdom);
- no Loan has a Current Balance of more than £1,000,000;
- each Loan has a remaining term of less than 50 years as at the relevant Transfer Date;
- prior to the making of each Initial Advance and Further Advance, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- all of the Borrowers are natural legal persons and were aged 18 years or older at the date he or she executed the relevant Mortgage;
- each Borrower has made at least two payments of interest (and principal in relation to a repayment mortgage) (**Monthly Payments**);

- the whole of the Current Balance on each Loan is secured by a Mortgage;
- subject only in certain appropriate cases to applications for registration or recording at the Land Registry or Registers of Scotland each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or first ranking standard security over the relevant property;
- all of the properties are located in England, Wales and/or Scotland;
- not more than 12 months prior to the granting of each Mortgage, (or such longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) the Seller or the relevant Originator received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender or such other form of valuation of the relevant Property the acceptance of which the Rating Agencies have confirmed would not affect the then current ratings of the Covered Bonds from time to time;
- the benefit of all Valuation Reports and/or Certificates of Title which were provided to the Seller or the relevant Originator not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the LLP without obtaining the consent of the relevant Valuer or solicitor;
- prior to the taking of each Mortgage (other than a remortgage), the Seller or the relevant Originator instructed its solicitor, licenced conveyancer or, in Scotland, qualified conveyancer to carry out an investigation of title to the relevant property and to undertake other searches, investigations, enquiries and other actions on behalf of the Seller or, as applicable, the relevant Originator in accordance with the instructions issued to the relevant solicitor, licenced conveyancer or, in Scotland, qualified conveyancer as are set out, in the case of the English Loans, in the Mortgage Code issued by the Mortgage Code Compliance Board and, in the case of Scottish Loans, the CML's Lender's Handbook for Scotland or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to (i) such variations made in circumstances where a mortgage is provided by the Seller or the relevant Originator on a "Fees Free" basis in connection with the re-mortgage of the Property and provided that the relevant Property is conveyed in accordance with a service agreement entered into between the Seller or the relevant Originator, as the case may be, and its solicitor or (ii) other variations as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- buildings insurance cover for each property is available under either a policy arranged by the Borrower or a policy arranged by the Seller or, as applicable, the relevant Originator at the request of the Borrower or a policy arranged by the relevant landlord or the properties in possession cover;
- the Seller has good title to, and is the absolute unencumbered legal and beneficial (in the case of those Loans originated by the Seller) or (where the Loan was not originated by the Seller but acquired from an Originator) beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the Seller to the LLP under the Mortgage Sale Agreement;
- the Seller has, since the making of each Loan, kept or procured the keeping (e.g. through the Originator) of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loan;
- there are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence;
- each Loan and its Related Security will be "eligible property" for the purposes of Regulation 2 of the RCB Regulations;

- the rate of interest under each Loan can at all times be set in the manner disclosed in the relevant Mortgage Conditions; and
- each loan is appropriately hedged against the possible variances between the rates of interest payable on the Loan and LIBOR for three-month sterling deposits.

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

For the purposes hereof:

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

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

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

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

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

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

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

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

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

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

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

### ***Defaulted Loans***

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

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

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

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

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

The LLP will serve on the Seller a notice offering to sell the Selected Loans and their Related Security which the Seller has previously sold to the LLP for an offer price equal to the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount (as defined below), subject to the offer being accepted by the Seller within 10 London Business Days (a **Selected Loan Offer Notice**). If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a Solvency Certificate to the LLP and the Security Trustee. If the Seller rejects or fails to accept the LLP's offer, the LLP will offer to sell the Selected Loans and their Related Security to Purchasers (as described under — *LLP Deed — Sale of Selected Loans in the Portfolio following the occurrence of an Issuer Event of Default*, below).

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

For the purposes hereof:

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

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

the Principal Amount Outstanding of the relevant Series of Covered Bonds      X      (1+ 0.50 per cent. X (days to maturity of the relevant Series of Covered Bonds/365))

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

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

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

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

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

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

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

#### ***Governing Law***

The Intercompany Mortgage Sale Agreement is governed by English Law.

#### **Servicing Agreement**

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

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

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

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

The Servicer will have the power to exercise the rights, powers and discretions and to perform the duties of the LLP in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the



Servicing Agreement, and to do anything which it reasonably considers necessary or convenient or incidental to the administration of those Loans and their Related Security.

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

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

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

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

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

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

- (a) the Standard Variable Rate applicable to the Loans sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Seller Standard Variable Rate; and

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

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

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

whether the LLP would receive an amount of income during the relevant LLP Payment Period which when aggregated with funds otherwise available to it is less than the amount which is the aggregate of (A) the amount of interest which would be payable or provisioned to be paid under the Covered Bond Guarantee on each Interest Payment Date falling at the end of the relevant LLP Payment Period or in the immediately succeeding LLP Payment Period and amounts payable or provisioned to be paid to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on the LLP Payment Date falling at the end of the relevant LLP Payment Period and (B) the other senior expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priorities of Payments applicable prior to an LLP Event of Default and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security.

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

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

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

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

If the Servicer determines that the Yield Shortfall Test will not be met, it will give written notice to the LLP and the Security Trustee, within one London Business Day, of the amount of the shortfall and the Standard

Variable Rate and the discretionary rates or margins which would, in the Servicer's opinion, need to be set in order for no shortfall to arise, and the Yield Shortfall Test to be met, having regard to the date(s) on which the change to the Standard Variable Rate and the other discretionary rates or margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender. If the LLP notifies the Servicer that, having regard to the obligations of the LLP, the Standard Variable Rate and/or the other discretionary rates or margins should be increased, the Servicer will take all steps which are necessary to increase the Standard Variable Rate and/or any other discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Terms. In these circumstances, the Servicer will have the right to set the Standard Variable Rates of the Seller or, as applicable, the relevant Bradford & Bingley Group Company.

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

For the purposes hereof:

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

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

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

### ***Compensation***

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

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

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

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

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' notice to the Security Trustee and the LLP provided that a substitute servicer qualified and

authorised, insofar as required, to act as such under the FSMA and with a management team with experience of administering mortgages in the United Kingdom has been appointed and such substitute servicer enters into a servicing agreement with the LLP substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Covered Bonds unless the Covered Bondholders agree otherwise by Extraordinary Resolution.

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

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

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

### ***Governing Law***

The Servicing Agreement is governed by English law.

### **Intercompany Servicing Agreement**

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

### ***Governing Law***

The Intercompany Servicing Agreement is governed by English Law.

### **Asset Monitor Agreement**

Under the terms of an asset monitor agreement entered into on the Initial Programme Date between KPMG Audit Plc (the **Asset Monitor**), the LLP, the Cash Manager and the Security Trustee (the **Asset Monitor Agreement**), the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to conduct independent tests in respect of the calculations performed by the Cash Manager for the Asset Coverage Test or the Amortisation Test, as applicable on the Calculation Date immediately preceding each anniversary of the Programme Date with a view to verifying the compliance by the LLP with the Asset Coverage Test or, following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice to the Issuer and service of a Notice to Pay on the LLP, the Amortisation Test on that Calculation Date.

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

Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

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

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

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

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

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

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

### ***Governing law***

The Asset Monitor Agreement is governed by English law.

### **LLP Deed**

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

### ***Members***

As at the Programme Date, each of the Seller and the Designated Members is a member (each a **Member**, and together with any other members from time to time, the **Members**) of the LLP. The Designated Members have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

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

### ***Capital Contributions***

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

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

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

### ***Other provisions***

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

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

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

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

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

If on any Calculation Date the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds then outstanding as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Seller (in its capacity as Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (*see Summary of the Principal Documents — Mortgage Sale Agreement — Sale by the Seller of Loans and their Related Security*) or provide Cash Capital Contributions to ensure that the

Asset Coverage Test is met. An Issuer Event of Default shall occur if a breach of the Asset Coverage Test is not remedied by the next following Calculation Date.

For the purposes hereof:

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

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

where,

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

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

*minus*

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

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

AND

(ii) = the aggregate Current Balance of the Loans in the Portfolio as at the relevant Calculation Date;

*minus*

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

- (3) a Loan or its Related Security is, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other

obligation of a Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans under the relevant Mortgage Account and their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Current Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) under the relevant Mortgage Account; and/or

- (4) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller or the Servicer to indemnify the LLP for such financial loss);

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

- B = the amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Deed of Charge and/or the other Transaction Documents;
- C = the amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the Deed of Charge and/or the other Transaction Documents;
- D = the outstanding principal balance of any Substitution Assets;
- X = 2.25 per cent. of the aggregate Current Balance of the Loans in the Portfolio, as calculated on the relevant Calculation Date;
- Y = 8 per cent. **multiplied by the flexible redraw capacity**, being an amount equal to the excess of (1) the maximum amount that Borrowers may draw under Flexible Loans in the Portfolio (whether or not drawn) as determined in respect of the previous Calculation Period over (2) the aggregate Current Balance of all Flexible Loans in the Portfolio on the relevant Calculation Date **multiplied by** three; and
- Z = the weighted average remaining maturity of all Covered Bonds then outstanding **multiplied by** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds **multiplied by** 0.50 per cent.

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

On the Calculation Date falling in October, January, April and July of each year, the LLP (or the Cash Manager on its behalf) will calculate the Weighted Average Foreclosure Frequency (**WAFF**) and the Weighted Average Loss Severity (**WALS**) (and/or such figures calculated in accordance with such



alternative methodologies as Fitch and S&P may prescribe) for the Portfolio as a whole or for a random sample of the Loans in the Portfolio, such calculations to be made throughout or agreed otherwise by Fitch and S&P or such lower figure as may be selected by the LLP (or the Cash Manager on its behalf) and notified in writing to the Security and Moody's as would ensure that the Covered Bonds are rated Aaa by Moody's using Moody's expected loss methodology (regardless of the actual Moody's rating of the Covered Bonds at the time).

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

Save where otherwise agreed with the Rating Agencies, the Asset Percentage will be adjusted in accordance with the various methodologies prescribed by each of Fitch and S&P and/or in accordance with the minimum percentage selected by the LLP (or the Cash Manager on its behalf) to ensure that the Covered Bonds are rated Aaa by Moody's, provided that the Asset Percentage may not, at any time, exceed 91.0 per cent.

Any breach of the Asset Coverage Test arising solely as a result of the calculation of the Asset Percentage in accordance with the Moody's substitution test (as provided by Moody's on the Programme Date) will not constitute an Issuer Event of Default. However in such circumstances, prior to the service of a Notice to Pay on the LLP, Available Principal Receipts will be deposited in the GIC Account in accordance with the Pre-Acceleration Priority of Payments.

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

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

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

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

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

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

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

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

### ***Amortisation Test***

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

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

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

$$A + B + C - Z$$

where,

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

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

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

C = the outstanding principal balance of any Substitution Assets;

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

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

After a Notice to Pay has been served on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice on the Issuer and after service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or the 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 will be credited to the GIC Account and applied as set out in the Priorities of Payments.

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

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

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

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

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

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

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

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

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

of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

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

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

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

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

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

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

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

The LLP covenants that it will not, save with the prior written consent of the LLP Management Board or as envisaged by the Transaction Documents:

- (a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future other than pursuant to the Deed of Charge;
- (b) dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;
- (c) have an interest in a bank account other than as set out in the Transaction Documents;

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

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

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

***Limit on Investing in Substitution Assets***

Prior to the service of a Notice to Pay on the LLP, the LLP (or the Cash Manager on its behalf) will be permitted to invest Available Revenue Receipts, Available Principal Receipts, the proceeds of Term Advances and the proceeds of any Cash Contributions made by any Third Party Member in Substitution Assets, provided that the aggregate amount so invested in Substitution Assets does not exceed ten per cent. of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement.

Following service of a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the GIC Account and the LLP will be permitted to invest all available monies in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

For the purposes hereof:

**Authorised Investments** means:

- (a) Sterling gilt-edged securities having a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date; and
- (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under FSMA) are rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch or their equivalents by three other internationally recognised rating agencies,

provided that such Authorised Investments comply with the requirements of Regulation 2(1)(a) and Regulation 2(2) of the RCB Regulations;

**Substitution Assets** means:

- (a) Sterling gilt-edged securities;
- (b) Sterling demand or time deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term, unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term, unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1/Aa3 by Moody's, A-1+/AA- by S&P and F1+/AA- by Fitch or their equivalents by three other internationally recognised rating agencies;
- (c) Sterling denominated government and public securities, as defined from time to time by the FSA, provided that such investments have a remaining period to maturity of one year or less and which are rated Aaa by Moody's, AAA by S&P and AAA by Fitch or their equivalents by three other internationally recognised rating agencies; and
- (d) Sterling denominated residential mortgage backed securities provided that such investments have a remaining period to maturity of one year or less, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's, AAA by S&P and AAA by Fitch or their equivalents by three other internationally recognised rating agencies,

provided that the aggregate value of the Substitution Assets, at any time, shall not exceed in aggregate an amount equal to ten per cent. of the total assets of the LLP and provided further that such Substitution Assets comply with the requirements of Regulations 2(1)(a) and Regulation 2(2) of the RCB Regulations.

***Priorities of Payment***

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

***Other provisions***

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed, *inter alia*, not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or the Security Trustee

unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

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

### ***Governing Law***

The LLP Deed is governed by English law.

### ***Cash Management Agreement***

The Cash Manager will provide certain cash management services to the LLP pursuant to the terms of a cash management agreement entered into on the Initial Programme Date between the LLP, Bradford & Bingley plc in its capacity as the Cash Manager (the **Cash Manager**) and the Security Trustee (the **Cash Management Agreement**).

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

- (a) maintaining the Ledgers on behalf of the LLP;
- (b) maintaining records of all Authorised Investments and/or the Substitution Assets, as applicable;
- (c) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under *Cashflows*, below;
- (d) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under *Credit Structure — Asset Coverage Test*, below;
- (e) determining whether the Amortisation Test is satisfied on each Calculation Date following service of a Notice to Pay on the LLP (but prior to an LLP Event of Default and service of an LLP Acceleration Notice) on that Calculation Date in accordance with the LLP Deed, as more fully described under *Credit Structure — Amortisation Test*, below;
- (f) with effect on and from the date on which the Issuer is admitted to the register of issuers under the RCB Regulations, providing the FSA with information on the composition of any Substitution Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information; as may be required by the FSA in accordance with the RCB Regulations; and
- (g) preparation of certain investor reports (which will, inter alia, include information on compliance with the Asset Coverage Test) (an **Investor Report**) for, inter alios, the Covered Bondholders, the Rating Agencies and the Bond Trustee. This Investor Report will be sent to the Luxembourg Paying Agent and will be available to Covered Bondholders free of charge.

For purposes hereof:

**Capital Account Ledgers** means the ledgers maintained by the LLP pursuant to the terms of the LLP Deed to record the Capital Contributions of each of the Members.

**Ledgers** includes the Revenue Ledger, the Principal Ledger, the Capital Account Ledgers, the Reserve Ledger and after service of a Notice to Pay on the LLP each ledger opened by the Cash Manager in respect of a Series of Covered Bonds.

**Losses** mean all realised losses on the Loans.

**Principal Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed.

**Reserve Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed.

**Revenue Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed.

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager and to appoint a substitute cash manager approved by the Security Trustee. Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager, although the fee payable to the substitute cash manager may be higher.

### ***Governing Law***

The Cash Management Agreement is governed by English law.

### **Interest Rate Swap Agreements**

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time that may either be linked to the Seller's Standard Variable Rate or linked to an interest rate other than the Seller's Standard Variable Rate, such as a variable rate offered by a basket of UK mortgage lenders or a rate that tracks the Bank of England base rate. Other Loans pay a fixed rate of interest for a period of time. However, the Sterling payments to be made by the LLP under the Covered Bond Swaps are based on LIBOR for three-month Sterling deposits. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on certain of the Loans in the Portfolio; and
- (b) LIBOR for three-month Sterling deposits,

the LLP and Bradford & Bingley plc (in its capacity as interest rate swap provider, the **Interest Rate Swap Provider**) and the Security Trustee have entered into an interest rate swap transaction (the **Interest Rate Swap**) governed by the 1992 ISDA Master Agreement (Multicurrency — Cross Border) as published by ISDA (the **1992 ISDA**, and, together with the schedule thereto and the confirmation evidencing the swap transaction, the **Interest Rate Swap Agreement**) on the Initial Programme Date as amended and restated from time to time. The LLP may, subject to Rating Agency confirmation to the Bond Trustee that the same would not adversely affect the then current ratings of the Covered Bonds, hedge only part of possible variances between the rates of interest payable on the Loans in the Portfolio and LIBOR for three-month Sterling deposits pursuant to the Interest Rate Swap.

In the event that the relevant ratings of the Interest Rate Swap Provider, or any guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the ratings specified in the Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Interest Rate Swap Provider, and, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Interest Rate Swap Provider will be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with the minimum ratings required by the relevant Rating Agency, procuring another entity with the minimum rating(s) required by the relevant Rating Agency to become co-obligor in respect of its obligations, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will subject to certain conditions (including, but not limited to, the requirement to find a replacement Interest Rate Swap Provider) allow the LLP to terminate the Interest Rate Swap Agreement.



On the Programme Date, the ratings of the Interest Rate Swap Provider will be below the required ratings of the Rating Agencies specified in the Interest Rate Swap Agreement. As a result, the Interest Rate Swap Provider will provide collateral for its obligations to the LLP under a collateral support agreement entered into between the LLP and the Interest Rate Swap Provider on the Initial Programme Date as amended and restated from time to time.

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

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement;
- upon the occurrence of certain insolvency related events in respect of the LLP or the Interest Rate Swap Provider, or any guarantor of the obligations of the Interest Rate Swap Provider, if applicable, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap Agreement;
- upon the service of an LLP Acceleration Notice by the Security Trustee on the LLP;
- it becoming unlawful for the Interest Rate Swap Provider or the LLP to perform their obligations under the Interest Rate Swap Agreement.

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

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap, the Interest Rate Swap Provider shall always be obliged to gross up these payments. If withholding taxes are imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap, the LLP shall not be obliged to gross up those payments.

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

- (a) the Interest Rate Swap in respect of the relevant Loans will partially terminate and any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Loans; or
- (b) such Interest Rate Swap will be partially novated to the purchaser of the relevant Loans, and such purchaser will thereby become party to a separate interest rate swap transaction with the relevant Interest Rate Swap Provider.

### ***Governing Law***

The Interest Rate Swap Agreement is (or, as applicable, will be) governed by English law.

### **Covered Bond Swap Agreements**

The LLP will enter into one or more transactions (each a **Covered Bond Swap** and, together the **Covered Bond Swaps**, and together with the Interest Rate Swaps, the **Swaps**) with one or more Covered Bond Swap Providers and the Security Trustee, each such Covered Bond Swap governed by the 1992 ISDA (together with the schedule thereto and each confirmation evidencing a Covered Bond Swap, the **Covered Bond Swap Agreements**) in respect of each Series or Tranche, as applicable, of Covered Bonds whose Specified

Currency is different to then applicable currency in respect of the Loans, to hedge certain interest rate and/or currency risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swaps and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) and under the Covered Bond Guarantee in respect of Covered Bonds (after the service of a Notice to Pay on the LLP). Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds. Under the Covered Bond Swaps on the relevant Issue Date, the LLP will pay to the Covered Bond Swap Providers the amount received by the LLP under the applicable Term Advance (being an amount equal to the gross proceeds of the issue of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Providers will pay an amount equal to the Sterling Equivalent of the applicable Term Advance. Thereafter, the Covered Bond Swap Providers will pay to the LLP on each Interest Payment Date amounts equivalent to the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will pay to the Covered Bond Swap Providers on each LLP Payment Date an amount in Sterling calculated by reference to LIBOR for three-month Sterling deposits for the relevant Interest Period plus a spread and the Sterling Equivalent of any principal due in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement.

Under the terms of each Covered Bond Swap, if the relevant rating of the Covered Bond Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agencies), and, where applicable, as a result of the downgrade, the then current ratings of the Covered Bonds would or may, as applicable, be adversely affected, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the relevant Covered Bond Swap, arranging for its obligations under the Covered Bond Swap to be transferred to an entity with the minimum rating(s) required by the relevant Rating Agency, procuring another entity with the minimum rating(s) required by the relevant Rating Agency to become co-obligor in respect of its obligations under the Covered Bond Swap, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will, subject to certain conditions (including, but not limited to, the requirement to obtain a replacement Covered Bond Swap Provider), allow the LLP to terminate the Covered Bond Swap.

A Covered Bond Swap may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- (unless stated otherwise in the relevant Covered Bond Swap Agreement) at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement;
- upon the occurrence of certain insolvency related events in respect of the LLP or the Covered Bond Swap Provider, or any guarantor of the obligations of the Covered Bond Swap Provider, if applicable, or the merger of a Covered Bond Swap Provider without an assumption of the obligations under the relevant Covered Bond Swap Agreement;
- (unless stated otherwise in the relevant Covered Bond Swap Agreement) upon the service of an LLP Acceleration Notice by the Security Trustee on the LLP;
- it becoming unlawful for the Covered Bond Swap Provider or the LLP to perform their obligations under the Covered Bond Swap Agreement; and
- (unless stated otherwise in the relevant Covered Bond Swap Agreement) the Covered Bonds being redeemed in whole, prior to the Final Maturity Date of the relevant Series or Tranche of Covered Bonds.

Additionally a Covered Bond Swap Agreement may, in respect of a relevant Tranche or Series of Covered Bonds, provide that non-payment by the LLP of any amounts due under the terms of the Covered Bond Swap Agreement will not constitute a Covered Bond Swap Early Termination Event. In such circumstances the relevant Covered Bond Swap Provider may be obliged to make payments to the LLP irrespective of any non-payment by the LLP. Any amounts due and remaining unpaid by the LLP to the relevant Covered Bond Swap Provider may in such circumstances result in additional amounts of interest being due to such Covered Bond Swap Provider.

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

If withholding taxes are imposed on payments made by the Covered Bond Swap Provider to the LLP under a Covered Bond Swap, the Covered Bond Swap Provider shall always be obliged to gross up those payments. If withholding taxes are imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap, the LLP shall not be obliged to gross up those payments.

In the event that the Covered Bonds are redeemed in accordance with the Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with any termination will be taken into account in calculating the purchase price to be paid for any Covered Bonds purchased by the LLP in accordance with Condition 6(h).

Each Covered Bond Swap Provider may, subject to certain conditions specified in the relevant Covered Bond Swap Agreement, including (without limitation) the satisfaction of certain requirements of the Rating Agencies, transfer its obligations under any of the Covered Bond Swaps to another entity.

### ***Governing Law***

The Covered Bond Swap Agreements are (or, as applicable, will be) governed by English law.

### **Bank Account Agreement**

Pursuant to the terms of a bank account agreement entered into on the Initial Programme Date as amended and restated from time to time between the LLP, National Westminster Bank Plc as account bank (in such capacity, the **Account Bank**), the Cash Manager and the Security Trustee (the **Bank Account Agreement**), the LLP will maintain with the Account Bank the accounts described below, which will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge:

- (a) the GIC Account into which are paid, *inter alia*, all amounts received from Borrowers in respect of Loans in the Portfolio. On each LLP Payment Date as applicable, amounts required to meet the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred to the Transaction Account; and
- (b) the Transaction Account into which moneys standing to the credit of the GIC Account will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under *Cashflows*.

At close of business on each London Business Day, subject to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of Bradford & Bingley plc being rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch, the Account Bank will (if so directed by the Cash Manager) transfer an amount equal to the lesser of:

- (i) the amount standing to the credit of the GIC Account; and

(ii) 20 per cent. of the aggregate Principal Amount Outstanding on all Covered Bonds then outstanding, from the GIC Account to a specified Bradford & Bingley plc account. All monies so transferred will be transferred back to the GIC Account by no later than 9.00 a.m. on the following London Business Day.

If the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank cease to be rated A-1 by S&P, P-1 by Moody's or F1 by Fitch (the **Account Bank Ratings**) then either:

- the GIC Account and the Transaction Account will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a financial institution (a) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch and (b) which is an authorised person under the FSMA; or
- the Account Bank will obtain a guarantee of its obligations under the Bank Account Agreement from a financial institution whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch,

in each case, provided that the Rating Agencies then rating the Covered Bonds confirm that the then current ratings of the Covered Bonds would not be adversely affected thereby. If the LLP cannot find a replacement account bank or the Account Bank cannot obtain a guarantee of its obligations, as described above, the LLP will open the Stand-by GIC Account and the Stand-by Transaction Account, with the Stand-by Account Bank (see below).

For the purposes hereof:

**GIC Account** means the account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Guaranteed Investment Contract, the Bank Account Agreement and the Deed of Charge or such additional or replacement account as may for the time being be in place with the prior consent of the Security Trustee.

**Transaction Account** means the account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such other account as may for the time being be in place with the prior written consent of the Security Trustee and designated as such.

### ***Governing Law***

The Bank Account Agreement is governed by English law.

### **Collateral Bank Account Agreement**

Pursuant to the terms of a bank account agreement entered into on 10 November 2006 (as amended and restated from time to time) between the LLP, HSBC Bank plc as collateral account bank (in such capacity, the **Collateral Account Bank**), the Cash Manager and the Security Trustee (the **Collateral Bank Account Agreement**), the LLP will maintain with the Collateral Account Bank an account denominated in euro (the **Collateral Account**). The purpose of the Collateral Account is to hold certain swap collateral posted by one or more Covered Bond Swap Counterparties.

At close of business on each London Business Day, subject to the short-term, unsecured, unsubordinated and unguaranteed debt obligations of Bradford & Bingley plc being rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch, the Collateral Account Bank will (if so directed by the Cash Manager) transfer the amount standing to the credit of the Collateral Account to a specified Bradford & Bingley plc account. All monies so transferred will be transferred back to the Collateral Account by no later than 9.00 a.m. on the following London Business Day.

The Cash Manager or the LLP shall (with the prior written consent of the Security Trustee), terminate the Collateral Bank Account Agreement if (i) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Collateral Account Bank fall below A-1 by S&P, P-1 by Moody's or F1 by Fitch and the Collateral Account Bank does not obtain a guarantee of its obligations from a financial institution with the requisite ratings or (ii) if certain insolvency related events occur in relation to the Collateral Account Bank.

### ***Governing Law***

The Collateral Bank Account Agreement is governed by English law.

### **Stand-by Bank Account Agreement**

Pursuant to the terms of a stand-by bank account agreement entered into on the Initial Programme Date between the LLP, Citibank N.A., London Branch (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (the **Stand-by Bank Account Agreement**), the LLP will open a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) with the Stand-by Account Bank if the LLP cannot find a replacement account bank in accordance with the terms of the Bank Account Agreement or the Account Bank cannot obtain a guarantee of its obligations, in each case if the short-term, unsecured, unsubordinated and unguaranteed debt obligations ratings of the Account Bank fall below the Account Bank Ratings, and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for any other reasons in accordance with its terms. The Stand-by GIC Account and the Stand-by Transaction Account will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

References in this Offering Circular to the GIC Account or the Transaction Account include references to the Stand-by GIC Account or the Stand-by Transaction Account when the Stand-by GIC Account and the Stand-by Transaction Account become operative.

References to the **LLP Accounts** mean the GIC Account, the Transaction Account and any additional or replacement accounts opened in the name of the LLP, including the Stand-by GIC Account and the Stand-by Transaction Account.

### ***Governing Law***

The Stand-by Bank Account Agreement is governed by English law.

### **Guaranteed Investment Contract**

The LLP has entered into a guaranteed investment contract with National Westminster Bank Plc (the **GIC Provider**), the Security Trustee and the Cash Manager on the Initial Programme Date (the **Guaranteed Investment Contract** or **GIC**), pursuant to which the GIC Provider has agreed to pay interest on the moneys standing to the credit thereof at specified rates determined in accordance with the GIC.

### ***Governing Law***

The Guaranteed Investment Contract is governed by English law.

### **Stand-by Guaranteed Investment Contract**

The LLP has entered into a stand-by guaranteed investment contract with Citibank N.A., London Branch (the **Stand-by GIC Provider**) on the Initial Programme Date (the **Stand-by Guaranteed Investment Contract**), pursuant to which the Stand-by GIC Provider has agreed to pay interest on the Stand-by GIC Account at specified rates determined in accordance with the Stand-by Guaranteed Investment Contract.

### ***Governing Law***

The Stand-by Guaranteed Investment Contract is governed by English law.

### **Jersey Corporate Services Agreement**

The First Designated Member, Holdings and the LLP have entered into a corporate services agreement with the Jersey Corporate Services Provider on the Initial Programme Date (the **Jersey Corporate Services Agreement**), pursuant to which the Jersey Corporate Services Provider has agreed to provide corporate services to the First Designated Member and Holdings.

### ***Governing Law***

The Jersey Corporate Services Agreement is governed by Jersey law.

### **UK Corporate Services Agreement**

The Second Designated Member, the LLP and the UK Share Trustee have entered into a corporate services agreement with the UK Corporate Services Provider on the Initial Programme Date (the **UK Corporate Services Agreement**), pursuant to which the UK Corporate Services Provider has agreed to provide corporate services to the Second Designated Member.

### ***Governing Law***

The UK Corporate Services Agreement is governed by English Law.

### **LLP Corporate Services Agreement**

The Seller, the First Designated Member, the Second Designated Member and the LLP have entered into a corporate services agreement with the LLP Corporate Services Provider on 12 April 2006 (the **LLP Corporate Services Agreement**), pursuant to which the LLP Corporate Services Provider has agreed to provide corporate services to the LLP.

### ***Governing Law***

The LLP 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 (such Deed of Charge as modified or supplemented and/or restated from time to time, the **Deed of Charge**), the obligations of the LLP in respect of the Covered Bonds under the Covered Bond Guarantee and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

- (a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the English Loans and their Related Security and other related rights comprised in the Portfolio;
- (b) an assignment by way of first fixed charge over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party;
- (c) a first 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 pursuant to the Scottish Declarations of Trust);

- (d) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including the Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;
- (e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts; and
- (f) a first floating charge over (i) all the assets and undertaking of the LLP governed by English law which are not, from time to time, subject to a valid fixed charge in favour of the Security Trustee pursuant to the Deed of Charge and (ii) all the assets and undertaking of the LLP located in or governed by the law of Scotland (whether or not subject to any fixed charge as aforesaid);

In respect of the property, rights and assets referred to in paragraph (c) above, fixed security will be created over such property, rights and assets sold to the LLP after the Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge. In the event of the delivery of assignments of Scottish Loans and their Related Security pursuant to the Mortgage Sale Agreement, the LLP will deliver fixed charges in the form of Scottish Sub-Securities in respect of the Scottish Loans and their related Scottish Mortgages then in the Portfolio to the Security Trustee pursuant to the Deed of Charge.

### ***Release of Security***

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, such Loans and their Related Security will be deemed automatically released or, in the case of Scottish loans, the Security Trustee will (at the request, cost and expense of the LLP) release those Loans and their Related Security from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if in the case of the Sale of Selected Loans, the 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, such Loans and their Related Security will be deemed automatically released or, in the case of Scottish Loans, the Security Trustee will (at the request, cost and expense of the LLP) release those Loans and their Related Security from the Security created by and pursuant to the Deed of Charge on the date of the repurchase.

### ***Enforcement***

***If an LLP Acceleration Notice is served on the LLP, the Security Trustee shall be entitled to appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the Security Trustee from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under Cashflows. Governing Law***

The Deed of Charge is governed by English law (other than each Scottish Supplemental Charge and Scottish Sub-Security granted pursuant to the Deed of Charge and certain other provisions relating to the property, rights and assets referred to in paragraph (c) above which in each case will be governed by Scots law).

## CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice on the LLP. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Asset Coverage Test is intended to ensure that the ratio of the LLP's assets to the Covered Bonds is maintained at a certain level;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice of Pay on the LLP;
- a Reserve Fund will be established in the GIC Account to trap Available Revenue Receipts if the Issuer's short-term ratings fall below A-1+ by S&P, F1+ by Fitch or P-1 by Moody's; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of 0.25 per cent. per annum below LIBOR for one-month Sterling deposits.

Certain of these factors are considered more fully in the remainder of this section.

### Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any other amount becoming payable in respect of the Covered Bonds for any other reason, including any accelerated payment pursuant to Condition 10 following the occurrence of an Issuer Event of Default. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment.

See further *Summary of the Principal Documents — Trust Deed*, as regards the terms of the Covered Bond Guarantee. See further *Cashflows — Guarantee Priority of Payments*, as regards the payment of amounts payable by the LLP to Covered Bondholders and other Secured Creditors following the occurrence of an Issuer Event of Default.

### Asset Coverage Test

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee 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 the Seller (in its capacity as a Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If the Asset Coverage Test



is failed on any Calculation Date, and such failure is not remedied on or before the next following Calculation Date, then an Issuer Event of Default will occur. The Asset Coverage Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and makes further adjustments to take account of set-off on a Borrower's current or deposit accounts held with the Seller, any set-off associated with drawings made by Borrowers under Flexible Loans and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Transfer Date. See further *Summary of the Principal Loans — LLP Deed — Asset Coverage Test*, above.

### **Amortisation Test**

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, the service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice) and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security, the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where Covered Bondholders may not be repaid, an LLP Event of Default will occur and all obligations owing under the Covered Bond Guarantee may be accelerated. Under the LLP Deed, the LLP and the Seller (in its capacity as a Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to an LLP Event of Default and service of an LLP Acceleration Notice, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further *Summary of the Principal Documents — LLP Deed — Amortisation Test*, above.

### **Reserve Fund**

If at any time prior to an Issuer Event of Default the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations cease to be rated A-1+ by S&P, P-1 by Moody's or F1+ by Fitch, the LLP will be required to establish a reserve fund (the **Reserve Fund**) on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the aggregate of £600,000 and all amounts due on the next following LLP Payment Date (the **Reserve Fund Required Amount**) in respect of items (a) to (c) of the Pre-Acceleration Revenue Priority of Payments or such other amount as is agreed with the Rating Agencies. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default.

The Reserve Fund will be funded from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger falling at item (c) of the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A **Reserve Ledger** will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

## CASHFLOWS

As described above under *Credit Structure*, until a Notice to Pay is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the cashflows of the LLP only, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority (all such orders of priority, the **Priorities of Payments**) (a) prior to an Issuer Event of Default and an LLP Event of Default, (b) following an Issuer Event of Default (but prior to an LLP Event of Default), and (c) following an LLP Event of Default, all in accordance with the LLP Deed or the Deed of Charge, as applicable.

### Definitions

For the purposes hereof:

**Available Principal Receipts** means on a relevant Calculation Date an amount equal to the aggregate of (without double counting):

- (a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the GIC Account (**but excluding** any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);
- (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds and/or the proceeds received by the LLP under the relevant Covered Bond Swap have not been applied to acquire New Portfolios, refinance an existing Term Advance, invest in Substitution Assets or make a Capital Distribution to a Member), (ii) any Cash Capital Contributions received from a Member and (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement;
- (c) all amounts in respect of principal (if any) received by the LLP under each Covered Bond Swap Agreement on the relevant LLP Payment Date (other than any termination payments or Swap Collateral Excluded Amounts).

**Available Revenue Receipts** means on a relevant Calculation Date, an amount equal to the aggregate of:

- (a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on the GIC Account (**but excluding** any Revenue Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);
- (b) prior to the service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (c) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and Authorised Investments in the preceding Calculation Period and amounts received by the LLP under the Interest Rate Swap Agreements, all amounts in respect of interest received by the LLP under each Covered Bond Swap Agreement on the relevant LLP Payment Date (other than any termination payments, additional amounts the LLP receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by a Swap Provider under a Swap Agreement or Swap Collateral Excluded Amounts) and any amount received by the LLP in consideration for entering into a replacement Swap;

- (d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account; and
- (e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund; less
- (f) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller (to the extent that the Third Party Amounts relate to Loans serviced by the Seller).

**Covered Bond Swap Rate** means in relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the relevant Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if such Covered Bond Swap Agreement has terminated, the applicable spot rate.

**Earliest Maturing Covered Bonds** means at any time each and all of the relevant Series of the Covered Bonds that has or have the earliest Final Maturity Date or, as applicable, Extended Final Maturity Date, as specified in the applicable Final Terms Document(s) (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default).

**Excluded Swap Termination Amount** means in relation to a Swap Agreement, an amount equal to the greater of zero and: (a) the amount of any termination payment due and payable (i) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (ii) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider; less (b) the amount, if any, received by the LLP from a replacement Swap Provider upon entry by the LLP into an agreement with such replacement Swap Provider to replace such Swap which has been terminated as a result of such Swap Provider Default or Swap Provider Downgrade Event.

**Final Maturity Date** means in respect of each Series of Covered Bonds, the Interest Payment Date on which such Series of Covered Bonds is expected to be redeemed at their Principal Amount Outstanding in accordance with the Conditions, as specified in the relevant Final Terms Document.

**Interest Payment Date** means in relation to any Fixed Rate Covered Bond, such date or dates as indicated in the applicable Final Terms Document and, in relation to any Floating Rate Covered Bond or Index Linked Interest Covered Bond, either:

- (a) the date which falls the number of months or other period specified as the **Specified Period** in the applicable Final Terms Document after the preceding Interest Payment Date or the Interest Commencement Date (in the case of the first Interest Payment Date); or
- (b) such date or dates as are indicated in the applicable Final Terms Document.

**LLP Payment Period** means the period from and including an LLP Payment Date to but excluding the next following LLP Payment Date.

**Principal Receipts** means:

- (a) principal repayments under the Loans (including payments of arrears, Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan);
- (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property);
- (c) any payment pursuant to any insurance policy in respect of a property the subject of a Mortgage in connection with a Loan in the Portfolio; and

- (d) the proceeds of the repurchase of any Loan by the Seller from the LLP pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date).

**Reserve Fund Required Amount** means zero unless the Issuer is rated less than A-1+ by S&P or less than P-1 by Moody's or less than F1+ by Fitch, in which case it is the aggregate of £600,000 and all amounts due on the next following LLP Payment Date in respect of items (a) to (c) of the Pre-Acceleration Revenue Priority of Payments or such other amount as is agreed with the Rating Agencies.

**Revenue Receipts** means:

- (a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the LLP in respect of the Loans other than the Principal Receipts;
- (b) recoveries of interest and outstanding fees from defaulting Borrowers under Loans being enforced; and
- (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed.

**Sale Proceeds** means the cash proceeds realised from the sale of Selected Loans and their Related Security.

The **Sterling Equivalent** of any amount means (a) in relation to a Covered Bond or Series of Covered Bonds or Term Advance which is denominated in a currency other than Sterling, the Sterling Equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Covered Bond or Series of Covered Bonds or Term Advance and (b) in relation to a Covered Bond or Series of Covered Bonds or Term Advance denominated in Sterling, the applicable amount in Sterling.

**Swap Collateral** means, at any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed.

**Swap Collateral Excluded Amounts** means, at any time, the amount of Swap Collateral which may not be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP under the terms of the relevant Swap Agreement.

**Swap Provider Default** means the occurrence of an Event of Default (as defined in the Swap Agreements) where the relevant Swap Provider is the Defaulting Party (as defined in the relevant Swap Agreement) other than a Swap Provider Downgrade Event.

**Swap Provider Downgrade Event** means the occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement.

**Third Party Amounts** include:

- (a) payments of insurance premiums due to any provider of mortgage indemnity guarantees;
- (b) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer account;
- (c) payments by the Borrower of any fees (including any fees (other than the standard redemption fee charged to the Borrower by the Seller where the Borrower makes a repayment of the full outstanding

principal of a Loan) which the Borrower is required to pay in the event that the Borrower is in default or his or her Loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant Loan before a specified date (**Early Repayment Fees**), and other charges which are due to the Seller; and

- (d) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to either that Borrower or the Seller or the LLP, which amounts may be paid daily from moneys on deposit in the GIC Account.

***Allocation and Distribution of Revenue Receipts prior to the service of a Notice to Pay***

Prior to service of a Notice to Pay on the LLP or the service of an LLP Acceleration Notice on the LLP, Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP or the Cash Manager on its behalf shall calculate:

- (a) the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date; and
- (b) the Reserve Fund Required Amount.

If the LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Revenue Receipts under the **Pre-Acceleration Revenue Priority of Payments** will be delayed until the Issuer has made scheduled interest payments and/or principal repayments on that Interest Payment Date.

***Pre-Acceleration Revenue Priority of Payments***

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts from the GIC Account to the Transaction Account, in an amount equal to the lesser of (a) the amount required to make the payments described below and (b) the amount of Available Revenue Receipts.

Prior to service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or the 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 third parties by the LLP under paragraph (a), which shall be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction of any amounts due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay and discharge any liability of the LLP for taxes;
- (b) *second*, in or towards satisfaction pro rata and pari passu according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under

the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period plus any applicable VAT (or similar taxes) thereon as provided therein;

- (iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (iv) amounts (including costs and expenses) due and payable to the Corporate Services Providers pursuant to the terms of the Corporate Services Agreements, plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (v) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (i) below), plus any applicable VAT (or similar taxes) thereon as provided therein;
- (c) *third*, in or towards payment *pro rata* and *pari passu*, of any amount due to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the Interest Rate Swap Agreement;
  - (d) *fourth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof any amount due to the Covered Bond Swap Providers (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the relevant Covered Bond Swap Agreements;
  - (e) *fifth*, towards a credit to the Reserve Ledger on the GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
  - (f) *sixth*, if a Servicer Event of Default has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Event of Default is either remedied or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
  - (g) *seventh*, to pay *pro rata* and *pari passu* according to the respective amounts thereof on each Interest Payment Date only, any amounts due and payable (excluding principal amounts due and payable), on each Interest Payment Date falling prior to the next following LLP Payment Date to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
  - (h) *eighth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreements;
  - (i) *ninth*, towards payment of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement;
  - (j) *tenth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed;
  - (k) *eleventh*, towards payment *pro rata* and *pari passu* to the Members of the sum to be allocated and paid to each Member in accordance with their respective entitlement to Revenue Receipts, as set out in the LLP Deed as at the relevant Calculation Date subject to a minimum of £1.00 each, as their profit for their respective interests as Members in the LLP.

### ***Allocation and Distribution of Principal Receipts prior to service of a Notice to Pay***

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

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

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lesser of (a) the amount required to make the payments described below and (b) the amount of all Available Principal Receipts.

If an LLP Payment Date is the same as an Interest Payment Date or Final Maturity Date, then the distribution of Available Principal Receipts under the relevant Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest payments and/or principal repayments on that Interest Payment Date or Final Maturity Date.

### ***Pre-Acceleration Principal Priority of Payments***

Prior to service of a Notice to Pay on the LLP and an LLP Acceleration Notice on the Issuer and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security all Available Principal Receipts (other than Cash Capital Contributions made from time to time by a Member, which shall (subject to complying with the Asset Coverage Test) be distributed to a Member as a Capital Distribution) will be applied by or on behalf of the LLP on each LLP Payment Date in making the following payments and provisions (the **Pre-Acceleration Principal Priority of Payments**):

- (a) *first*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test, and thereafter to acquire Substitution Assets;
- (b) *second*, to deposit the remaining Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount equal to the greater of an amount sufficient to ensure (in each case taking into account the other resources available to the LLP) that the LLP is in compliance with:
  - (i) the Asset Coverage Test; and
  - (ii) the Asset Coverage Test assuming that the Asset Percentage used in such test has been calculated using the model supplied to the LLP by Moody's;
- (c) *third*, provided that all principal amounts outstanding under a Series of Covered Bonds have been repaid in full, in or towards repayment of the corresponding Term Advance relating to such existing Series of Covered Bonds by making the following payments:
  - (i) amounts (in respect of principal) due and payable to the relevant Covered Bond Swap Provider in respect of the relevant Term Advances (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement to the extent that such amounts are not paid in accordance with the Pre-Acceleration Revenue Priority of Payments but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) amounts (in respect of principal) due (or to become due in the immediately succeeding LLP Payment Period) to the Issuer in respect of the relevant Term Advance; and

- (d) *fourth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution *pari passu* to each Member (other than the Designated Members) by way of distribution of that Member's equity in the LLP in accordance with the LLP Deed.

#### ***Allocation and Distribution of moneys following service of a Notice to Pay***

At any time after the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or the realisation of the Security, all moneys (other than Third Party Amounts) will be applied as described below.

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lesser of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount standing to the credit of the GIC Account.

The LLP will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) of the Guarantee Priority of Payments (below), and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled repayment date thereof.

#### ***Guarantee Priority of Payments***

On each LLP Payment Date after the service of a Notice to Pay on the LLP (but prior to the occurrence of an LLP Event of Default), the LLP or the Cash Manager on its behalf will apply moneys standing to the credit of the Transaction Account to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and plus any applicable VAT (or similar taxes) thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any remuneration then due and payable to the Agent Bank and the Paying Agents under or pursuant to the Paying Agency Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for taxes;



- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (iv) any amounts (including costs and expenses) due and payable to the Corporate Services Providers pursuant to the Corporate Services Agreements, plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (v) any amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (j) below) pursuant to the terms of the Asset Monitor Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
- (d) *fourth*, in or towards satisfaction *pro rata* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Providers (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreements;
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:
- (i) amounts due and payable to the relevant Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Interest that is Due for Payment or will become Due for Payment in the immediately succeeding LLP Payment Period under the Covered Bond Guarantee in respect of each Series of Covered Bonds,
- provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is Due for Payment in respect of each Series of Covered Bonds under (e)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (e)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;
- (f) *sixth*, to pay or provide for, *pro rata* and *pari passu*, according to the respective amounts thereof, of:

- (i) the amounts (in respect of principal) due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of the relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
- (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Principal that is Due for Payment or will become Due for Payment in the immediately succeeding LLP Payment Period under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received from the Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment in respect of each Series of Covered Bonds under (f)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (f)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (g) *seventh*, to deposit the remaining moneys in the GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (f) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;
- (i) *ninth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining moneys will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;
- (j) *tenth*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (k) *eleventh*, thereafter any remaining moneys will be applied in accordance with the LLP Deed.

***Application of moneys received by the Security Trustee following the occurrence of an LLP Event of Default, the realisation of the Security and/or the commencement of winding-up proceedings against the LLP***

Under the terms of the Deed of Charge, each of the Secured Creditors has agreed that all moneys received or recovered by the Security Trustee or any other Secured Creditor (whether in the administration, liquidation of the LLP or otherwise) following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP will be applied in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) first, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of:

- (i) all amounts due and payable or to become due and payable to:
  - (A) the Bond Trustee under the provisions of the Trust Deed together with interest, plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (B) the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest, plus any applicable VAT (or similar taxes) thereon as provided therein;
- (ii) any remuneration then due and payable to the Agent Bank and the Paying Agents under or pursuant to the Paying Agency Agreement plus any applicable VAT (or similar taxes) thereon as provided therein;
- (iii) amounts in respect of:
  - (A) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (B) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
  - (C) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Account Bank) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), plus any applicable VAT (or similar taxes) thereon as provided therein; and
  - (D) amounts (including costs and expenses) due to the Corporate Services Providers pursuant to the terms of the Corporate Services Agreements, plus any applicable VAT (or similar taxes) thereon as provided therein;
- (iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment due and payable under the Interest Rate Swap Agreement (but excluding any Excluded Swap Termination Amounts)) pursuant to the terms of the Interest Rate Swap Agreement;
- (v) all amounts due and payable:
  - (A) to the relevant Covered Bond Swap Provider pro rata and pari passu in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement (but excluding any Excluded Swap Termination Amount)) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
  - (B) under the Covered Bond Guarantee to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent for payment to the Covered Bondholders pro rata and pari passu in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received from any Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under (e)(ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (e)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (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*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (e) *fifth*, thereafter any remaining moneys shall be applied pursuant to the LLP Deed.

provided that unless and until the Issuer has been admitted to the register of issuers pursuant to Regulation 14 of the RCB Regulations, items (i) to (v) of (a) above shall not be applied *pari passu* but shall be applied in accordance with the order of priority set out in paragraph (a), with amounts being applied in respect of paragraph (a)(i) (with items (A) and (B) thereof being paid on a *pro rata* and *pari passu* basis), then (a)(ii), then (a)(iii) (with items (A) and (D) thereof being paid on a *pro rata* and *pari passu* basis), then (a)(iv) and then (a)(v) (with items (A) and (B) thereof being paid on a *pro rata* and *pari passu* basis), in each case only if and to the extent that payment in respect of a higher order of priority has been made in full.

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

- (i) persons providing services for the benefit of Covered Bondholders (which is likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));
- (ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and
- (iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in paragraphs (i) and (ii) above (e.g. liquidity loans),

shall be expenses which shall be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding up or provisional liquidation), and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further, *Risk Factors – Expenses of Insolvency officeholders*.

## DESCRIPTION OF THE COVERED BOND REGULATIONS

The RCB Regulations and the corresponding implementation provisions, set out in the new RCB Sourcebook to the FSA's Handbook (the **RCB Sourcebook**), came into force in the UK on 6 March 2008. In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 22(4) of Directive 85/611 EC on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting. The FSA will notify the European Commission of an issuer's inclusion in the register of issuers, regulated covered bonds included in the register of regulated covered bonds and the status of the guarantees offered in respect of such bonds, once the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made covered bonds are not UCITS compliant.

The RCB Regulations and the RCB Sourcebook include various requirements related to issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FSA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FSA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above). While the framework has been shaped to generally accommodate existing UK covered bond structures (such as that contemplated in respect of Covered Bonds previously issued under the Programme), certain changes are required to such structures to meet the requirements of the RCB Regulations.

The FSA will perform certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FSA has certain powers under the RCB Regulations. In particular, in certain circumstances the FSA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

On or prior to 30 April 2008, the Issuer intends to apply to the FSA for admission to the register of issuers and for the Programme and any Covered Bonds previously issued under the Programme to be admitted to the register of regulated covered bonds under RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds previously issued under the Programme will be so registered or regulated. Pursuant to the RCB Regulations, the timetable for assessment by the FSA of an application should not be more than six months. However, if the FSA requires additional information from the Issuer within such time period, the six months will commence from the date of receipt of such additional information. Covered Bondholders will be notified promptly by the Issuer upon receipt from the FSA of its final decision on the application.

See also "*Risk Factors – UK regulated covered bond regime*" and – "*Expenses of insolvency officeholders*".

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**), consists of Loans and their Related Security sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under *Summary of the Principal Documents — Mortgage Sale Agreement*.

For the purposes hereof:

**Initial Portfolio** means the portfolio of Loans and their Related Security, particulars of which are set out in the Mortgage Sale Agreement (other than any Loans and their Related Security which have been redeemed in full prior to the First Transfer Date), and all right, title, interest and benefit (other than in respect of any mortgage indemnity guarantee) of the Seller in and to:

- (a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal moneys, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Terms;
- (b) subject where applicable to the subsisting rights of redemption of Borrowers, all deeds of consent, deeds of postponement or any collateral security for the repayment of the relevant Loans;
- (c) the right to exercise all the powers of the Seller in relation thereto;
- (d) all the estate and interest in the Properties vested in the Seller;
- (e) each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof; and
- (f) all rights, title and interests of the Seller (including, without limitation, the proceeds of all claims) to which the Seller is entitled under the buildings policies and the properties in possession cover.

**MH/CP Documentation** means an affidavit, declaration, covent or remuneration granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the Property secured thereby.

**New Portfolio** means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit (other than in respect of any mortgage indemnity guarantee) of the Seller in and to the rights and assets set out in paragraphs (a) to (f) above.

See also the following investment considerations under *Risk Factors — Investment Considerations relating to the LLP — Limited description of the Portfolio — Maintenance of Portfolio and — Changes to the Lending Criteria of the Seller*.

## **DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS**

Since 6 April 2001, it has been possible to incorporate a limited liability partnership in England, Wales and Scotland (but not Northern Ireland) under the LLPA 2000. Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

### **Corporate characteristics**

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts, or delicts like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 1985 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2001 so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

### **Partnership characteristics**

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

### **Taxation**

Limited liability partnerships are tax transparent except in the case of VAT (in respect of which a limited liability partnership can register for VAT in its own name) and in certain winding-up proceedings. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are taxed in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are taxed in relation to the business of that partnership.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

#### ***DTC***

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Covered Bonds under the DTC system (**DTC Covered Bonds**) must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC’s records. The ownership interest of each actual purchaser of each Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial



ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of the Issuer or Principal Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its 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 or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TAXATION

### United Kingdom Taxation

*The following is a general description of certain United Kingdom tax considerations relating to the Covered Bonds based on the Issuer's understanding of current law and practice in the United Kingdom. It does not purport to be a complete analysis of all tax considerations relating to the Covered Bonds. The United Kingdom tax treatment of prospective purchasers of Covered Bonds depends on their individual circumstances and may be subject to change in the future. Prospective purchasers of Covered Bonds who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should consult their own professional tax advisers. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.*

### Payment of Interest by the Issuer on the Covered Bonds

The Issuer, provided that it continues to be a bank within the meaning of section 991 of the Income Tax Act 2007 (ITA), and provided that the interest on the Covered Bonds is paid in the ordinary course of its business within the meaning of section 878 ITA, will 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 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 ITA. The Luxembourg Stock Exchange is a recognised stock exchange. The Covered Bonds will satisfy this requirement if they are officially listed in Luxembourg, in accordance with provisions corresponding to those generally applicable in European Economic Area states and are admitted to trading on the official list of the Luxembourg Stock Exchange;
- (b) the maturity of the Covered Bonds is less than 365 days; or
- (c) the interest on the Covered Bonds is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Covered Bonds is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that H.M. Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In 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 savings rate (currently 20 per cent.) (or, if the Finance Bill 2008 is enacted in its current form, from 6 April 2008, the basic rate which would also be 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to interest paid to a Covered Bondholder, H.M. Revenue & Customs can issue a notice to the Issuer to pay interest to the Covered Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Covered Bondholders may wish to note that, in certain circumstances, H.M. Revenue & Customs 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 and regardless of whether tax is required to be withheld or deducted from such interest. Amounts payable on the redemption of Covered Bonds which are deeply discounted securities as defined in the legislation are also treated as interest for these purposes, although H.M. Revenue & Customs published practice indicates 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 2009. Any information obtained may, in certain circumstances, be exchanged by H.M. Revenue & Customs with the tax authorities of the jurisdiction in which the Covered Bondholder is resident for tax purposes.

### **Other rules relating to United Kingdom withholding tax**

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

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

### **Payments by the LLP**

If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds) such payment may be subject to United Kingdom withholding tax, whether or not the Covered Bonds are listed on a “recognised stock exchange” within the meaning of section 1005 of ITA. If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland). The attention of Covered Bondholders is drawn to Condition 7(d).

### **Luxembourg taxation**

#### ***Withholding Tax***

##### *Non-resident holders of Covered Bonds*

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Covered Bonds, nor on accrued but unpaid interest in respect of the Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident holders of Covered Bonds.

Under the Laws implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or

establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

#### *Resident holders of Covered Bonds*

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Covered Bonds, nor on accrued but unpaid interest in respect of Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Covered Bonds held by Luxembourg resident holders of Covered Bonds.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Law would be subject to withholding tax of 10 per cent.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, either in a programme agreement (as the same is incorporated by reference into a subscription agreement entered into by each Dealer for each issue of Covered Bonds subscribed pursuant to a subscription agreement (each a **Subscription Agreement**) and as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated the Initial Programme Date and as amended and restated on 12 April 2006 and on the Programme Date, or in a dealer accession letter to the Programme which incorporates the duties and obligations assumed by Dealers under the Programme Agreement, agreed between the Arranger, the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under *Form of the Covered Bonds and Terms and Conditions of the Covered Bonds*. In the Programme Agreement, the Issuer has agreed to reimburse the Arranger for certain of its expenses in connection with the establishment and the Arranger and the Dealers for certain of their expenses (as agreed in writing at the time) in connection with any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Arranger and the Dealers against certain liabilities incurred by them in connection therewith.

### Transfer and Selling 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 or (b) it is outside the United States and is not a U.S. person;
- (ii) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or any applicable U.S. State securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth in paragraph (iii) 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 144A under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (iv) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;

- (v) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds and that Covered Bonds initially offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (vi) that the Rule 144A Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THE COVERED BONDS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION OF THE COVERED BONDS REPRESENTED BY THIS CERTIFICATE OR OF ANY BENEFICIAL INTEREST OR PARTICIPATION THEREIN, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE COVERED BONDS REPRESENTED HEREBY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND TRUST DEED 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 COVERED BONDS, 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 144A 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) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THE COVERED BONDS REPRESENTED BY THIS CERTIFICATE ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THE COVERED BONDS REPRESENTED BY THIS CERTIFICATE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT AND TRUST DEED 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 SUCH COVERED BONDS 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 THE COVERED BONDS REPRESENTED BY THIS CERTIFICATE 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 THE COVERED BONDS REPRESENTED HEREBY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON). PROSPECTIVE PURCHASERS ARE HEREBY



NOTIFIED THAT A SERIES PORTFOLIO SELLER OF THESE COVERED BONDS MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A;

- (vii) if it is outside the United States and is not a U.S. person, and is not holding the Covered Bonds for the account or benefit of 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(s), in the case of a non-syndicated issue, or the relevant 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 Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THE COVERED BONDS REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND THE TRUST DEED IN RESPECT OF SUCH COVERED BONDS AND PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, 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.

No sale of Rule 144A Covered Bonds in the United States to any one purchaser will be for less than U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount and no Rule 144A Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount of Rule 144A Covered Bonds.

To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Rule 144A Covered Bonds and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

## **Selling Restrictions**

### **United States**

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 an exemption from the registration requirements of the Securities Act provided under Regulation S (**Regulation S Covered Bonds**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Covered Bonds (a) as part of their distribution at any time or (b) 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(s) in the case of a non-syndicated issue or the relevant lead manager, in the case of a syndicated issue) within the United States or to, or for the account or benefit of, U.S. persons, except in either case in accordance with Rule 903 of Regulation S under the Securities Act (including the prohibition on directed selling efforts in the United States under Rule 903(a)(2) of Regulation S). Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the later of the commencement of the offering of any Series of Covered Bonds and the Issue Date with respect thereto, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Programme Agreement provides that selected Dealers, through their selling agents which are registered broker-dealers in the United States, may resell the Covered Bonds in the United States to QIBs pursuant to Rule 144A under the Securities Act 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.

Each Dealer appointed under the Programme Agreement will be required to represent and agree in respect of transactions under Rule 144A that it has not (and will not), nor has (nor will) any person acting on its behalf, (a) made offers or sales of any security, or solicited offers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Covered Bonds under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Covered Bonds in the United States.

Each issuance of Index Linked Covered Bonds or Dual Currency Covered Bonds shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer(s) may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Final Terms Document.

## United Kingdom

Each 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 LLP or, in the case of the Issuer, would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

## 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 and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of an offering contemplated by the Prospectus as completed by the Final Terms Document in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) if the Final Terms Document in relation to the Covered Bonds specifies that an offer of those Covered Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Covered Bonds which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms Document contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms Document, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

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

## **General**

Each Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Additionally, with regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms Document.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by a resolution of a committee of the board of directors of the Issuer dated 20 May 2004 and the giving of the Covered Bond Guarantee has been duly authorised by a resolution of a committee of the board of directors or, as the case may be, the board of directors of each of the Members of the LLP dated 20 May 2004.

The update of the Programme, including the increase of the programme size from €10 billion to €15 billion, has been duly authorised by:

- (a) a resolution of a committee of the board of directors of the Issuer dated 25 April 2008; and
- (b) a resolution of a committee of the board of directors, or, as the case may be, the board of directors of each of the Members of the LLP dated 24 April 2008.

### Listing of Covered Bonds on the official list of the Luxembourg Stock Exchange

Application has been made to the CSSF to approve this document as a base prospectus. Application has been made to list the Covered Bonds issued under the Programme on the official list of the Luxembourg Stock Exchange.

The listing of the Covered Bonds on the official list of the Luxembourg Stock Exchange will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be listed on the official list of the Luxembourg Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond or a Rule 144A Global Covered Bond initially representing the Covered Bonds of such Tranche.

### Documents Available

So long as Covered Bonds are capable of being issued under the Programme, copies of the following documents will, when published, be available (other than in respect of item (a)) free of charge and (in respect of item (i)) will be available for inspection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London or in Luxembourg at the office of the Luxembourg Listing Agent and/or the Luxembourg Paying Agent:

- (a) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the LLP;
- (b) the consolidated audited financial statements of the Issuer in respect of the financial periods ended 31 December 2006 and 2007 and the audited non-consolidated accounts of the LLP in respect of the financial periods ended 31 December 2006 and 2007. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis. The LLP currently prepares audited non-consolidated accounts on an annual basis;
- (c) the most recently published audited annual financial statements of the Issuer and the LLP and the most recently published unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis;

- (d) the forms of the Global Covered Bonds, the Definitive Covered Bonds, the Receipts, the Coupons and the Talons;
- (e) a copy of this Offering Circular;
- (f) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms Documents (including a Final Terms Document relating to an unlisted Covered Bond) to this Offering Circular and any other documents incorporated herein or therein by reference;
- (g) the most recent copy of the Investor Report prepared by the Cash Manager on a monthly basis including, *inter alia*, information on compliance with the Asset Coverage Test;
- (h) each of the following transaction documents (the **Transaction Documents**), namely:
  - (a) Mortgage Sale Agreement
  - (b) each Scottish Declaration of Trust
  - (c) Servicing Agreement
  - (d) Asset Monitor Agreement
  - (e) Intercompany Loan Agreement
  - (f) LLP Deed
  - (g) Cash Management Agreement
  - (h) each Interest Rate Swap Agreement
  - (i) each Covered Bond Swap Agreement
  - (j) Guaranteed Investment Contract
  - (k) Stand-by Guaranteed Investment Contract
  - (l) Bank Account Agreement
  - (m) Stand-by Bank Account Agreement
  - (n) each Corporate Services Agreement
  - (o) 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)
  - (p) Trust Deed
  - (q) the Intercompany Mortgage Sale Agreement
  - (r) the Intercompany Servicing Agreement
  - (s) Agency Agreement
  - (t) Programme Agreement

- (u) each Final Terms Document (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a Subscription Agreement)
- (v) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed pursuant to a subscription agreement)
- (w) Master Definitions and Construction Agreement.

Items (c), (d), (e) and (g) above will also be available for inspection free of charge from the internet site of the Luxembourg Stock Exchange, at [www.bourse.lu](http://www.bourse.lu).

### **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 Document. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms Document. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms Document.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg and the address of DTC is 55 Water Street, 22nd Floor, New York, NY 10041-0099 (USA).

### **Conditions for determining price**

The price and amount of 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.

### **Significant or Material Change**

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer and its subsidiaries, taken as a whole since 31 December 2007 or of the LLP since 31 December 2007 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries, taken as a whole since 31 December 2007 or of the LLP since 31 December 2007.

### **Litigation**

Neither the Issuer nor the LLP is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the LLP is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the LLP.

### **Auditors**

The auditor of the Issuer are KPMG Audit Plc, chartered accountants with the Institute of Chartered Accountants in England and Wales and registered auditors, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31 December 2006 and 31 December 2007.

The auditor of the LLP are KPMG Audit Plc, chartered accountants with the Institute of Chartered Accountants in England and Wales and registered auditors, 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 2006 and 31 December 2007.

### **Reports**

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

### **Post-issuance information**

The Issuer provides monthly Investor Reports which are available online, without charge, from [www.bbg.co.uk](http://www.bbg.co.uk).



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