Yorkshire Building Society

(*incorporated in England and Wales under the Building Societies Act 1986, as amended*)

€7.5 billion

Global Covered Bond Programme unconditionally and irrevocably guaranteed as to payments of interest and principal by Yorkshire Building Society Covered Bonds LLP

(a limited liability partnership incorporated in England and Wales)

Under this €7.5 billion covered bond programme (the **Programme**), Yorkshire Building Society (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). The price and amount of the Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Yorkshire Building Society 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 €7.5 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

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

See *Risk Factors* on page 29 of this Prospectus for a discussion of certain factors to be considered in connection with an investment in the Covered Bonds.

This Prospectus constitutes a Base Prospectus for the purposes of the Prospectus Directive - Directive 2003/71/EC (as amended or superseded), which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant member state (the **Prospectus Directive**). Application has been made to the Financial Conduct Authority (the **FCA**) under Part VI of the Financial Services and Markets Act 2000 (the **FSMA**) for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the **UK**), for approval of this Prospectus as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Covered Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the FCA (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange which is a "regulated market" for the purposes of Directive 2014/65/EU (the **MiFID II**) (the **regulated market of the London Stock Exchange**). References in this Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the regulated market of the London Stock Exchange and have been admitted to the Official List. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (**Final Terms**) which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

On 11 November 2008, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) were admitted to the register of regulated covered bonds, under the Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714), the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) and the Regulated Covered Bonds (Amendment) Regulations 2012 (SI 2012/2977) (the **RCB Regulations**).

The Covered Bonds and the Covered Bond Guarantee (as defined below) have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), or the securities laws of any state of the United States or other territory, and may not be offered or sold in the United States or to or for the account or benefit of any 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 and any applicable local, state or federal securities laws. See "*Form of the Covered Bonds*" for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

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

Each Series of Covered Bonds issued under the Programme will have the rating set out in the applicable Final Terms. 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.

The rating of certain Series of Covered Bonds to be issued under the Programme will be specified in the applicable Final Terms. The credit ratings included and referred to in this Prospectus have been issued by Fitch Ratings Limited (**Fitch**) and/or Moody's Investor Service Ltd (**Moody's**) each of which is a credit rating agency established in the European Union and registered under Regulation (EU) No 1060/2009 (as amended or restated) (the **CRA Regulation**). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Amounts payable on Floating Rate Covered Bonds may be calculated by reference to one of LIBOR, EURIBOR or SONIA as specified in the relevant Final Terms. As at the date of this Prospectus, the administrator of LIBOR (ICE Benchmark Administration Limited) and EURIBOR (European Money Markets Institute) are included in ESMA's register and the administrator of SONIA is not included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the Bank of England are not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

Arrangers for the Programme

BARCLAYS HSBC

The date of this Prospectus is 17 July 2019

This Prospectus has been approved by the FCA as a base prospectus for the purposes of the Prospectus Directive and has been published in accordance with the prospectus rules made under the FSMA. This Prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision or order under the Securities Act.

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

Copies of each set of Final Terms in relation to Covered Bonds issued pursuant to this Prospectus will be available from the registered office of the Issuer and (from the specified office set out below of each of the Paying Agents (as defined below).

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

The information contained in this Prospectus was obtained from the Issuer and other sources, but no assurance can be given by the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, any Agent, the Custodian or the Stand-by Account Bank as to the accuracy or completeness of this information. Accordingly, no representation, warranty or undertaking, express or implied, is made and, to the extent permitted by law, no responsibility or liability is accepted by the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, any Agent, the Custodian or the Stand-by Account Bank as to (i) the accuracy or completeness of any statement, representation, warranty or covenant of the Issuer and/or the LLP contained or incorporated in this Prospectus, the Transaction Documents or any other information provided by the Issuer and the LLP in connection with the Programme or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof or (ii) any other statement, made or proposed to be made by any of the Dealers, the Arrangers, the Bond Trustee, the Security Trustee, any Agent, the Custodian or the Stand-by Account Bank or on its behalf in connection with the Issuer, the LLP or the issue and/or offering of any Covered Bonds. Neither the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, any Agent, the Custodian nor the Stand-by Account Bank accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer and the LLP in connection with the Programme. Accordingly, each of the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, each Agent, the Custodian and the Stand-by Account Bank disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement or information.

No person is or has been authorised by the Issuer, the LLP, any of the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, any Agent, the Custodian or the Stand-by Account Bank to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised

by the Issuer, the LLP, any of the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, any Agent, the Custodian or the Stand-by Account Bank.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the LLP, the Seller, any of the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, any Agent, the Custodian or the Stand-by Account Bank that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the LLP. None of the Arrangers or the Dealers have conducted any due diligence in relation to the Issuer, the LLP and/or the Portfolio and have not prepared any report or statements (whether financial or otherwise) in relation to the Issuer, the LLP and/or the Portfolio. The contents of this Prospectus should not be construed as providing legal, business, accounting or tax advice by any party (including the Arrangers and the Dealer) and each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Covered Bonds. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, the LLP, the Seller, any of the Arrangers, the Dealers, the Bond Trustee, the Security Trustee, any Agent, the Custodian or the Stand-by Account Bank to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and/or the LLP and/or the Seller is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers, the Dealers, the Bond Trustee, the Security Trustee, each Agent, the Custodian and the Stand-by Account Bank expressly do not undertake to review the financial condition or affairs of the Issuer, the LLP or the Seller during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Covered Bonds.

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or other territory.

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. Treasury regulations (see "*Subscription and Sale and Transfer and Selling Restrictions*" below). Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the U.S. Treasury regulations promulgated thereunder.

As set forth in the applicable Final Terms, the Covered Bonds are being offered and sold (a)(i) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act (Rule 144A) ("QIBs") or (ii) to institutional "accredited investors" as defined in Rule 501(a) (1), (2), (3) or (7) under the Securities Act ("Institutional Accredited Investors" or "IAIs") and/or (b) to non-U.S. persons in offshore transactions in accordance with Regulation S under the Securities Act ("Regulation S"). 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.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or

otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the Prospectus Directive). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended or superseded, the PRIIPs Regulation) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET – The Final Terms in respect of any Covered Bonds will include a legend entitled "MiFID II Product Governance" which outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the MiFID Product Governance Rules), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

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

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

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

- **have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;**

- **have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;**

- **have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;**

- **understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and**

- **be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.**

Some Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and 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.

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

In connection with the issue of any Tranche of Covered Bonds, one or more relevant Dealers acting as stabilising manager (each a Stabilising Manager) may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. 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 cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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

adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

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

US INFORMATION

The Covered Bonds and the Covered Bond Guarantee have not been approved or disapproved by the SEC or any state securities commission or other regulatory authority in the United States, nor have any of the foregoing authorities approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence.

This Prospectus is being provided on a confidential basis in the United States to a limited number of QIBs or IAIs in connection with their consideration of the purchase of the Covered Bonds being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Covered Bonds may be offered or sold within the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act) only to QIBs or Institutional Accredited Investors, in either case in transactions exempt from or not subject to the registration requirements under the Securities Act and any applicable local, state or federal securities laws. Each U.S. purchaser of Registered Covered Bonds is hereby notified that the offer and sale of any Registered Covered Bonds to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act or Section 4(a)(2) of the Securities Act.

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

AVAILABLE INFORMATION

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

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

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

FORWARD-LOOKING STATEMENTS

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

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

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PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

Issuer:	Yorkshire Building Society
Guarantor:	Yorkshire Building Society Covered Bonds LLP
Regulated Covered Bonds:	On 11 November 2008, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) were admitted to the register of regulated covered bonds "http://www.fca.org.uk/firms/systems-reporting/register/use/other-registers/rcb-register" [1]
Nature of eligible property:	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
Compliant with the Banking Consolidation Directive (Directive 2006/48/EC) (as amended):	Yes
Location of eligible residential property underlying Mortgage Loans:	England, Wales, Scotland or Northern Ireland
Maximum True Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:	75.0%
Maximum Asset Percentage:	92.5 per cent.
Asset Coverage Test:	As set out on page 176
Statutory minimum overcollateralisation	The eligible property in the asset pool must be more than 108% of the Principal Amount Outstanding of the Covered Bonds
Amortisation Test:	As set out on page 179
Extended Maturities:	Available
Hard Bullet Maturities:	Not Available
Asset Monitor:	Deloitte LLP
Asset Segregation:	Yes
Namensschuldverschreibungen option:	No
Single/Multi Asset Pool designation:	Single Asset Pool, consisting of residential mortgage loans and liquid assets
Substitution Assets:	Asset backed securities are not eligible property and cannot form part of the Asset Pool

[1] The content of this website does not form part of this prospectus.
The content of this website does not form part of this prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the FCA (or its predecessor the Financial Services Authority) shall be deemed to be incorporated in, and to form part of, this Prospectus:

(a) the audited consolidated annual accounts (including the auditors' report thereon and the notes thereto) of the Issuer and its subsidiaries for the years ended 31 December 2017 and 31 December 2018; and

(b) the audited consolidated annual accounts (including the auditors' report thereon and the notes thereto) of the LLP for the financial years ended 31 December 2017 and 31 December 2018;

(c) the sections entitled "Terms and Conditions of the Covered Bonds" set out on pages 74 to 110 (inclusive) of the prospectus dated 25 April 2008 (as amended pursuant to the Global Deed of Amendment), pages 83 to 124 (inclusive) of the prospectus dated 26 June 2009 (as amended pursuant to the Global Deed of Amendment), pages 86 to 127 (inclusive) of the prospectus dated 23 August 2010, pages 90 to 131 (inclusive) of the prospectus dated 15 March 2012, pages 82 to 122 (inclusive) of the prospectus dated 17 May 2013, pages 87 to 127 (inclusive) of the prospectus dated 30 May 2014, pages 88 to 129 (inclusive) of the prospectus dated 3 June 2015, pages 87-128 (inclusive) of the prospectus dated 3 June 2016, pages 93 to 134 (inclusive) of the prospectus dated 28 June 2017 and pages 99 to 143 (inclusive) of the prospectus dated 28 June 2018 (for the avoidance of doubt, the applicable Final Terms for a Series or Tranche of Covered Bonds will indicate the Terms and Conditions applicable to such Series or Tranche and unless otherwise indicated in the applicable Final Terms, the Terms and Conditions of all Covered Bonds issued after the date hereof shall be those set out in full in this Prospectus). The remaining portions of the prospectus dated 25 April 2008, the prospectus dated 26 June 2009, the prospectus dated 23 August 2010, the prospectus dated 15 March 2012, the prospectus dated 17 May 2013, the prospectus dated 30 May 2014, the prospectus dated 3 June 2015, the prospectus dated 3 June 2016, the prospectus dated 28 June 2017 and the prospectus dated 28 June 2018 are not relevant for prospective investors,

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

Any information not listed above but included in the documents incorporated by reference is either not relevant for an investor or is covered elsewhere in this Prospectus.

Documents that are themselves incorporated by reference in any of the documents incorporated by reference above shall not be incorporated in, or form part of, this Prospectus.

The Issuer and the LLP will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed either to the Issuer, Yorkshire Building Society, Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ, and marked for the attention of Treasury or (as applicable) the LLP, at its office set out at the end of this Prospectus.

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

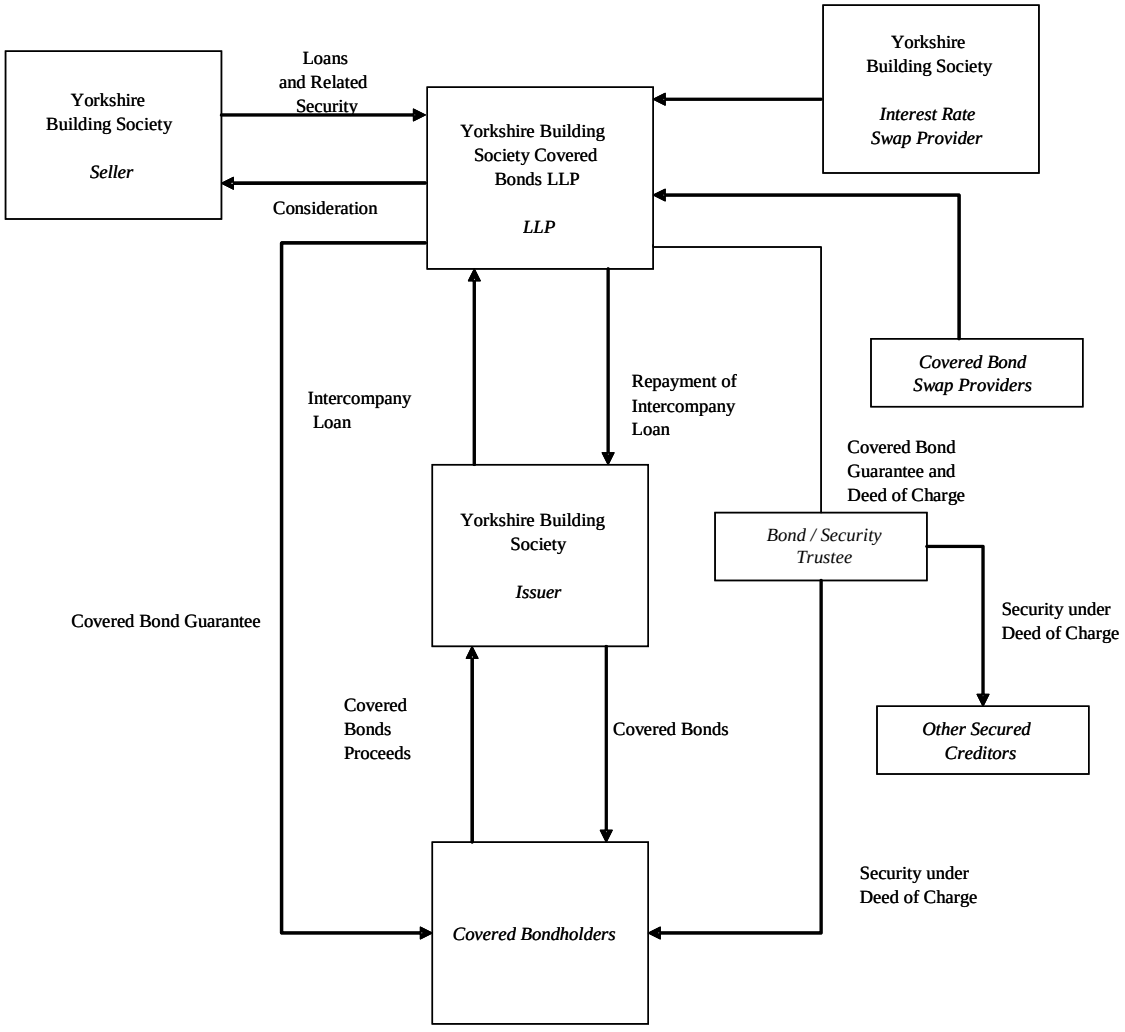
Copies of the documents incorporated by reference in this Prospectus will be available for viewing (i) at the offices of the Issuer at Yorkshire Building Society, Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ and (ii) on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html. Please note that websites and urls referred to herein do not form part of this Prospectus. To the extent that any document incorporated by reference in this Prospectus incorporates further information by reference, such further information does not form part of this Prospectus.

In the event of any material mistake or inaccuracy which is capable of affecting the assessment of any Covered Bonds, a supplement to this Prospectus or a new Prospectus will be prepared for use in connection with any subsequent issue of Covered Bonds.

STRUCTURE OVERVIEW

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

Structure Diagram



Structure Overview

- *Programme*: Under the terms of the Programme, the Issuer will issue Covered Bonds to the Covered Bondholders on each Issue Date. The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.

- *Intercompany Loan Agreement*: Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to the Principal Amount Outstanding on the Issue Date of each Series or, as applicable, Tranche of Covered Bonds. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP under the Intercompany Loan Agreement will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee.

- *Covered Bond Guarantee*: Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following the service of a Notice to Pay on the LLP or, if earlier, the service on the Issuer and the LLP of an LLP Acceleration Notice) unconditional obligations of the LLP, secured as provided in the Deed of Charge. The Bond Trustee will be required to serve a Notice to Pay on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice. An LLP Acceleration Notice may be served by the Bond Trustee on the Issuer and the LLP following the occurrence of an LLP Event of Default.

If an LLP Acceleration Notice is served, the Covered Bonds will become immediately due and payable as against the Issuer and the LLP's obligations under the Covered Bond Guarantee will be accelerated. Payments made by the LLP under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee will be limited to the assets of the LLP from time to time.

- *The proceeds of Term Advances*: The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, after swapping the same into Sterling under the relevant Covered Bond Swap Agreement): (i) to purchase Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP: (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or (d) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (e) to make a deposit of all or part of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to 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 Members (other than the Liquidation Member) will be obliged to ensure that the Asset Coverage Test (as described below) will be satisfied on each Calculation Date.

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

- *Security*: To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the portfolio of Loans and their Related Security, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and the Authorised Investments) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.

- *Cashflows*: Prior to service of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice on the LLP and/or realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:

  (a) apply Available Revenue Receipts to pay interest due on the Term Advances (the proceeds of which the Issuer may apply to pay interest due on the Covered Bonds) and to pay Deferred Consideration to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, but not limited to, certain expenses and amounts due to the Interest Rate Swap Provider and the Covered Bond Swap Providers). For further details of the Pre-Acceleration Revenue Priority of Payments, see "*Cashflows*" below; and

  (b) apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, but not limited to, acquiring New Loans and their Related Security offered by the Seller to the LLP). For further details of the Pre-Acceleration Principal Priority of Payments, see "*Cashflows*" below.

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

(a) in respect of Available Revenue Receipts, no further amounts will be paid to the Issuer under the Intercompany Loan Agreement, into the Reserve Fund, towards any indemnity amount due to the Members pursuant to the LLP Deed or any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, towards any Deferred Consideration or towards any profit for the Members' respective interests in the LLP (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements); and

(b) in respect of Available Principal Receipts, no payments will be made other than into the GIC Accounts after exchange (if required) in accordance with the relevant Covered Bond Swap (see "*Cashflows*" below).

Following the service on the LLP of a Notice to Pay (but prior to an LLP Event of Default and service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP) the LLP will use all 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 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 other than additional amounts payable by the Issuer under Condition 7 (Taxation) and the security created by the LLP over the Charged Property will become enforceable. Any monies received or recovered by the Security Trustee following enforcement of the Security created by the LLP in accordance with the Deed of Charge, realisation of such Security and/or the commencement of winding-up proceedings against the LLP will be distributed according to the Post-Enforcement Priority of Payments as to which, see "*Cashflows*" below.

- *Interest Accumulation Ledger*: Subject as provided under the heading "Coupon Payment Ledger" below, in relation to each Series of Covered Bonds that does not (a) have a Covered Bond Swap in place and (b) does not have monthly Interest Payment Dates (each such Series, an **Accumulation Series of Covered Bonds**), the Cash Manager shall maintain an Interest Accumulation Ledger, to which the LLP Monthly Interest Amount will be credited on each LLP Payment Date. Amounts standing to the credit of the Interest Accumulation Ledger in respect of each such Accumulation Series of Covered Bonds will be applied on the relevant Loan Interest Payment Date or Interest Payment Date, as the case may be, together with Available Revenue Receipts (applied in accordance with the relevant Priorities of Payments), to make payments under the Term Advances or Covered Bonds, as applicable.

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

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

(a) the application of Available Revenue Receipts and Available Principal Receipts will be restricted;

(b) the LLP will be required to sell Selected Loans; and

(c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

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

- *Amortisation Test*: In addition, following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the

Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. The Amortisation Test will be tested by the Cash Manager on each Calculation Date following an Issuer Event of Default and service of a Notice to Pay on the LLP. A breach of the Amortisation Test will constitute an LLP Event of Default, which will entitle the Bond Trustee to serve an LLP Acceleration Notice declaring the Covered Bonds 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 Due for Payment Date may be specified as applying in relation to a Series of Covered Bonds in the applicable Final Terms. This means that if the Issuer fails to pay the Final Redemption Amount of the relevant series of Covered Bonds on the Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following the service of a Notice to Pay on the LLP, the LLP has insufficient monies available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant Series of Covered Bonds) then payment of the unpaid amount pursuant to the Covered Bond Guarantee shall be automatically deferred (without an LLP Event of Default occurring as a result of such non payment) and shall be due and payable one year later on the Extended Due for Payment Date (subject to any applicable grace period). However, any amount representing the Final Redemption Amount due and remaining unpaid on the Extension Determination Date may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Due for Payment Date. Interest will continue to accrue on any unpaid amount during such extended period and be payable on the Original Due for Payment Date and on the Extended Due for Payment Date in accordance with Condition 4.

- *Coupon Payments:* Subject as provided in the circumstances set out below, if Yorkshire Building Society is acting as Cash Manager pursuant to the Cash Management Agreement and a Cash Manager Relevant Event occurs and is continuing**,** the Seller will (a) within 10 London Business Days of the occurrence of the Cash Manager Relevant Event and, (b) thereafter (i) (in respect of each Term Advance where there is not a Covered Bond Swap in place other than in respect of an Accumulation Series of Covered Bonds) within 1 London Business Day of each Loan Interest Payment Date for each such Term Advance make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Term Advance on the immediately subsequent Loan Interest Payment Date and/or (ii) (in respect of each Term Advance where there is a Covered Bond Swap in place other than in respect of an Accumulation Series of Covered Bonds) within 1 London Business Day of each date a payment is due from the LLP under each Covered Bond Swap make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Covered Bond Swap on the immediately subsequent date(s) a payment is due from the LLP and/or (iii) (in the case of a Term Advance relating to an Accumulation Series of Covered Bonds), within 1 London Business Day of each LLP Payment Date for each such Term Advance relating to a Accumulation Series of Covered Bonds make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Term Advance on the immediately subsequent LLP Payment Date.

If a Cash Manager Relevant Event has occurred and is continuing, the LLP will not be required to hold amounts in respect of the LLP Monthly Interest Amount in the relevant Interest Accumulation Ledger in respect of an Accumulation Series of Covered Bonds and may apply the payments that would otherwise be paid into the relevant Interest Accumulation Ledger in accordance with the Priority of Payments to make a payment to the Coupon Payment Ledger to fund in whole or in part, the amount to be deposited by the Seller set out above. Any surplus over and above the amount to be deposited as described above, will be paid into the Interest Accumulation Ledger.

The LLP will transfer an amount equal to the Cash Capital Contribution it receives from the Seller within one London Business Day of receipt of such amount into the GIC Account or the Stand-by GIC Account as applicable and make a credit to the Coupon Payment Ledger. On the date of the transfer the LLP will, on the direction of the Issuer, deliver an irrevocable payment instruction (specifying the ISIN code and/or CUSIP, as applicable, in respect of the relevant Series of Covered Bonds) to the Account Bank or the Stand-by Account Bank, as applicable, to pay such amounts to the Principal Paying Agent or the relevant Covered Bond Swap Provider, as applicable on the dates referred to above.

- *Servicing*: In its capacity as Servicer, Yorkshire Building Society has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which the Servicer has agreed to provide certain services in respect of the Loans and their Related Security sold by Yorkshire Building Society (in its capacity as Seller) to the LLP.

- *The Regulated Covered Bonds Regulations 2008*: On 11 November 2008, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) were admitted to the register of regulated covered bonds.

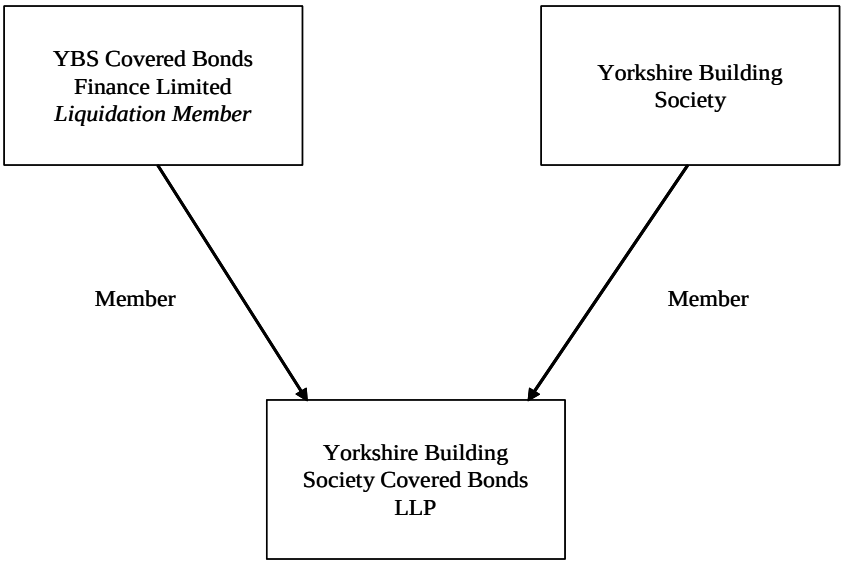
- *Further Information*: For a more detailed description of the transactions summarised above relating to the Covered Bonds see, amongst other relevant sections of this Prospectus, "*Overview of the Programme*", "*Terms and Conditions of the Covered Bonds*", "*Summary of the Principal Documents*", "*Credit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

Ownership Structure of Yorkshire Building Society Covered Bonds LLP

- As at the Programme Date, the Members of the LLP are the Seller and the Liquidation Member.

- A New Member may be admitted to the LLP, subject to meeting certain conditions precedent including, but not limited to, written confirmation from the Rating Agencies that this would not adversely affect the then current ratings of all outstanding Covered Bonds.

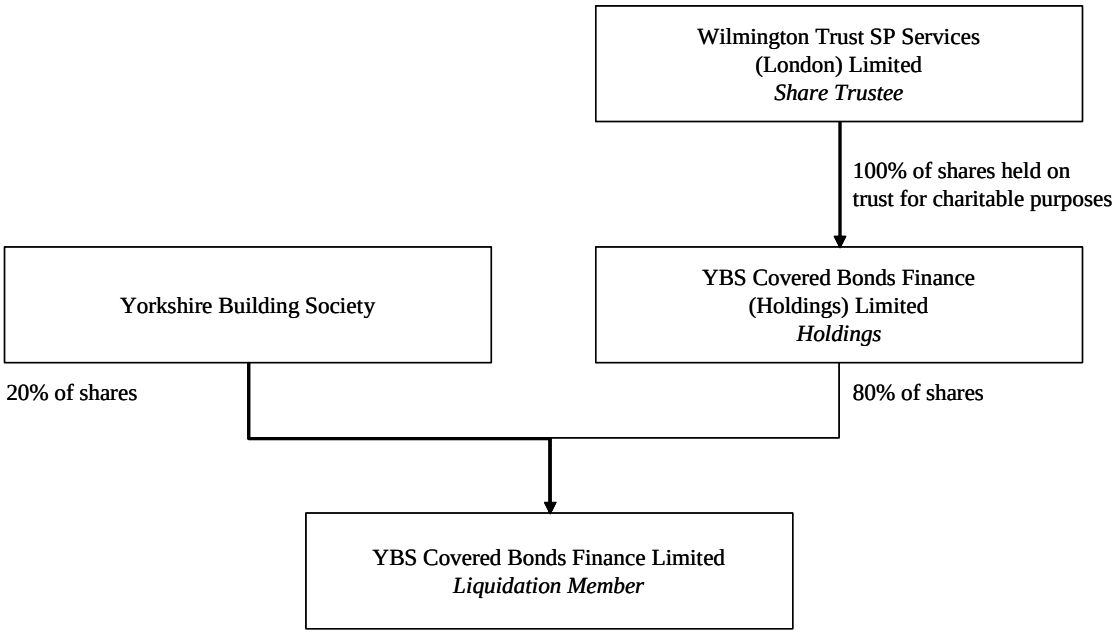
- Other than in respect of those decisions reserved to the Members, the LLP Management Committee (comprised of, as at the Programme Date, directors and/or employees of the Seller) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for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



Ownership Structure of the Liquidation Member

- As at the Programme Date, 80% of the issued share capital of the Liquidation Member is held by YBS Covered Bonds Finance (Holdings) Limited and 20% of the issued share capital of the Liquidation Member is held by Yorkshire Building Society.

- The entire issued capital of YBS Covered Bonds Finance (Holdings) Limited is held by Wilmington Trust SP Services (London) Limited as share trustee on trust for charitable purposes.



OVERVIEW OF THE PROGRAMME

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

Issuer:	Yorkshire Building Society (**YBS** or the **Society**), incorporated in England and Wales under the Building Societies Act 1986 (as amended) (the **Building Societies Act**) (which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any statutory modification or re-enactment). For a more detailed description of the Issuer see "*The Issuer*", below.
Issuer Legal Entity Identifier (LEI):	WXD0EHQRPI7HKN3I5T57
The LLP:	Yorkshire Building Society Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (partnership no. OC322580). The Members of the LLP on the Programme Date are YBS (in its capacity as Seller) and the Liquidation Member. The LLP is a special purpose vehicle whose business is to acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee certain payments in respect of the Covered Bonds. The LLP will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents. The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following an Issuer Event of Default and the service on the LLP of a Notice to Pay or LLP Acceleration Notice. The obligations of the LLP under such guarantee and the other Transaction Documents to which it is a party are secured by the assets from time to time of the LLP and recourse against the LLP is limited to such assets. For a more detailed description of the LLP, see "*The LLP*", below.
Seller:	YBS, which is in the business of originating and acquiring residential mortgage loans and conducting other building society related activities. For a more detailed description of YBS see "*The Issuer*", below.

Servicer:	Pursuant to the terms of the Servicing Agreement, YBS has been appointed to service, on behalf of the LLP, the Loans and Related Security sold to the LLP by the Seller.
Back-Up Servicer:	Any entity appointed as back-up servicer under a Back-up Servicing Agreement.
Cash Manager:	YBS has been appointed, *inter alia*, to provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test and the Amortisation Test pursuant to the terms of the Cash Management Agreement.
Back-Up Cash Manager	Any entity appointed as back-up cash manager under a Back-up Cash Management Agreement.
Principal Paying Agent and Agent Bank:	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ has been appointed pursuant to the Agency Agreement as Issuing and Principal Paying Agent and Agent Bank.
Exchange Agent and Transfer Agent:	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ has been appointed pursuant to the Agency Agreement as Exchange Agent and Transfer Agent.
Paying Agent:	Banque Internationale à Luxembourg, acting through its offices at 69, route d'Esch, L-2953 Luxembourg has been appointed pursuant to the Agency Agreement as Paying Agent.
Bond Trustee:	HSBC Trustee (C.I.) Limited, whose registered office is at HSBC House, Esplanade, St. Helier, Jersey JE1 1GT, Channel Islands 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, *inter alia*, the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the Trust Deed.
Registrar:	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ has been appointed pursuant to the Agency Agreement as Registrar.
Security Trustee:	HSBC Trustee (C.I.) Limited whose registered office is at HSBC House, Esplanade, St. Helier, Jersey JE1 1GT, Channel Islands has been appointed to act as Security Trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself, the Covered Bondholders and other Secured Creditors) pursuant to the Deed of Charge.
Asset Monitor:	A reputable institution acceptable to the Rating Agencies appointed pursuant to the Asset Monitor Agreement as an

	independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.
Asset Pool Monitor	The Issuer is required to appoint an asset pool monitor in advance of its annual confirmation of compliance with certain requirements of the RCB Regulations falling on or after 1 January 2013. (See "*Description of the UK Regulated Covered Bond Regime*" below). Deloitte LLP was appointed as asset pool monitor on 14 August 2013.
Covered Bond Swap Providers:	Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts 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 Swaps with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to obtain a guarantee of its obligations from an appropriately rated guarantor or take such other action as may be deemed appropriate by the Rating Agencies in order to maintain the then current ratings of the Covered Bonds.
Interest Rate Swap Provider:	YBS (in its capacity as the Interest Rate Swap Provider) has agreed to act as a swap provider to the LLP to hedge possible variances between the rates of interest payable on the Loans sold by the Seller to the LLP and LIBOR for three month Sterling deposits (payable by the LLP under the Covered Bond Swap Agreement in respect of each Series of Covered Bonds where a Covered Bond Swap is in place) 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 obtain a guarantee of its obligations from an appropriately rated guarantor or take such other action as may be deemed appropriate by the Rating Agencies in order to maintain the then current ratings of the Covered Bonds. For a more detailed description of the Interest Rate Swap Provider, see "*The Issuer*", below.
GIC Provider:	YBS has been appointed the GIC Provider to the LLP pursuant to the terms of the Guaranteed Investment Contract. However, YBS does not, as at the date of this Prospectus, have the ratings required to act in such

	capacity. It should be noted that a GIC Account has been opened with the Stand-by GIC Provider who will act in such capacity until such time as YBS's ratings are restored to the minimum level required to act as GIC Provider.
Account Bank:	YBS has been appointed the Account Bank to the LLP pursuant to the terms of the Bank Account Agreement. However, YBS does not, as at the date of this Prospectus, have the ratings required to act in such capacity. It should be noted a Transaction Account has been opened with the Stand-by Account Bank Provider who will act in such capacity until such time as YBS's ratings are restored to the minimum level required to act as Account Bank.
Stand-by Account Bank:	HSBC Bank plc acting through its office at 8 Canada Square, London E14 5HQ has been appointed and is acting as Stand-by Account Bank to the LLP pursuant to the terms of the Stand-by Bank Account Agreement.
Stand-by GIC Provider:	HSBC Bank plc acting through its office at 8 Canada Square, London E14 5HQ has been appointed and is acting as Stand-by GIC Provider to the LLP pursuant to the terms of the Stand-by Guaranteed Investment Contract.
Liquidation Member:	YBS Covered Bonds Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5943479). As at the date of this Prospectus, 80% of the issued share capital of the Liquidation Member is held by Holdings and 20% of the issued share capital of the Liquidation Member is held by YBS.
Holdings:	YBS Covered Bonds Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5943456). All of the shares of Holdings are held by the Share Trustee on trust for general charitable purposes.
Share Trustee:	Wilmington Trust SP Services (London) Limited, having its registered office at Third Floor, 1 King's Arms Yard, London EC2R 7AF.
Corporate Services Provider:	Wilmington Trust SP Services (London) Limited, having its registered office at Third Floor, 1 King's Arms Yard, London EC2R 7AF, has been appointed to provide certain corporate services to the Liquidation Member and Holdings, pursuant to the Corporate Services Agreement.
Description:	Global Covered Bond Programme.

Arrangers:	Barclays Bank PLC and HSBC Bank plc.
Dealers:	Barclays Bank PLC and HSBC Bank plc and any other Dealers appointed from time to time in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*").
Programme Size:	Up to €7.5 billion (or its equivalent in other currencies determined as described in the Programme Agreement) outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in "*Subscription and Sale and Transfer and Selling Restrictions*" 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).
Redenomination:	The applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro. If so, the redenomination provisions will be set out in the applicable Final Terms.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Covered Bonds may be issued at par or at a premium or discount to par.
Form of Covered Bonds:	The Covered Bonds will be issued in bearer or registered form as described in "*Form of the Covered Bonds*". Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and *vice versa*.

Fixed Rate Covered Bonds:

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

Floating Rate Covered Bonds:

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

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms.

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

Other provisions in relation to Floating Rate Covered Bonds:

Floating Rate Covered Bonds may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds 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).

Zero Coupon Covered Bonds:

Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment unless otherwise specified in the applicable Final Terms.

Rating Agency Confirmation:

The issuance of all Covered Bonds shall be subject to confirmation by each of the Ratings Agencies that the then current ratings for any outstanding Covered Bonds will not be adversely affected by the issuance of such Covered Bonds.

Redemption:	The applicable Final Terms relating to each Tranche of Covered Bonds will indicate either that the relevant Covered Bonds of such Tranche cannot be redeemed prior to their stated maturity (other than 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).
Extendable obligations under the Covered Bond Guarantee:	The applicable Final Terms may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the LLP by the Extension Determination Date (for example, because the LLP has insufficient monies to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in sufficient time and has sufficient monies to pay in part the Final Redemption Amount, such partial payment shall be made by the LLP on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 6(a) (*Final redemption*). Interest will continue to accrue and be payable on the unpaid amount up to the Extended Due for Payment Date in accordance with Condition 4 (*Interest*) and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Due for Payment Date and Extended Due for Payment Date.
Hard Bullet Covered Bonds:	The issuance of Hard Bullet Covered Bonds will be subject to Rating Agency Confirmation and is not currently contemplated under the Programme.
Denomination of Covered Bonds:	Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant

	Dealer(s) and as indicated in the applicable Final Terms save that the minimum denomination of each Covered Bond will be at least €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, at least the equivalent amount in such currency) or such other higher amount as may be required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Unless otherwise stated in the applicable Final Terms, the minimum denomination of each Definitive IAI Registered Covered Bond will be U.S.$500,000 or its approximate equivalent in other Specified Currencies and the minimum denomination of each Definitive Rule 144A Covered Bond will be U.S.$250,000 or its approximate equivalent in other Specified Currencies.
Taxation:	All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of United Kingdom taxes, subject as provided in Condition 7 (*Taxation*). If any such deduction or withholding is made the Issuer will, save in the limited circumstances provided in Condition 7 (*Taxation*), be required to pay additional amounts in respect of the amounts so deducted or withheld. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts that would have been payable by the Issuer under Condition 7 (*Taxation*).
Cross Default:	If an Issuer Acceleration Notice is served in respect of one Series of Covered Bonds, then the Covered Bonds of all Series will accelerate against the Issuer. If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds outstanding will be accelerated.
Status of the Covered Bonds:	The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, from time to time outstanding.
Covered Bond Guarantee:	Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that an Issuer Event of Default occurs, an Issuer Acceleration Notice is served on the Issuer and a Notice to Pay is served on the LLP or, if earlier, an LLP Event of Default

	occurs and an LLP Acceleration Notice is served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon the service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.
Ratings:	Covered Bonds to be issued under the Programme have the ratings specified in the applicable Final Terms on issuance.
Listing and admission to trading:	Application has been made to admit Covered Bonds issued under the Programme to the Official List and to admit the Covered Bonds to trading on the regulated market of the London Stock Exchange.
The RCB Regulations:	On 11 November 2008, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) were admitted to the register of regulated covered bonds.
Governing Law:	The Covered Bonds, and any non-contractual obligations arising out of or in connection with them, will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds in the United States and the European Economic Area (which includes Italy and the United Kingdom). Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See "*Subscription and Sale and Transfer and Selling Restrictions*".
Risk Factors:	There are certain risks related to any issue of Covered Bonds under the Programme, which investors should ensure they fully understand, a non-exhaustive summary of which is set out under "*Risk Factors*" from page 29 of this Prospectus.

RISK FACTORS

This section describes the principal risk factors associated with an investment in the Covered Bonds. This section of the Prospectus is divided into three main sections – General Risk Factors, Risk Factors relating to the Issuer and Risk Factors relating to the LLP.

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

In addition, factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.

GENERAL RISK FACTORS

Issuer liable to make payments when due on the Covered Bonds

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

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The occurrence of an Issuer Event of Default does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute an LLP Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable) and the obligations of the LLP under the Covered Bond Guarantee and 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 Arrangers, 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 will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series).

All Covered Bonds issued from time to time under the Programme will, following service of an LLP Acceleration Notice and enforcement of the security, rank *pari passu* with each other in all respects and will share in the security granted by the LLP under the Deed of Charge. As a result, holders of Covered Bonds issued pursuant to this Prospectus should be aware that they will rank *pari passu* and share in the security granted by the LLP over, *inter alia*, the Portfolio, with holders of Covered Bonds which may be issued by the Issuer in a manner other than pursuant to this Prospectus.

If an Issuer Event of Default occurs in respect of a particular Series of Covered Bonds, the Covered Bonds of all Series outstanding will accelerate at the same time against the Issuer (following service of an Issuer Acceleration Notice) but will be subject to, and have the benefit of, payments made by the LLP under the Covered Bond Guarantee (following service of a Notice to Pay). If an LLP Event of Default occurs, following service of an LLP Acceleration Notice, the Covered Bonds of all Series outstanding will accelerate against the Issuer (if not already accelerated following an Issuer Event of Default) and the obligations of the LLP under the Covered Bond Guarantee will accelerate.

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

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after swapping the same into Sterling if necessary): (i) to acquire Loans and their Related Security from the Seller; and/or (ii) to acquire Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

    (a) to purchase Loans and their Related Security, from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or

    (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or

    (c) (subject to complying with the Asset Coverage Test (as described below)) to make a Capital Distribution to a Member; and/or

    (d) if an existing Series or Tranche, or part of an existing Series or Tranche, of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or

    (e) to make a deposit of all or part of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit);

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

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Security Trustee is of the opinion that the interests of the Covered Bondholders 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 Series of Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 25% of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

Extendable obligations under the Covered Bond Guarantee

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

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

Absence of secondary market

There is not, at present, an active and liquid secondary market for the Covered Bonds, and there can be no assurance that a secondary market for the Covered Bonds will always remain available. The Covered Bonds have not been, and will not be, registered under the Securities Act, or any other applicable securities laws and are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*". If a secondary market is available, 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.

Ratings of the Covered Bonds

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

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

The Issuer is exposed to changes in the rating methodologies applied by rating agencies. Any adverse changes of such methodologies may materially and adversely affect the Issuer's operations or financial condition, the Issuer's willingness or ability to leave individual transactions outstanding and adversely affect the Issuer's capital market standing.

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

In general, European regulated investors are restricted under Regulation (EU) No. 1060/2009 (as amended) (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Rating Agency Confirmation in respect of Covered Bonds

The terms of certain of the Transaction Documents provide that, in certain circumstances, the Issuer must, and the Bond Trustee or the Security Trustee may, obtain written confirmation (or, in the case of Moody's, affirmation) from Fitch and Moody's that any proposed action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee or the Security Trustee will not adversely affect or cause to be withdrawn the then current ratings of the Covered Bonds (a **Rating Agency Confirmation**). In addition, certain actions under the Transaction Documents require that Moody's provide a Rating Agency Confirmation and that such action is notified to Fitch before such an action can by undertaken pursuant to the Transaction Documents (the **Rating Condition**).

By acquiring the Covered Bonds, investors will be deemed to have acknowledged and agreed that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a Rating Agency Confirmation, whether any action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction

Document is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not materially prejudicial to, some or all of the Covered Bondholders. In being entitled to have regard to the fact that the Rating Agencies have confirmed that the then current ratings of the Covered Bonds would not be adversely affected or withdrawn, each of the Issuer, the LLP, the Bond Trustee, the Security Trustee and each of the other Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.

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

Covered Bonds not in physical form

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

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg or DTC instead of directly to Covered Bondholders;

- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and

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

Changes or uncertainty in respect of LIBOR, EURIBOR, SONIA, and/or other interest rate benchmarks may affect the value or payment of interest under the Covered Bonds

Various interest rate benchmarks (including LIBOR and EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective including the EU Benchmark Regulation (Regulation (EU) 2016/1011) (the **Benchmark Regulation**)) whilst others are still to be implemented.

Under the Benchmarks Regulation, which applies from 1 January 2018 in general, certain requirements apply with respect to the provision of a wide range of benchmarks (including LIBOR and EURIBOR), the contribution of input data to a benchmark and the use of a benchmark within the European Union (**EU**). In particular, the Benchmarks Regulation, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of benchmarks and

(ii) prevents certain uses by EU-supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU-based, deemed equivalent or recognised or endorsed).

The sustainability of LIBOR has been questioned by the FCA as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the FCA confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcements**). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (**SONIA**) over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate work streams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (**€STR**) as the new risk free rate. €STR is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.These reforms and other pressures may cause one or more interest rate benchmarks to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on the Covered Bonds.

Based on the foregoing, prospective investors should in particular be aware that:

(a) any of these reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR, EURIBOR and SONIA) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be;

(b) if LIBOR, EURIBOR or SONIA is discontinued or is otherwise unavailable, then the rate of interest on the Covered Bonds will be determined for a period by the fall-back provisions provided for under Condition 4 (*Interest*) of the Terms and Conditions of the Covered Bonds, although such provisions, being dependent in part upon the provision by reference banks of offered quotations for leading banks in the London interbank market (in the case of LIBOR) or in the Euro-zone interbank market (in the case of EURIBOR), may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time) and may in certain circumstances result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR or EURIBOR was available;

(c) while an amendment may be made under Condition 14 in the Terms and Conditions of the Covered Bonds to change the LIBOR, EURIBOR or SONIA rate (as applicable) on the relevant Floating Rate Covered Bonds to an alternative base rate under certain circumstances broadly related to LIBOR, EURIBOR or SONIA (as applicable) dysfunction or discontinuation, there can be no assurance that any such amendment will be made or, if made, that it (i) will fully or effectively mitigate interest rate

risks or result in an equivalent methodology for determining the interest rates on the relevant Floating Rate Covered Bonds or (ii) will be made prior to any date on which any of the risks described in this risk factor may become relevant; and

(d) if LIBOR, EURIBOR or SONIA or any other relevant interest rate benchmark is discontinued, there can be no assurance that the applicable fall-back provisions under the Swap Agreements would operate to allow the transactions under the Swap Agreements to effectively mitigate interest rate risk in respect of the Covered Bonds.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Covered Bonds and/or the Swap Agreements due to applicable fall-back provisions or other matters and the effects of this are uncertain but could include a reduction in the amounts available to the Issuer to meet its payment obligations in respect of the Covered Bonds.

Moreover, any of the above matters or any other significant change to the setting or existence of LIBOR, EURIBOR or SONIA or any other relevant interest rate benchmark could affect the ability of the Issuer or the Guarantor to meet its obligations under the Covered Bonds and/or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Covered Bonds. Changes in the manner of administration of LIBOR, EURIBOR or SONIA or any other relevant interest rate benchmark could result in adjustment to the Terms and Conditions, early redemption or other consequences in relation to the Covered Bonds. No assurance may be provided that relevant changes will not occur with respect to LIBOR, EURIBOR or SONIA or any other relevant interest rate benchmark and/or that such benchmarks will continue to exist. Investors should consider these matters when making their investment decision with respect to the Covered Bonds.

Harmonisation of the EU covered bond framework

It should also be noted that in March 2018, the European Commission published legislative proposals for a more harmonised EU covered bond framework. The proposals are made up of a draft directive (replacing current article 52(4) of the UCITS Directive) and intended to establish a revised common base-line for issue of covered bonds for EU regulatory purposes; and a draft regulation (amending article 129 of the Capital Requirements Regulation and certain related provisions) intended to strengthen the requirements for covered bonds to receive preferential capital treatment. The new legislation is expected to be finalised and come into effect in Q3/Q4 2019 (although there will be up to a two and a half year transposition period after the effective date). As a result, the final position, including the effective date and the date from which the new regime will apply (aspects of which will require transposition by member states through national laws) are not yet known. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

In addition, it should be noted that the draft directive provides for permanent grandfathering with respect to certain requirements of the new regime for article 52(4) UCITS Directive-compliant covered bonds issued by an issuer with its registered office in an EU member state before the relevant application date, provided there is continued supervision by the relevant designated competent authority in the EU (similar grandfathering provisions are also provided for in the draft regulation). Therefore, it is uncertain whether preferential regulatory treatment will remain available in respect of the Covered Bonds following the departure of the UK from the European Union and this will depend in part on the terms of the UK's exit.

RISK FACTORS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF COVERED BONDS

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

Covered Bonds subject to Optional Redemption by the Issuer

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

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

Fixed Rate Covered Bonds

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

Fixed/Floating Rate Covered Bonds

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

Covered Bonds issued at a substantial discount or premium

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

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

Pursuant to the terms of the Trust Deed and the Deed of Charge, the Bond Trustee and the Security Trustee may, without the consent or sanction of any of the Covered Bondholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modification to, or waive or authorise any breach or proposed breach in respect of, the Transaction Documents and the Terms and Conditions of the Covered Bonds 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: (a) the Bond Trustee is of the opinion that such modification, waiver, authorisation or determination will not be materially prejudicial to the interests of any of the Covered Bondholders of any Series; and (b) the Security Trustee is of the opinion that such modification, waiver,

authorisation or determination is not materially prejudicial to the interests of any of the Covered Bondholders; or

- which in the opinion of the Bond Trustee and the Security Trustee are made to correct a manifest error or are of a formal, minor or technical nature or are made to comply with mandatory provisions of law,

provided that, prior to the Bond Trustee and/or the Security Trustee agreeing to any such modification, waiver, authorisation or determination, the Issuer must send written confirmation to the Bond Trustee:

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

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

The Bond Trustee shall, without the consent of the holders of any of the Covered Bonds issued after 30 May 2013 or any other Secured Creditor, (other than any Secured Creditor party to the relevant Transaction Document to be amended) be obliged to concur with the Issuer and/or the LLP, and/or direct the Security Trustee to concur with the Issuer and/or the LLP, in making any modifications to the Transaction Documents and/or the Conditions of the Covered Bonds that are requested by the Issuer and/or the LLP in order to enable the Issuer to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the **European Market Infrastructures Regulation** or **EMIR**), subject to receipt by the Bond Trustee of a certificate of the Issuer (upon which the Bond Trustee may rely without further enquiry or liability to any person) certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer and/or the LLP to satisfy any requirements which apply to either of them under EMIR. For the avoidance of doubt, in relation to any Series of Covered Bonds issued prior to 17 May 2013, such modifications must be made pursuant to other provisions of the Trust Deed, as applicable. The Bond Trustee and the Security Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and the Security Trustee, as applicable, would have the effect of (a) exposing the Bond Trustee and the Security Trustee, as applicable, to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the protections, of the Bond Trustee and the Security Trustee, as applicable, in the Transaction Documents and/or the Conditions of the Covered Bonds.

In relation to any Covered Bonds issued after 28 June 2018, the Bond Trustee and the Security Trustee shall (other than in respect of a Series Reserved Matter, provided that a Base Rate Modification (as defined below) will not constitute a Series Reserved Matter) concur in making amendments to the Conditions and/or any Transaction Document (including, for the avoidance of doubt but without limitation, the Covered Bond Swap in relation to the relevant Series of Covered Bonds and subject to the consent only of the Secured Creditors (i) party to the relevant Transaction Document being amended or (ii) whose ranking in any Priorities of Payments is affected) that the Issuer considers necessary for the purpose of changing the base rate in respect of the Covered Bonds from LIBOR, EURIBOR or such other benchmark rate (each, a **Reference Rate**) to an alternative base rate (any such rate, an **Alternative Base Rate**) and make such other amendments as are necessary or advisable in the reasonable judgment of the Issuer to facilitate such change (a **Base Rate Modification**), provided that:

(A) the Issuer certifies to the Bond Trustee in writing (such certificate, a **Base Rate Modification Certificate**) that:

(I) such Base Rate Modification is being undertaken due to:

(1) a material disruption to the relevant Reference Rate, an adverse change in the methodology of calculating the relevant Reference Rate or the relevant Reference Rate ceasing to exist or be published; or

(2) a public statement by the administrator of the relevant Reference Rate that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator for the Reference Rate has been appointed that will continue publication of the relevant Reference Rate) and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable; or

(3) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued or will be changed in an adverse manner and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable; or

(4) a public statement by the supervisor of the administrator of the relevant Reference Rate that means such Reference Rate may no longer be used or that its use is subject to restrictions or adverse consequences; or

(5) it becoming unlawful for any Agent, any Calculation Agent or the Issuer to calculate any payments due to be made to any Covered Bondholder or any party to the Transaction Documents using the Applicable Base Rate; or

(6) the reasonable expectation of the Issuer that any of the events specified in sub-paragraphs (1), (2), (3), (4) or (5) will occur or exist within six months of the proposed effective date of such Base Rate Modification,

and, in each case, has been drafted solely to such effect; and

(II) such Alternative Base Rate is:

(1) a base rate published, endorsed, approved or recognised by the Bank of England, any regulator in the United States, the United Kingdom or the European Union or any stock exchange on which the Covered Bonds are listed or any relevant

committee (or other body established, sponsored or approved by any of the foregoing); or

(2) in relation to LIBOR, the Sterling Overnight Index Average (or any rate which is derived from, based upon or otherwise similar to either of the foregoing); or

(3) a base rate utilised in a material number of publicly-listed new issues of floating rate covered bonds or floating rate senior unsecured notes prior to the effective date of such Base Rate Modification (for these purposes, unless agreed otherwise by the Bond Trustee, five such issues shall be considered material); or

(4) a base rate utilised in a publicly-listed new issue of floating rate covered bonds where the issuer (or in the case of asset backed securities the originator of the relevant assets) is the Issuer or an Affiliate of the Issuer;

(B) at least 30 days' prior written notice of any proposed Base Rate Modification has been given to the Bond Trustee;

(C) the Base Rate Modification Certificate is provided to the Bond Trustee both at the time the Bond Trustee is notified of the Base Rate Modification and on the effective date of such Base Rate Modification;

(D) with respect to each Rating Agency, either:

(I) the Issuer obtains from such Rating Agency written confirmation that such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the relevant Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent) and delivers a copy of each such confirmation to the Bond Trustee; or

(II) the Issuer certifies in writing to the Bond Trustee that it has notified such Rating Agency of the Base Rate Modification and, in its opinion, formed on the basis of due consideration and consultation with such Rating Agency (including, as applicable, upon receipt of oral confirmation from an appropriately authorised person at such Rating Agency), such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent);

(E) the Issuer pays (or arranges for the payment of) all reasonable and documented fees, costs and expenses (including legal fees) incurred by the Bond Trustee and the Security Trustee in connection with such Base Rate Modification;

(F) the Issuer certifies in writing to the Bond Trustee (which certification may be in the Base Rate Modification Certificate) that it has provided at least 30 days' notice to the Covered Bondholders of the relevant Series of Covered Bonds of the Base Rate Modification in accordance with Condition 13 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the Covered Bonds (in each case specifying the date and time by which Covered Bondholders must respond), and Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have not contacted the Issuer or the Principal Paying Agent in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification.

If Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have notified the Issuer or the Principal Paying Agent in accordance with the then current practice of any applicable Clearing System through which the Covered Bonds may be held by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification, then the Base Rate Modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the relevant Series then outstanding is passed in favour of the Base Rate Modification in accordance with Condition 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*).

Objections made other than through the applicable Clearing System must be in writing and accompanied by evidence to the Bond Trustee's satisfaction (having regard to prevailing market practices) of the relevant Covered Bondholder's holding of the relevant Series of Covered Bonds.

When implementing any modification pursuant to the paragraph above:

(A) (save to the extent the Bond Trustee considers that the proposed modification would constitute a Series Reserved Matter, provided that a Base Rate Modification will not constitute a Series Reserved Matter), the Bond Trustee shall not consider the interests of the Covered Bondholders, any other Secured Creditor or any other person and shall act and rely solely and without investigation or liability on any Base Rate Modification Certificate or other certificate or evidence provided to it by the Issuer and shall not be liable to the Covered Bondholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and

(B) neither the Bond Trustee nor the Security Trustee shall be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and/or the Security Trustee would have the effect of (A) exposing the Bond Trustee and/or the Security Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (B) increasing the obligations or duties, or decreasing the rights, powers, authorisations, discretions, indemnification or protections, of the Bond Trustee and/or the Security Trustee in the Transaction Documents and/or the Conditions.

For the avoidance of doubt, the Issuer may propose an Alternative Base Rate on more than one occasion provided that the conditions set out in paragraph (iv) above are satisfied.

In addition, the Issuer may in the future seek to amend the terms of the Programme such that the Bond Trustee shall, without the consent of the holders of any of the Covered Bonds or any other Secured Creditor, (other than any Secured Creditor party to the relevant Transaction Document to be amended) be obliged to concur with the Issuer and/or the LLP, and/or direct the Security Trustee to concur with the Issuer and/or the LLP, in making any modifications to the Transaction Documents and/or the Conditions of the Covered Bonds that are requested by the Issuer and/or the LLP for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies without the consent of Covered Bondholders.

Any such amendment to the terms of the Programme would broadly provide that any modifications proposed to comply with or implement or reflect any change in the criteria of one or more of the Rating Agencies would first be notified to Covered Bondholders, but if the requisite number of Covered Bondholders did not confirm their rejection of such proposal within the time limit specified in the relevant notice, the proposed modification would be effected. The inclusion of any such amendment to the terms of the Programme is subject to the agreement of the Bond Trustee and Security Trustee (who have at the date of this Prospectus not been consulted on any proposal to make such amendment).

Certain decisions of the Covered Bondholders taken at Programme level

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

Exchange rate risks and exchange controls

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

EU financial transaction tax

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the **Commission's proposal**) for a financial transaction tax (**FTT**) to be adopted in certain participating EU member states (including Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, although Estonia has since stated that it will not participate (the **participating member states**)). If the Commission's proposal was adopted, the FTT would be a tax primarily on "financial institutions" (which would include the Issuer) in relation to "financial transactions" (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

Under the Commission's proposal, the FTT could apply to persons both within and outside of the participating member states. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating member state. A financial institution may be, or be deemed to be, "established" in a participating member state in a broad range of circumstances, including (a) by transacting with a person established in a participating member state or (b) where the financial instrument which is subject to the financial transaction is issued in a participating member state.

The FTT may give rise to tax liabilities for the LLP and/or the Issuer with respect to certain transactions (including concluding swap transactions and/or purchases of securities (such as any securities comprised in charged assets)) if it is adopted based on the Commission's proposal. Any such tax liabilities may reduce amounts available to the LLP and/or the Issuer to meet its obligations under the Covered Bond Guarantee or the Covered Bonds (as applicable) and may result in investors receiving less interest or principal than expected. To the extent that such liabilities may arise at a time when winding up proceedings have been commenced in respect of the LLP, such liabilities may be regarded as an expense of the liquidation and, as such, be payable out of the floating charge assets of the LLP or the Issuer (as applicable), and their general estates, in priority to the claims of Covered Bondholders and other secured creditors. It should also be noted that the FTT could be payable in relation to relevant financial transactions by investors in respect of the Covered Bonds (including secondary market transactions) if the conditions for a charge to arise are satisfied and the FTT is adopted based on the Commission’s proposal. Primary market transactions referred to in

Article 5(c) of Regulation EC No 1287/2006 are expected to be exempt. There is however some uncertainty in relation to the intended scope of this exemption for certain money market instruments and structured issues.

However, the FTT proposal remains subject to negotiation between participating member states. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate.

Prospective holders of the Covered Bonds are advised to seek their own professional advice in relation to the FTT.

Changes of law

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law (and, in relation to the Scottish Loans and Northern Irish Loans, Scots law and Northern Irish law respectively) in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, Welsh law, Scots law or Northern Irish law (including any change in regulation which may occur without a change in primary legislation) or administrative practice or tax treatment in the United Kingdom after the date of this Prospectus, nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Covered Bonds or the ability of the LLP to make payments under the Covered Bond Guarantee.

UK regulated covered bond regime

On 11 November 2008, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) was admitted to the register of regulated covered bonds.

The FCA may take certain actions in respect of the Issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing the Issuer from the register of issuers (but pursuant to the RCB Regulations, a regulated covered bond may not be removed from the relevant register prior to the expiry of the whole period of validity of the relevant covered bond), directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP and/or restricting the ability of the Seller to transfer further loans to the LLP and directing the Issuer to publish information given to the FCA under the RCB Regulations. Moreover, the bodies which regulate the financial services industry in the UK may take certain actions in respect of issuers using their general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). There is a risk that any such regulatory actions may reduce the amounts available to pay Covered Bondholders.

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

Expenses of insolvency officeholders

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

hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English law which provides that the expenses of any administration and the expenses of any liquidation only rank ahead of a holder of a floating charge (but not ahead of the claims of a fixed charge-holder).

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

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

Insolvency Act 2000

The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting in place a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. This also extends to Limited Liability Partnerships by virtue of the Limited Liability Partnership (Amendment) Regulations 2005.

A "small" company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £10.2 million; (ii) its balance sheet total is not more than £5.1 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, Energy and Industrial Strategy may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of the Covered Bondholders.

Secondary legislation excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment" (also defined but generally a rated, listed or traded bond) and (b) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign currency) of at least £10 million. Whilst 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, Energy and Industrial Strategy 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.

Furthermore, certain of the Issuer's Liabilities will be preferred by law in the event of its winding-up.

English law security and insolvency considerations

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

Insolvency proceedings and subordination provisions

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

The English Supreme Court has held that a flip clause as described above is valid under English law. Contrary to this however, the U.S. Bankruptcy Court has held that such a subordination provision is unenforceable under U.S. bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a U.S. bankruptcy of the counterparty. However, a subsequent US Bankruptcy Court decision held that flip clauses are protected under the Bankruptcy code and therefore enforceable on bankruptcy. This decision was affirmed on March 14, 2018 by the US District Court. The implications of these conflicting judgments remain unresolved.

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

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

Liquidation Expenses

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

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

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

Risk Factors relating to the Issuer

Faltering United Kingdom Economic Recovery

During the financial year ended 31 December 2018, 87 per cent. of the Issuer's income was derived from United Kingdom residential mortgages. The United Kingdom residential mortgage market is closely correlated to the United Kingdom economic cycle. GDP growth looks to have slowed in 2018 whilst consumer price growth is likely to stay above the 2 per cent. target for another 12 months. Uncertainty caused as a result of United Kingdom's vote to leave the European Union may be undermining both business and consumer confidence and thereby hampering stronger economic growth. This may all impact on the United Kingdom residential housing market, threatening affordability and mortgage customers' ability to pay, which in turn may impact on the Issuer's profitability and growth plans.

Moreover, if house prices fell, then some lending may not be fully secured and could incur losses on these loans. An economic downturn could also increase the Issuer's cost of funding if the risk assessment of the Issuer's mortgage portfolio changed.

United Kingdom Residential Housing Market Slow-Down

Overall housing market activity was relatively stable in 2018, although the buy-to-let purchase market has remained subdued after the change in stamp duty in 2016. In contrast, first time buyer lending has increased, helped by government schemes such as the Help to Buy equity loan. It is too soon to know whether the abolition of stamp duty for the majority of first time buyers announced in the 2017 Autumn Budget will have the desired effect and boost activity and affordability in this sector. The Building Societies Association, in their response to the 2017 Autumn Budget, noted that Stamp Duty is a more widespread barrier to home movers and not limited to first time buyers, and that the lack of housing supply remains the most critical issue. Remortgage activity increased significantly in the second half of 2017, driven by competition amongst lenders, as well as record low mortgage rates.

A higher rate of stamp duty land tax (**SDLT**) and Welsh land transactions tax (**WLTT**) applies to the purchase of additional residential properties (such as buy to let properties). The current additional rate is three per cent above the current SDLT and the WLTT rates. The Scottish government has implemented a similar additional dwelling supplement tax with effect from the same date in respect of land and buildings

transaction tax (**LBTT**) (broadly speaking, the equivalent in Scotland to SDLT). The current additional rate is 3 per cent. above the current SDLT, WLTT rates and, for Scottish Properties, an additional 4 per cent. of the full chargeable consideration of the property (where the property is valued at £40,000 or more).

The introduction of these measures may adversely affect the private residential rental market in England, Wales, Scotland and Northern Ireland in general, or (in the case of the restriction of income tax relief) the ability of individual borrowers of buy-to-let loans to meet their obligations under those loans.

Political uncertainty

On 23 June 2016 the UK held a referendum on whether the UK should remain a member of the EU.

The UK voted to leave the EU, the UK Government invoked Article 50 of the Lisbon Treaty and officially notified the EU of its decision to withdraw from the EU. This commenced the formal two-year process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the UK and the EU (the "**article 50 withdrawal agreement**"). As part of those negotiations, a transitional period has been agreed in principle which would extend the application of EU law, and provide for continuing access to the EU single market, until the end of 2020 and possibly longer.

The article 50 withdrawal agreement has not yet been ratified by the UK or the EU. The parties have agreed to an extended timeline which allows for ratification to take place any time prior to 31 October 2019. To the extent ratification does take place ahead of 31 October 2019, the UK would leave on the first date of the month following ratification. However, it remains uncertain whether the article 50 withdrawal agreement, or any alternative agreement, will be finalised and ratified by the UK and EU ahead of the deadline. If that deadline of 31 October 2019 is not met, unless the negotiation period is further extended or the Article 50 notification revoked, the Treaty on the European Union and the Treaty on the Functioning of the EU will cease to apply to the UK and the UK will lose access to the EU single market.

Whilst continuing to discuss the article 50 withdrawal agreement and political declaration, the UK Government has continued with preparations for a "hard" Brexit (or "no-deal" Brexit) to minimise the risks for firms and businesses associated with an exit with no transitional agreement. This has included publishing draft secondary legislation under powers provided in the EU (Withdrawal) Act 2018 to ensure that there is a functioning statute book after any exit without a transitional period.

Due to the on-going political uncertainty as regards the terms of the UK's withdrawal from the EU and the structure of the future relationship, it is not possible to determine the precise impact on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the business of the Issuer or any other party to the Transaction Documents.

Prospective investors should also note that the regulatory position of the Covered Bonds may be affected as a result of regulatory requirements (including provisions made in the EU covered bond reform package, as to which please see "Regulatory treatment of covered bonds") which restrict the availability of preferential treatment (including with respect to investment limits, regulatory capital and liquidity standards) to covered bonds issued by a credit institution with its registered office in an EEA state and subject to continued supervision by the relevant designated competent authority in the EEA.

It is uncertain whether such preferential treatment will remain available in respect of the Covered Bonds following the departure of the UK from the EU and this will depend in part on the terms of the UK's exit. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer or the Arrangers make any representation to any prospective investor regarding the regulatory treatment of their investment at the time of investment or at any time in the future.

In addition, future UK political developments, including, but not limited to, the UK's withdrawal from the EU and/or any changes in government structure and policies, could affect the fiscal, monetary and regulatory

landscape to which the Issuer is subject and also therefore its financing availability and terms. Consequently no assurance can be given that the Issuer's operating results, financial condition and prospects would not be adversely impacted as a result.

In addition, the UK Government has devolved to the Scottish Parliament additional legislative powers previously reserved to the UK Parliament under the Scotland Act 2016 which came into force on 23 March 2016 and which devolves, amongst other things, control of income tax to the Scottish Parliament by giving it the power to raise or lower the rate of income tax and thresholds for non-dividend and non-savings income of Scottish residents. Whilst the majority of the provisions are not expected to have an adverse impact on the Scottish economy or on mortgage origination in Scotland, the Scottish Parliament has confirmed that the rates and thresholds for income tax that will apply to the non-savings and non-dividend income of Scottish taxpayers from 6 April 2018 will, for the first time, differ from those applied throughout the rest of the UK. The higher and additional rates of tax have both been increased. In addition, the basic rate of tax has now also been split into three tiers (a starter rate, a basic rate and an intermediate rate). The changes mean that certain taxpayers in Scotland will now pay a higher level of tax than borrowers in the same income bracket in England and Wales. This may affect some borrowers' ability to pay amounts when due on the mortgage loans originated in Scotland which, in turn, may adversely affect the ability of the issuer to make payments under the Covered Bonds.

No assurance can be given that any of the matters outlined above would not adversely affect the ability of the Issuer to satisfy its obligations under the Covered Bonds and/or the market value or liquidity of the Covered Bonds in the secondary market.

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

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

Increased competition may result in downward pressure on the industry's spread between deposit and loan rates and this, in turn, may negatively affect the Issuer's income.

Operational Risk

The Issuer has an Enterprise Risk Management Framework (**ERMF**) in place that sets out a summary of the Group's risk management activities to be undertaken across all business areas within the Group. This framework defines Operational Risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems, and from external events. The Issuer has a defined Risk & Control process which set out the Operational Risks that the Issuer is exposed to and the key controls used to mitigate these risks. The ERMF includes but is not limited to business continuity risk, IT risk, information security risk, change risk, payments risk, people risk and third party risk. This framework puts in place the approach through which the Issuer will comply with its obligations as a society with securities admitted to the Official List or as a supervised firm dual-regulated by the FCA and the Prudential Regulation Authority (the **PRA**).

Any failure by the Issuer of the ERMF or the Risk & Control process to identify a risk or to adequately deal with such risk (including in timely manner) may have an adverse effect on the Issuer's ability to make payment under the Covered Bonds.

Market and Liquidity Risk

The most significant market risks the Issuer faces are interest rate and bond price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and

borrowing costs. In particular, the UK is experiencing a period of historically low interest rates which has reduced margins on mortgage loans.

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

The Issuer is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments.

The Group is exposed to risk in relation to data protection

The Group holds, controls and processes a significant volume of personal data and could be adversely affected if any of this data were to be lost, compromised or not handled in accordance with the relevant data protection legislation. This could give rise to legal or regulatory penalties as well as commercial costs. Although the Group has robust data protection policies and procedures in place, any loss or compromise of personal data or other breach of data protection legislation could have a material adverse effect on the Group's business, results of operations and financial performance.

The European General Data Protection Regulation (the **GDPR**), which came into force on 25 May 2018, imposes new obligations on data controllers and data processors and new rights for data subjects which the Group needs to comply with. The GDPR also introduces significantly increased financial penalties that can be imposed on the Group as the result of any non-compliance with the GDPR.

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

Whilst various governments and central banks, including the UK government and the Bank of England, have taken substantial measures to provide liquidity following the disruption seen since 2007, there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks and building societies in the long term. In addition, the availability and the terms on which any such measures will continue to be made available in the longer term are uncertain.

On 1 August 2012, the Bank of England's Funding for Lending Scheme (the **FLS**) became operational. The aim of the FLS was to boost the incentive for banks and building societies to lend to UK households and non-financial companies. The FLS was designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to the FLS was directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more in the FLS and at a lower cost than those that scale back their loans. Under the FLS as originally announced, participating financial institutions were able to borrow funds, for a period of 18 months to the end of January 2014.

This availability period was initially extended to allow drawdowns up to the end of January 2015, was later extended to allow drawdowns up to the end of January 2016 and was subsequently extended further to allow drawdowns up to the end of January 2018. The FLS is now no longer open for drawings.

The Bank of England also introduced the Term Funding Scheme (the **TFS**) which became operational on 19 September 2016. The TFS was designed to reinforce the transmission of bank rate cuts to those interest rates actually faced by households and businesses by providing term funding to banks and building societies (that are participants in the Bank of England's Sterling Monetary Framework and signed up to the Bank of England's Discount Window Facility) at rates close to bank rate. In addition to its primary monetary policy objective, the TFS provided participants with a cost effective source of funding in the form of central bank reserves to support additional lending to the real economy. The TFS allowed participants to borrow central

bank reserves in exchange for eligible collateral. The drawdown period under the TFS ran from 19 September 2016 to 28 February 2018 and the TFS drawings are no longer open for drawings.

The availability of government support for UK financial institutions, to the extent that it provides access to cheaper and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets. The Issuer has participated in the FLS and the TFS schemes as at the date of this Prospectus. By so participating, the Issuer reduces the need to fund itself in the wholesale markets and there is a risk that if it ceases to remain sufficiently active in those markets its access to them could be prejudiced in the future. The withdrawal of government support from January 2018 could increase funding costs for those institutions which have previously utilised that support. In addition, other financial institutions who have relied significantly on government support and schemes such as the FLS and the TFS to meet their funding needs will also need to find alternative sources of funding as the support is now withdrawn and, in such a scenario, the Issuer expects to face increased competition for funding, particularly retail funding on which it is reliant, in the future. This competition could further increase its funding costs and so adversely impact its results of operations and financial position.

The Issuer has continued to develop its wholesale funding franchise by accessing the public bond markets, in addition to the use of the above scheme. In 2018 it accessed the covered bond market.

Regulatory and conduct risks faced by the Issuer

UK authorised firms are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations thereof in the UK and the European Union. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking and building society sector, which the Issuer expects to continue for the foreseeable future. The UK government, the FCA, PRA and other regulators in the UK or the European Union may intervene further in relation to areas of industry risk already identified, or in new areas, each of which could adversely affect the Issuer. The effects such regulation may have on the Issuer include, without limitation, the imposition of additional costs on the Issuer or the limitation or restriction on the manner in which the Issuer conducts elements of its business. The Issuer continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate the risks posed, although future changes are difficult to predict and could materially adversely affect the business of the Issuer.

The Issuer is exposed to various forms of regulatory risk in its operations, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements, or other claims of alleged misconduct on the part of the Issuer, any of which could have a material adverse effect on its results or its relations with its customers.

The Issuer may settle litigation or regulatory proceedings prior to a final judgment or determination of liability in order to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Issuer believes that it has no liability. The Issuer may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement.

Failure to manage these risks adequately could impact the Issuer adversely and materially, both financially and reputationally.

The financial impact of regulatory risks might be considerable but are difficult to quantify. Amounts eventually paid may exceed the amount of any provisions set aside to cover such risks.

UK Banking Act 2009

The Banking Act 2009 (the **Banking Act**) as amended includes (among other things) provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of certain UK incorporated entities, including authorised deposit-taking institutions and investment firms, and powers to take certain resolution actions in respect of UK branches of third country institutions. In addition, powers may be used in certain circumstances in respect of UK established banking group companies, where such companies are in the same group as a relevant UK bank institution or in the same group as a European Economic Area (**EEA**) credit institution or investment firm. Relevant transaction parties for these purposes include the Issuer, the Seller, the Servicer, the Account Bank, the Interest Rate Swap Provider, the Cash Manager, the Principal Paying Agent, the Agent Bank, the Exchange Agent, the Registrar, the GIC Provider, the Stand-by Account Bank or the Stand-by GIC Provider.

The tools available under the Banking Act include share and property transfer powers (including powers for partial property transfers), bail-in powers, certain ancillary powers (including powers to modify contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. In respect of UK building societies, the relevant tools include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares, (ii) modified share transfer powers, as well as a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society and (iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualisation of the building society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the society to a company. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made and, in certain circumstances, the UK authorities may exercise broad pre-resolution powers in respect of relevant entities with a view to removing impediments to the exercise of the stabilisation tools.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. The Banking Act includes provisions related to compensation in respect of instruments and orders made under it. In general, there is considerable uncertainty about the scope of the powers afforded to authorities under the Banking Act and how the UK authorities may choose to exercise them.

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of a relevant entity as described above (including the Issuer), such action may (amongst other things) affect the ability of the relevant entity to satisfy its obligations under the Transaction Documents (including limiting its capacity to meet its repayment obligations) and/or result in the cancellation, modification or conversion of certain unsecured liabilities of such entity under the Transaction Documents (possibly preceded by demutualisation in the case of a building society such as the Issuer), including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time and/or in other modifications to the Terms and Conditions of the Covered Bonds and/or the Transaction Documents. In particular, modifications may be made pursuant to powers permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool (including any unsecured portion of the liability in respect of the Covered Bonds at the relevant time), the reduction of the relevant liability (including to zero) and/or the discharge of a relevant entity from further performance of its obligations under a contract. In addition, subject to certain conditions, powers would apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined "default events" have occurred (which events may include trigger events included in the Transaction Documents in respect of the Issuer,

including trigger events in respect of perfection of legal title to the Loans and the Issuer Events of Default). As a result, the making of an instrument or order in respect of the Issuer, the Seller, the Servicer, the Account Bank, the Interest Rate Swap Provider, the Cash Manager, the Principal Paying Agent, the Agent Bank, the Exchange Agent, the Registrar, the GIC Provider, the Stand-by Account Bank or the Stand-by GIC Provider may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or otherwise adversely affect the rights and interests of the Covered Bondholders.

At present the UK authorities have not made an instrument or order under the Banking Act in respect of the entities referred to above and there has been no indication that any such instrument or order will be made, but there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such instrument or order if made. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that Covered Bondholders would recover compensation promptly and equal to any loss actually incurred. It should also be noted that any extraordinary public financial support provided to a relevant institution through any stabilisation action (such as temporary public ownership) would likely only be used by the UK authorities as a last resort only after having assessed and exploited, to the maximum extent practicable, the resolution tools and powers described above.

As noted above, the stabilisation tools may be used in respect of certain banking group companies provided certain conditions are met. If the LLP was regarded to be a banking group company and no exclusion applied, then it would be possible in certain scenarios for the relevant authority to exercise one or more relevant stabilisation tools (including the property transfer powers and/or the bail-in powers) in respect of it, which could result in reduced amounts being available to make payments under the Covered Bond Guarantee and/or in the modification, cancellation or conversion of any unsecured portion of the liability of the LLP under the Covered Bond Guarantee at the relevant time. In this regard, it should be noted that the UK authorities have provided an exclusion for covered bond vehicles, which exclusion is expected to extend to the LLP, although aspects of the relevant provisions are not entirely clear.

Lastly, as a result of the EU Bank Recovery and Resolution Directive 2014/59/EU (the **BRRD**) providing for the establishment of an EEA-wide framework for the recovery and resolution of credit institutions and investment firms and any relevant national implementing measures, it is possible that an institution with its head office in an EEA state other than the UK and/or certain group companies (such as a relevant Covered Bond Swap Provider) could be subject to certain resolution actions in that other state. Moreover, certain amendments may be made to Directive 2014/59/EU as a result of proposals published by the European Commission on 23 November 2016 (known as BRRD II), including to extend the "write down and conversion power". Once again, any such action may affect the ability of any relevant entity to satisfy its obligations under the Transaction Documents and there can be no assurance that Covered Bondholders will not be adversely affected as a result.

Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 (the **FSMA**) established the Financial Services Compensation Scheme (the **FSCS**), which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. Claims on the FSCS are funded by levies on UK deposit-taking institutions.

An institution's FSCS levy is linked to its share of the UK deposit market. The FSCS levy may have a material impact on the profits of the Issuer. The attention of Covered Bondholders is drawn to note 28 of the audited consolidated annual accounts of the Issuer and its subsidiaries for the years ended 31 December 2018 in this regard. In certain circumstances, regulated UK deposit takers may further be required to fund, by way of a further increase in the FSCS levy, the capital repayment to HM Treasury of such loans.

Rules published by the PRA on 1 April 2015 (as amended), as a result of the EU recast directive on deposit guarantee schemes which was adopted in April 2014, have altered the way that the FSCS is operated. The

new rules have resulted in a number of changes to the UK FSCS including temporary high balance deposit protection, up to £1 million for up to six months for certain limited types of deposits, and changes to the manner and size of the FSCS's funding. From 1 January 2017, the standard deposit compensation limit increased from £75,000 to £85,000. It is possible that future FSCS levies on the Issuer may differ from those incurred previously, and such reforms could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

There can also be no assurance that there will be no actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer (and other regulated UK deposit takers). Any such increases in the Issuer's costs and liabilities related to the levy may have a material adverse effect on its results and operations. Further costs and risks to the Group may also arise from discussions at national and EU levels around the future design of financial services compensations schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

Demutualisation, mutual society transfers and consequences of the Building Societies Act for Covered Bondholders

Subject to confirmation by the relevant UK regulatory authority, YBS or its members determine whether it remains a building society or if it demutualises (save in circumstances where a direction is made under section 42B of the Building Societies Act or a UK authority makes an instrument or order under the Banking Act, which results in demutualisation through the conversion of it into a company or the transfer of all the property, rights or liabilities of the society to a company).

The Building Societies Act includes provisions under which a building society may demutualise by transferring the whole of its business to an existing company (referred to as a 'takeover') or to a specially formed company (referred to as a 'conversion'). In addition, the Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009 (the **Mutual Transfers Order**) made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the **Funding and Mutual Societies Transfers Act**)) includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). At present, the claims of depositors and other unsubordinated creditors of the Issuer would rank ahead of share accounts (which term excludes any deferred shares) and the members' rights to any surplus in the event of a liquidation of the Issuer and the claims of subordinated creditors of the Issuer would rank behind share accounts but ahead of members' rights to any surplus in the event of a liquidation of the Issuer. If, however, the Issuer transfers its business to a specially formed company or an existing company (as defined in the Building Societies Act) or to a subsidiary of another mutual society, all the liabilities of the Issuer which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of the Issuer's successor.

Section 90B of the Building Societies Act, as amended by the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, permitted HM Treasury, by order, to make certain alterations to rankings of creditors and shareholders on dissolution and winding up.

HM Treasury has exercised this power, which was granted to it under Section 90B of the Act, in line with an intention to align the creditor hierarchy in UK building societies with the depositor preference requirements introduced by Directive 2014/59/EU (**BRRD**), and powers conferred on it by section 2(2) of the European Communities Act 1972 by making the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 (the **Depositor Preference Order**), which came into force on 1 January 2015. As a result of these changes, provision has been made by HM Treasury for the purpose of ensuring that, on the winding up, or dissolution by consent, of a building society, any assets available for satisfying the society's liabilities to creditors (other than liabilities in respect of subordinated deposits; liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to

shareholders (other than liabilities in respect of preferential debts and deferred shares) are applied in satisfying those liabilities *pari passu*.

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

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

Future legislative, accounting and regulatory changes could impose operational restrictions on the Issuer, require the Issuer to raise further capital, increase the Issuer's expenses and/or otherwise adversely affect its business, results, financial condition or prospects

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

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

The imposition of such sanctions, fines or other action on the Issuer or the incurrence of such costs by the Issuer may affect the Issuer's ability to meet its obligations to Covered Bondholders in respect of the Covered Bonds in circumstances where the LLP is unable to meet its obligations under the Covered Bond Guarantee.

Future changes in regulation, fiscal or other policies are unpredictable and beyond the Issuer's control and could materially adversely affect its business or operations.

Regulators and other bodies in the UK and the EU have made a range of legislative and regulatory changes which could impose operational restrictions on the Issuer, require the Issuer to raise further capital, increase the Issuer's expenses and/or otherwise adversely affect its business results, financial condition or prospects, some of which have now entered into effect. These include, amongst others:

- The Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**). Certain measures relating to the ring-fencing of domestic retail banking services of UK banks, contained in the Banking Reform Act have recently entered into force. The Government has excluded building societies from the ring-fencing legislation but has the power to amend the UK Building Societies Act to bring building societies legislation into line with the ring-fencing requirements if it considers it necessary at a later date. The European Parliament and Council have adopted amendments to the CRR and the CRD, the BRRD and Regulation 806/2014 (together, the **Banking Reform Package**).

Most of the measures in the Banking Reform Package must be implemented in Member States by June 2021. The Banking Reform Package includes the proposed introduction into EU legislation of a net stable funding ratio, a binding leverage ratio requirement, provisions reflecting the Basel Committee's Fundamental Review of the Trading Book, incorporating a revised treatment for the calculation of own funds requirements for market risk, the Standardised Approach to Counterparty Credit Risk, and other regulatory measures. Further clarity is also provided in respect of the "Pillar 2" supervisory review process, in particular the conditions which can lead to additional capital requirements and the split between "Pillar 2" requirements and "Pillar 2" guidance. The Banking Reform Package also includes amendments to the individual minimum requirement for eligible liabilities (known as **MREL**) requirements in the BRRD to align with the "Total Loss Absorbing Capacity" standard adopted by the Financial Stability Board in relation to global systemically important institutions. Among these reforms is the introduction of the concept of a "Pillar 2" MREL requirement, which allows resolution authorities the power to require entities to have an additional MREL requirement above the minimum, including a market confidence buffer. The measures in the Banking Reform Package (once implemented in the UK) could directly impact the Issuer's regulatory compliance requirements and could cause its operational, financing and funding costs to increase.

- The GDPR has had direct effect in all EU Member States since 25 May 2018 and has replaced previous EU data privacy laws. Although a number of basic existing principles remain the same, the GDPR introduced new obligations on data controllers and rights for data subjects. The GDPR also introduced new fines and penalties for a breach of requirements, including fines for serious breaches of up to the higher of 4 per cent. of annual worldwide turnover or €20 million and fines of up to the higher of 2 per cent. of annual worldwide turnover or €10 million for other specified infringements. The GDPR identifies a list of points to consider when imposing fines (including the nature, gravity and duration of the infringement). The implementation of the GDPR has required substantial amendments to the Issuer's procedures and policies and an increase in regular staff training and testing to ensure ongoing compliance with GDPR. The changes could adversely impact the Issuer's business by increasing its operational and compliance costs. Further, there is a risk that the measures will not be implemented correctly or that individuals within the Issuer will not be fully compliant with the new procedures. If there are breaches of these measures, the Issuer could face significant administrative and monetary sanctions as well as reputational damage which may have a material adverse effect on the Issuer's operations, financial condition and prospects.

- In December 2017, the Basel Committee on Banking Supervision (the **Basel Committee**) published its final revisions to the Basel III capital framework. These revisions are intended to enhance the robustness and risk sensitivity of the standardised approaches for credit risk and operational risk, constrain the use of internally modelled approaches, and to complement the risk-weighted capital ratio with a finalised leverage ratio and a revised and robust capital floor. These revisions are scheduled to be effective from 1 January 2022, with the capital floors phased in from 1 January 2022 to 1 January 2027. These revisions could result in requirements which exceed existing capital requirements. In particular, the revised capital floors will limit the extent of capital requirement reduction and increase in capital ratios that can be expected from the Issuer moving to an Internal Ratings Based (**IRB**) modelling approach for credit risk.

- In June 2017, the PRA published a policy statement relating to residential mortgage risk weights, including proposals to align firms' Internal Ratings Based (**IRB**) modelling approaches for residential mortgage risk weighted assets. This set out a number of modifications to the IRB modelling methodologies for residential mortgages, and sets the expectation for firms to update IRB models by the end of 2020. This could result in risk based requirements increasing following implementation of new models.

- The International Accounting Standards Board has introduced IFRS 9: "Financial Instruments" as a new standard to replace IAS 39: "Financial Instruments: Recognition and Measurement". It changes the classification and measurement of some financial assets, the recognition and the financial impact of impairment. IFRS 9 Classification and Measurement and Impairments were implemented in the Issuer's financial statements for the financial year ending 31 December 2018, IFRS 9 Hedge Accounting remains optional and has not been applied. The application of IFRS 9 led to a transition impact of £4.1m, increasing reserves. See further "*Changes in the Issuer's accounting policies or in accounting standards could materially affect its capital ratios, how it reports its financial condition and results of operations*" below.

- The Bank of England conducts an annual stress testing exercise of the UK banking system, which currently covers the seven largest UK banks and building societies. The 2018 stress test includes two stress scenarios. Alongside the annual cyclical scenario (**ACS**), for the first time the Bank of England ran an additional biennial exploratory scenario (**BES**). The ACS incorporated a severe and synchronised UK and global macroeconomic and financial market stress, as well as an independent stress of misconduct costs. The BES considered how the UK banking system could evolve in an environment of weak global growth, persistently low interest rates, stagnant world trade and cross-border banking activity, increased competitive pressure on large banks from smaller banks and non-banks, and a continuation of costs related to misconduct. The 2018 stress test is a repeat of the 2017 ACS. The test has a seven-year horizon to capture these long-term trends. If such exercises reveal inadequate systemic resilience, the FPC could consider a variety of actions, including recommendations to the PRA and FCA to adjust a range of regulatory capital buffers, including the UK countercyclical buffer, sectorial capital requirements and the PRA buffer. The Issuer was not a participant in the 2018 stress test. The criteria applied to stress tests are not intended to be indicative of prospective changes to the capital requirements.

- In February 2019, EU ambassadors endorsed a package of measures that included amendments to the CRR and CRD IV, the BRRD and Single Resolution Mechanism (**SRM**). This package adopts a range of Basel III amendments that have been agreed by the Basel Committee on Banking Supervision and rules from the Financial Stability Board. These amendments are wide ranging and include, in particular, a formal adoption of the leverage ratio requirement in the EU along with amendments to capital requirements for counterparty credit risk, though many elements will apply from June 2021. This could result in increased capital requirements for the Issuer and the application of a formal leverage requirement. Further, in April 2019 the European Parliament approved the final agreement on a package of reforms proposed by European Commission, known as the "CRD V package", to strengthen the resilience and resolvability of European banks. The package of reforms comprises two regulations and two directives, namely amendments to the CRR and CRD IV, the BRRD and the SRM. The CRD V package was published in the Official Journal of the European Union on 7 June 2019 and entered into force on 27 June 2019.

As at the date of this Prospectus, it is impossible to predict the effect that any of the proposed or recent changes will have on the Issuer's operations, business and prospects or how any of the proposals discussed above will be implemented. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Issuer's operations, structure, costs and/or capital requirements. Accordingly, the Issuer cannot assure investors that the implementation of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on its operations, business, results, financial condition or prospects.

Senior Managers and Certification Regime

The Senior Managers and Certification Regime (the **SM&CR**) introduced by the Banking Reform Act is intended to govern the conduct of senior persons within UK banks, building societies, credit unions, PRA-designated investment firms and branches of foreign banks operating in the UK. The SM&CR came into force for those firms on 7 March 2016.

The SM&CR comprises (i) a new senior managers regime requiring certain senior managers to be authorised by the relevant regulators (ii) a certification regime, under which firms are required to certify the fitness and propriety of certain senior staff and (iii) a code of conduct governing the conduct of staff (enforceable by PRA and/or FCA disciplinary action, including financial penalties and public censure) and (iv) the introduction of a criminal offence for reckless misconduct by senior bank staff. The FCA and the PRA have now published the majority of their rules and guidance on the SM&CR. The new criminal offences relating to decisions causing financial institutions to fail introduced by the Banking Reform Act have applied from 7 March 2017.

The PRA has published its policy statement on the extension of the SM&CR to PRA solo regulated firms bringing them into scope of the regime from 9 December 2018. The FCA has published its near final rules for the expansion of the SM&CR to FCA solo regulated firms commencing on 9 December 2019 bringing FCA solo regulated firms into scope.

The SM&CR has had, and will continue to have a substantial impact on banks and building societies in the UK generally, including the Issuer, and when the extended SM&CR comes into force, any of the Issuer's subsidiaries which are FSMA authorised persons at that time. The Issuer could be exposed to additional risk or loss if it is unable to comply with additional requirements from the SM&CR or if doing so on an ongoing basis imposes significant demands on the attention of management.

Changes in the Issuer's accounting policies or in accounting standards could materially affect its capital ratios, how it reports its financial condition and results of operations

From time to time, the International Accounting Standards Board (the **IASB**) and/or the European Union change the international financial reporting standards issued by the IASB, as adopted by the European Commission for use in the European Union (**IFRS**) that govern the preparation of the Issuer's financial statements. These changes can be difficult to predict and could materially impact how the Issuer records and reports its financial condition and results of operations. In some cases, the Issuer could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

For example, IFRS 9: "*Financial Instruments*" is the new standard to replace IAS 39: "*Financial Instruments: Recognition and Measurement*". It will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 is required to be implemented in the Issuer's financial statements for the financial year ending 31 December 2018.

Amongst other changes, IFRS 9 is replacing the incurred loss approach to impairment of IAS 39 with one based on expected credit losses (the **ECL**), which will result in earlier recognition of credit losses. This introduces a number of new concepts and changes to the approach to provisioning compared with the methodology under IAS 39. ECLs are based on an assessment of the probability of default, loss given default and exposure at default, discounted to give a net present value. The estimation of ECL should be unbiased and probability-weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes.

A further key requirement of IFRS 9 compared with the existing provision approach under IAS 39 relates to assets where there has been a significant increase in credit risk since the date of origination. Provisions will be made for those assets expected to default at any point over their lifetime reflecting the asset's full expected loss. The change to lifetime loss provisions for significantly credit deteriorated assets is expected to have no material impact on impairment provisions, but may increase volatility. The size of the change will depend on a number of factors, including the composition of asset portfolios and the view of the economic outlook at the date of implementation and therefore requires considerable management judgement. For assets where there is evidence of credit impairment, provisions will be made under IFRS 9 on the basis of lifetime ECLs, taking account of forward looking economic assumptions and a range of possible outcomes.

The Group has on-going IFRS 9 redevelopment activities which are focussed on redeveloping models to align with the latest IRB models.The key drivers of the IFRS 9 models are probability of default, loss given default, exposure at default, economic forecasts and the discount rate used to give a net present value.

Until the impairment models are finalised the financial reporting impact of IFRS 9 cannot be fully disclosed. Parallel run has shown that we do not expect any material increase in provisions as a result of implementation.

The IASB may make other changes to financial accounting and reporting standards that govern the preparation of the Issuer's financial statements, which the Issuer may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Issuer, or which the Issuer may be required to adopt. Any such change in the Issuer's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

Risk factors relating to the LLP

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

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

Payments by the LLP will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. The attention of potential Covered Bondholders is drawn to the paragraph headed "*Payments by the LLP*" in the United Kingdom taxation section below. Prior to service on the LLP of an LLP Acceleration Notice, the LLP will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or interest on interest which may accrue on or in respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 7.

Subject to 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), although in such circumstances the LLP will not be obliged to gross up in respect of any withholding which may be required in respect of any payment. Following service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement and realisation of the Security shall be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the Deed of Charge, and the Covered Bondholders will receive amounts from the LLP on an accelerated basis.

Excess Proceeds received by the Bond Trustee

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee on

behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and will be held by the LLP in the GIC Account and the Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other monies from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds 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 (following service on the LLP of a Notice to Pay) and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

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

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: (i) the realisable value of Selected Loans and their Related Security in the Portfolio; (ii) the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof; (iii) amounts received from the Swap Providers; (iv) the realisable value of Substitution Assets held by it; and (v) the receipt by it of credit balances and interest on credit balances on the GIC Account and, if applicable, the Stand-by GIC Account. Recourse against the LLP under the Covered Bond Guarantee is limited to the aforementioned assets and the LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

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

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

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Loan Amount is equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there ever being a shortfall (although there is no assurance of this – in particular, the sale of further Loans and Related Security by the Seller to the LLP may be required to avoid or remedy a breach of the Asset Coverage Test). The LLP and the Seller (in its capacity as Member) must ensure that following the occurrence of an Issuer Event of Default, the Amortisation Test is met on each Calculation Date and a breach of the Amortisation Test will constitute an LLP Event of Default and will entitle the Bond Trustee to serve an LLP Acceleration Notice on the LLP (see "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*" and "*Credit Structure – Asset Coverage Test*"). The Asset Coverage Test and the 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, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the LLP and the GIC Account and Transaction Account will be held with the Account Bank. In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if the Servicer has failed to adequately administer the Loans, this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement and the Covered Bond Guarantee, as described below.

If a Servicer Event of Default occurs pursuant to the terms of the Servicing Agreement, then the LLP 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 will be required to be authorised under the FSMA. The ability of a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Portfolio or any part thereof, and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

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

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

Reliance on Swap Providers

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or rates of interest which track a base rate) and LIBOR for three month Sterling deposits, the LLP has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider. In addition, to provide a hedge against interest rate and currency risks in respect of amounts received by the LLP under 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 with each Covered Bond Swap Provider.

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

Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the Intercompany Loan Agreement or Covered Bond Guarantee.

If a Swap Agreement terminates, then the LLP may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the LLP will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the LLP will be able to find a replacement swap counterparty which has sufficiently high ratings as may be specified in current rating agency criteria published by or as otherwise agreed with the Rating Agencies as being sufficient to maintain the current ratings of the Covered Bonds and which agrees to enter into a replacement swap agreement.

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

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

With respect to the Covered Bond Swaps, the LLP will pay a monthly amount, on each LLP Payment Date, to each Covered Bond Swap Provider based on LIBOR for three month Sterling deposits. Each Covered Bond Swap Provider will not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to 12 months until amounts are due and payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay or LLP Acceleration Notice on the LLP) or are Due for Payment under the Covered Bond Guarantee (after the service of a Notice to Pay or LLP Acceleration Notice on the LLP). If a Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap and such Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with 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 under the FSMA and current rating criteria published by the Rating Agencies from time to time in relation to the short-term, unguaranteed and unsecured ratings ascribed to such party by Fitch and Moody's. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive monies on behalf of the LLP) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the Transaction Documents.

In addition, should the applicable criteria cease to be satisfied, 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.

It should be noted that as at the date of this Prospectus the Transaction Account and the GIC Account have been transferred to HSBC Bank plc in its capacity as Stand-by Bank Account Provider and Stand-by GIC Provider.

Risk Factors relating to the Programme

Limited description of the Portfolio

The Covered Bondholders will have access to detailed loan level data in relation to the Loans in the Portfolio via the Issuers website. However, because it is expected that the constitution of the Portfolio will frequently change due to, for instance:

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

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

Fixed charges may take effect under English law as floating charges

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

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

However, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the LLP has agreed in the Transaction Documents not to have any employees.

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

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

Maintenance of Portfolio

Asset Coverage Test: Pursuant to the terms of the Mortgage Sale Agreement, the Seller will agree to use all reasonable efforts to transfer Loans and their Related Security to the LLP in order to ensure that the Portfolio is in compliance with the Asset Coverage Test. The consideration payable to the Seller for the Sale of the Loans and Related Security to the LLP will be a combination of: (i) a cash payment paid by the LLP; and/or (ii) the Seller being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the True Balance of the Loans sold by the Seller to the LLP as at the relevant Transfer Date and the cash payment (if any) paid by the LLP for such Loans); and (iii) Deferred Consideration.

Alternatively, YBS (in its capacity as Member of the LLP) may make a Cash Capital Contribution to the LLP pursuant to the LLP Deed in order to ensure that the LLP is in compliance with the Asset Coverage Test. If a breach of the Asset Coverage Test occurs which is not cured on the next Calculation Date, an Asset Coverage Test Breach Notice will be served on the LLP, which will result in the consequences set out in "*Summary of Principal Documents – LLP Deed – Asset Coverage Test*". There is no specific recourse by the LLP to the Seller in respect of the failure to sell Loans and their Related Security to the LLP nor is there any specific recourse to YBS if it does not make Cash Capital Contributions to the LLP. In addition, Covered Bondholders should be aware that the FCA may take certain action under the RCB Regulations in relation to the Seller, including prohibiting the Seller from transferring further Loans to the LLP. Any such action may have an adverse effect on the ability of the Issuer and the LLP to meet its obligations under the Covered Bonds and the Covered Bond Guarantee, as applicable.

Amortisation Test: Pursuant to the LLP Deed, the LLP and YBS (in its capacity as a Member of the LLP) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP but prior to the service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the Amortisation Test Aggregate Loan Amount is in an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding under the Covered Bonds. The Amortisation Test is intended to ensure that the assets of the LLP do not fall below a certain threshold to 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 Bonds.

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

Prior to the occurrence of an Issuer Event of Default, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year on the Calculation Date immediately prior to each anniversary of

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

The Security Trustee shall not 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 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, which may affect payments under the Covered Bond Guarantee. However, the Selected Loans may not be sold by the LLP for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to: (a) the Final Maturity Date in respect of such Covered Bonds; or (b) (if the same is specified as applicable in the relevant Final Terms) the Extended Due for Payment Date under the Covered Bond Guarantee in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the LLP is obliged to sell the Selected Loans for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount.

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

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

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

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

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

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

- representations or warranties not being given by the LLP or (unless otherwise agreed with the Seller) the Seller;

- default by Borrowers of amounts due on their Loans;
- the Loans of New Sellers being included in the Portfolio;
- changes to the Lending Criteria of the Seller;
- the LLP not having legal title to the Loans in the Portfolio;
- risks in relation to some types of Loans which may adversely affect the value of Portfolio or any part thereof;
- limited recourse to the Seller;
- possible regulatory changes by the FCA, the PRA, the Competition and Markets Authority (**CMA**) and other regulatory authorities; and
- regulations in the United Kingdom that could lead to some terms of the Loans being unenforceable.

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

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

Following the service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay on the LLP (but in each case prior to the service of a LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement (see "*Summary of the Principal Documents – LLP Deed – Method of Sale of Selected Loans and their Related Security*"). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give warranties or indemnities in respect of those Selected Loans and their Related Security. 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. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal. Examples of such factors include changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies

by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

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

The Loans of New Sellers may be included in the Portfolio

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

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

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. To the extent included in the Asset Pool, each of the Loans originated by Chelsea Building Society prior to its merger with the Seller will have been originated in accordance with Chelsea Building Society's lending criteria at the time of origination. It is expected that the Seller's Lending Criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicants and credit history. In the event of the sale or transfer of any Loans and Related Security to the LLP, the Seller will warrant only that, save for the Gainsborough Loans and the Chelsea Loans, such Loans and Related Security were originated in accordance with the Seller's relevant Lending Criteria applicable at the time of origination. The Seller retains the right to revise its Lending Criteria from time to time. If the Lending Criteria change in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

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

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

Related Security to any Borrower or apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the Loans and their Related Security or take any steps to perfect its title to the Scottish Loans and their Related Security or the Northern Irish Loans and their Related Security.

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

- first, if the Seller wrongly sells a Loan and its Related Security, which has already been sold to the LLP, to another person and that person acted in good faith and did not have notice of the interests of the LLP in the Loan and its Related Security, then such person might obtain good title to the Loan and its Related Security, free from the interests of the LLP. If this occurred then the LLP would not have good title to the affected Loan and its Related Security and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the LLP would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the LLP or their respective personnel or agents;

- second, the rights of the LLP may be subject to the rights of the Borrowers against the Seller, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the Seller, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller; and

- third, unless the LLP has perfected the assignment or assignation (as appropriate) of the Loans and their Related Security (which it is only entitled to do in certain limited circumstances), the LLP would not be able to enforce any Borrower's obligations under a Loan or Mortgage itself but would have to join the Seller as a party to any legal proceedings.

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

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

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

Set-off risk may adversely affect the value of the Portfolio or any part thereof

As described above, the sale by the Seller to the LLP of English Loans and Northern Irish Loans has been or will be given effect by an equitable assignment, with each sale of Scottish Loans being given effect by a Scottish Declaration of Trust. As a result, legal title to the English Loans, Northern Irish Loans and the Scottish Loans and their Related Security sold by the Seller to the LLP will remain with the Seller.

Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the Seller, including rights of set-off which occur in relation to transactions or deposits made between the Borrowers and the Seller existing prior to notification to the Borrowers of the assignment or assignation (as appropriate) of the Loans.

The exercise of set-off rights by Borrowers may adversely affect the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee. The Asset Coverage Test has been structured to mitigate the potential set-off risk (although there is no assurance that such risks will be accounted for).

Inquiries into payment protection insurance

Financial institutions, including mortgage lenders, continue to see a volume of claims for redress made by claimants who claim they were mis-sold payment protection insurance (**PPI**). The Financial Ombudsman Service (**FOS**) has provided guidance to the credit industry as to the correct approach to redress. This is that the consumer should be put back into the position they would have been in but for the failure on the part of the lender or broker. Redress should be assessed on the basis that the claimant would not have purchased the policy, if the lender or broker had given a fair recommendation and/or had given appropriate information during the sale – and that the claimant should be compensated if he has been out-of-pocket in the meantime.

The relevant regulators expect the credit industry to follow the FOS-mandated approach. Depending on the precise circumstances of each case, redress will normally involve calculating what the current balance of the loan would have been if the consumer had made the same monthly payments but without PPI. This is calculated by deducting the PPI premiums and the interest and charges that resulted from those premiums (including those arising because the ongoing balance on the loan was higher than it would have been, if the consumer had made the same payments to an account without PPI). If the reconstruction produces a credit balance for any period, the payment of interest (normally at the rate of 8% simple per year) should be added to the credit balances for the period that the account was in credit. This highly complex calculation methodology can result in high redress, particularly where the loan has been significantly utilised over a long period, as PPI is typically charged by reference to the loan balance. Where appropriate (for example, where the lender or broker rejected a complaint that it knew (or should have known) that the FOS would uphold), damages for distress/inconvenience may also need to be considered.

PPI redress is generally paid by cheque or by bank transfer to each individual claimant as a matter of course, except where the loan is delinquent, in which case the compensation will likely be used to reduce the amount the Borrower owes. Generally, it is within claimants' rights to request that their PPI redress is set-off against their balance, giving rise to a risk that the Issuer does not receive the full amount otherwise owed by the Borrower under the relevant Loan.

The FCA have made a new rule which sets a deadline by which consumers will need to make their PPI complaints or lose their right to have them assessed by firms or the FOS (although consumers will still be able to bring claims in court after the deadline). This rule came into force on 29 August 2017 with the deadline for complaints falling on 29 August 2019.

Set-off by Borrowers in respect of PPI claim amounts against the amount due by the Borrower under the relevant Loans may adversely affect the ultimate amount received by the LLP in respect of the relevant Loans and the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

Limited recourse to the Seller

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

If any Loan sold by the Seller does not materially comply with any of the Representations and Warranties made by the Seller as at the Transfer Date of that Loan, then the Seller will be required to notify the LLP and the Security Trustee as soon as reasonably practical after becoming aware of the fact and upon receipt of a request to do the same from the LLP, remedy the breach within 28 Business Days of receipt by it of the request.

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

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

Certain Regulatory Considerations

Regulated Mortgage Contracts

In the UK, regulation of residential mortgage business under the Financial Services and Markets Act 2000 (**FSMA**) came into force on 31 October 2004 (the date known as the **Regulation Effective Date**). Entering into as a lender arranging or advising in respect of , and administering regulated mortgage contracts and agreeing to do any of those activities are (subject to applicable exemptions) regulated activities under the FSMA and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (the **RAO**) requiring authorisation and permission from the FCA.

The original definition of a regulated mortgage contract was such that if a mortgage contract was entered into on or after the Regulation Effective Date but prior to 21 March 2016, it will be a Regulated Mortgage Contract under the RAO if: (i) the lender provides credit to an individual or to trustees; and (ii) the obligation of the Borrower to repay was secured by a first legal mortgage (or, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the UK, at least 40% of which was used, or was 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 was a beneficiary of the trust, or by a related person. A related person is broadly the person's spouse, near relative or a person with whom the Borrower has a relationship which is characteristic of a spouse.

There have been incremental changes to the definition of Regulated Mortgage Contract over time, including the removal of the requirement for the security to be first ranking and the extension of the territorial scope to cover property in the EEA rather than just the UK. The current definition of a regulated mortgage contract is such that if the mortgage contract was entered into on or after 21 March 2016, it will be a Regulated Mortgage Contract if it meets the following conditions (when read in conjunction with and subject to certain relevant exclusions) (a) the borrower is an individual or trustee; and (b) the obligation of the borrower to repay is secured by a mortgage on land in the EEA, at least 40% of which is used, or is intended to be used, in the case of credit provided to an individual, as or in connection with a dwelling; or (in the case of credit provided to a trustee who is not an individual), as or in connection with a dwelling by an individual who is a beneficiary of the trust, or by a related person (and a related person is broadly the person's spouse, civil partner, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse).

Credit agreements which were originated before 21 March 2016, which were regulated by the CCA, and that would have been Regulated Mortgage Contracts had they been entered into on or after 21 March 2016 are 'consumer credit back book mortgage contracts' and are also therefore Regulated Mortgage Contracts (see risk factor "*Regulation of residential secured lending (other than Regulated Mortgage Contracts*")).

On and from the Regulation Effective Date, subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised under the FSMA. The specified activities currently are: (a) entering into a Regulated Mortgage Contract as lender; (b) "**administering**" a Regulated Mortgage Contract (administering in this context broadly means notifying Borrowers of changes in mortgage payments and/or collecting payments due under the mortgage loan); (c) advising in respect of Regulated Mortgage Contracts; and (d) arranging Regulated Mortgage Contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to the authorisation of lenders and brokers are not complied with, a Regulated Mortgage Contract will be unenforceable against the Borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a Regulated Mortgage Contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the Borrower. The regime under the FSMA regulating financial promotions covers the content and manner of the promotion of agreements relating to qualifying credit and by whom such promotions can be issued or approved. In this respect, the FSMA regime not only covers financial promotions of Regulated Mortgage Contracts but also promotions of certain other types of secured credit agreements under which the lender is a person (such as an Originator) who carries on the regulated activity of entering into a Regulated Mortgage Contract. Failure to comply with the financial promotion regime (as regards who can issue or approve financial promotions) is a criminal offence and will render the Regulated Mortgage Contract or other secured credit agreement in question unenforceable against the Borrower except with the approval of a court.

The Servicer is required to hold and does hold authorisation and permission to enter into and to administer Regulated Mortgage Contracts. Brokers are in certain circumstances required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts. The LLP is not, and does not propose to be, an authorised person under the FSMA. The LLP does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The LLP does not carry on the regulated activity of administering Regulated Mortgage Contracts by having them administered pursuant to a servicing agreement by an entity having the required authorisation and permission under the FSMA. If such a servicing agreement terminates, the LLP will have a period of not more than one month (beginning with the day on which such arrangement terminates) in which to arrange for mortgage administration to be carried out by a replacement servicer having the required FSMA authorisation and permission.

The LLP will only hold beneficial title to the Loans and their Related Security. In the event that legal title is transferred to the LLP upon the occurrence of a Perfection Event the LLP will have arranged for a servicer to administer these Loans and is not expected to enter into any new Regulated Mortgage Contracts as lender under article 61(1) of the RAO. However, in the event that a mortgage is varied, such that a new contract is entered into and that contract constitutes a Regulated Mortgage Contract, then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity.

The FCA's Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**), which sets out the FCA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, amongst 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. Further rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

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

Regulation of residential secured lending (other than Regulated Mortgage Contracts)

The UK government had a policy commitment to move second charge lending into the regulatory regime for mortgage lending rather than the regime for consumer credit under which second charge lending previously fell. The UK government concluded there was a strong case for regulating lending secured on a Borrower's home consistently, regardless of whether it is secured by a first or subsequent charge. The European Mortgage Credit Directive (2014/17/EU) (the **Mortgage Credit Directive**) also follows this principle and makes no distinction between requirements for first charge and second (and subsequent) charge mortgage lending. The UK government therefore concluded that it made sense to implement the changes to second (and subsequent) charge lending alongside the implementation of the Mortgage Credit Directive. The UK government also proposed to move the regulation of second (and subsequent) charge loans already in existence before 21 March 2016 to the Regulated Mortgage Contract regime rather than keeping them within the consumer credit regime. The policy of regulating lending secured on a Borrower's home consistently also meant that the UK government decided to change the regulatory regime for pre-2004 first charge loans regulated by the CCA. Mortgage regulation under FSMA began on 31 October 2004. Mortgages entered into before that date were regulated by the CCA, provided they did not exceed the financial threshold in place when they were entered into and were not otherwise exempt. Consequently, in November 2015, the UK government made legislation the effect of which was that the administration of and other activities relating to pre-October 2004 first charge mortgages which at that time were regulated by the CCA became regulated mortgage activities from 21 March 2017 although firms could have adopted the new rules from 21 March 2016 if they chose. The move of CCA regulated mortgages to the FSMA regime was implemented by the Mortgage Credit Directive Order 2015 on 21 March 2016 (the **Mortgage Credit Directive Order**). The government has put in place transitional provisions for existing loans so that some of the CCA protections in place when the loans were originally taken out were not removed retrospectively.

Credit agreements which were originated before 21 March 2016 which were regulated by the CCA and that would have been Regulated Mortgage Contracts had they been entered into on or after 21 March 2016 are defined by the Mortgage Credit Directive Order as "consumer credit back book mortgage contracts" and are now regulated mortgage contracts. The main CCA consumer protection retained in respect of consumer credit back book mortgage contracts is the continuing unenforceability of the agreement if it was rendered unenforceable by the CCA prior to 21 March 2016. Unless the agreement was irredeemably unenforceable, the lender may enforce the agreement by seeking a court order or bringing any relevant period of non-compliance with the CCA to an end in the same manner as would have applied if the agreement were still regulated by the CCA. If a consumer credit back book mortgage contract was void as a result of section 56(3) of the CCA, that agreement or the relevant part of it will remain void. Restrictions on early settlement fees will also be retained. If interest was not chargeable under a consumer credit back book mortgage contract due to non-compliance with s77A CCA (duty to serve an annual statement) or s86B CCA (duty to serve a notice of sums in arrears), once the consumer credit back book mortgage contract became regulated by FSMA under the Mortgage Credit Directive Order as of 21 March 2016, the sanction of interest not being chargeable under s77A CCA and s86D CCA ceases to apply, but only for interest payable under those loans after 21 March 2016. A consumer credit back book mortgage contract will also be subject to the unfair relationship provisions described below. Certain provisions of MCOB are applicable to these consumer credit back book mortgage contracts. These include the rules relating to disclosure at the start of a contract and post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and repossessions (MCOB 13). General conduct of business standards also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in CONC and the CCA that are not contained within MCOB.

The Seller will give warranties to the LLP in the Mortgage Sale Agreement that, among other things, its Loans and their Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default cannot be or is not cured within the time periods specified in the Mortgage Sale Agreement, then the Seller will, upon receipt of notice from the LLP, be solely liable to repurchase the relevant Loan(s) and their Related Security from the LLP in accordance with the relevant Mortgage Sale Agreement.

Buy-to-let mortgages are excluded from the definition of "consumer credit back book mortgage contract". This means that if a buy-to-let mortgage was regulated by the CCA (because the amount of credit fell below the relevant financial limit in place at the time of origination and was not otherwise exempt), it will continue to be regulated by the CCA as it is not a "consumer credit back book mortgage contract".

This regulatory regime may result in adverse effects on the enforceability of certain Loans and consequently the LLP's ability to make payment in full on the Covered Bond Guarantee when due.

Changes to mortgage regulation and to the regulatory structure in the United Kingdom may adversely affect payments on the Covered Bond Guarantee.

The final rules in relation to the FCA Mortgage Market Review (**MMR**) generally came into force on 26 April 2014. These rules required a number of material changes to the mortgage sales process, both in terms of advice provision in nearly all scenarios and significantly enhanced affordability assessment and evidencing.

The new rules permit interest-only loans however, in relation to regulated mortgage contracts, there is a clear requirement for a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the entering into the loan).

The FCA continues to assess firms' implementation of the rules introduced as a result of the MMR and commenced a review of responsible lending practices in April 2015, publishing its report in May 2016. This is in addition to regulatory reforms made as a result of the implementation of the Mortgage Credit Directive from 21 March 2016. In December 2016, focusing on consumers' ability to make effective choices in the first charge residential mortgage market, on which it produced an interim report in May 2018 and a final report in March 2019. There can be no assurance that the Issuer will not make any future changes to its mortgage lending business, whether as a result of the MMR or other mortgage lending reforms, and that such changes would not adversely affect the Issuer.

It is possible that further changes may be made to the FCA's MCOB rules as a result of these reviews and other related future regulatory reforms. To the extent that any new rules do apply to any of the Loans, failure to comply with these rules may entitle a borrower to claim damages for loss suffered or set-off the amount of the claim against the amount owing under the loan. Any further changes to the FCA's MCOB rules or to MCOB or the FSMA or changes in the regulatory structure or the Financial Services Act 2012, may adversely affect Issuer's operating results, financial condition and prospects.

Regulation of buy-to-let mortgages

The Mortgage Credit Directive requires EU member states to develop a 'national framework' for buy to let lending if they choose to exercise discretion afforded by the Mortgage Credit Directive to not apply the Mortgage Credit Directive to their buy-to-let mortgage markets. The UK government announced that it would use the option to have a national framework for buy-to-let lending to consumers called 'Consumer buy-to-let' (**CBTL**) in order to put in place the minimum requirements to meet the UK's legal obligations, as it has stated it is not persuaded of the case for full conduct regulation of buy-to-let mortgage lending. The CBTL framework was implemented on 21 March 2016 and is only applicable to consumer Borrowers, the majority of buy-to-let lending in the UK being to non-consumers.

The legislative framework is set out in the Mortgage Credit Directive Order. The Mortgage Credit Directive Order defines a CBTL mortgage contract as: "a buy-to-let mortgage contract which is not entered into by the borrower wholly or predominantly for the purposes of business carried on, or intended to be carried on, by the Borrower". It provides that a firm that advises on, arranges, lends or administers CBTL mortgages must be registered to do so. In a consultation published in January 2015, HM Treasury estimated that CBTL regulation would affect 11% of the buy-to-let mortgage market.

The Mortgage Credit Directive Order sets out a number of conduct standards for firms carrying on CBTL business which cover, inter alia, requirements for pre-contractual illustrations, adequate explanations and arrears and repossessions. The FCA has amended the FCA Handbook to provide it with supervisory and enforcement powers in respect of such conduct standards. The exercise of supervisory and enforcement powers by the FCA may adversely affect the LLP's ability to make payment in full on the Covered Bond Guarantee when due, particularly if the FCA orders remedial action in respect of past conduct.

Certain buy-to-let mortgages are regulated by the CCA because buy-to-let loans only became exempt from CCA regulation on 31 October 2008. Buy-to-let loans originated prior to 31 October 2008, could be regulated by the CCA if the amount of credit was less than the relevant financial limit in place at the time and no other relevant CCA exemption applied. The financial limit for CCA regulation was abolished on 6 April 2008 in respect of all loans except buy-to-let loans. The financial limit of £25,000 in place at the time for CCA regulated loans was not removed for buy-to-let loans until 31 October 2008. As described above (see "*Regulation of residential secured lending (other than Regulated Mortgage Contracts*"), those buy-to-let mortgages are not caught by the definition of a "consumer credit back book mortgage contract" and so any buy-to-let loans regulated by the CCA will continue to be regulated by the CCA notwithstanding the implementation of the Mortgage Credit Directive Order. Non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable or unenforceable without a court order or an order of the appropriate regulator, or may render the borrower not liable to pay interest or charges in relation to the period of non-compliance, which may adversely affect the ability of the issuing entity to make payments in full on the issuing entity notes when due.

If a buy-to-let mortgage is secured on a property occupied by a related person to the Borrower (broadly the Borrower's spouse, near relative or a person with whom the Borrower has a relationship which is characteristic of a spouse) then it will be a Regulated Mortgage Contract. Otherwise, as described above, buy-to-let mortgages will be regulated by the CBTL regime or the CCA or will be unregulated.

The Servicer has debt collection and debt administration permissions. The LLP is excluded as lender from the regulated activities of debt administration and debt collection in respect of any unregulated, CBTL loans or CCA regulated loans. The Servicer is authorised to exercise or have the right to exercise a lender's rights and duties under a regulated credit agreement which is a necessary permission in respect of a CCA regulated agreement. The LLP is exempt from the regulated activity of exercising or having the right to exercise a lender's rights and duties under a regulated credit agreement because it has arranged administration by an authorised person pursuant to article 60I of the RAO.

Risk of losses associated with buy-to-let loans

The Loans in the Portfolio may include buy-to-let loans. The Borrower's ability to make payments in respect of the Loans is likely to depend on the Borrower's ability to let the relevant Properties on appropriate terms. It is intended that the Properties which secure such Loans will be let by the relevant Borrower to tenants but there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Loan is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Loan and/or the rental income achievable from tenancies of the relevant Property over time will be sufficient to provide the Borrower with sufficient income to meet the Borrower's obligations in respect of the Loan.

Consequently, the Security for the Covered Bonds may be affected by the condition of the private residential rental market in the United Kingdom. The condition of the market will influence both the ability of the Borrowers to find tenants and the level of rental income which may be achieved in letting. The obligations of a Borrower to make payment under the Loan are unconditional without regard to whether the Property is let or the amount of rent received by the Borrower from the relevant tenant.

Upon enforcement of a Loan in respect of a Property which is the subject of an existing tenancy, the Servicer may not be able to obtain vacant possession of that Property until the end of the tenancy. If the Servicer enforces any Loans while the tenancy is continuing and sells the Property as an investment property with one or more tenants in situ, this may affect the amount which may be realised in the sale, although the existence of any such tenant paying rent in full on a timely basis may not have an adverse effect on the amount of such realisation. However, in the UK it is common for tenancies to last only six or 12 months, so a tenanted property will often be vacated sooner than an owner-occupied property. Additionally, enforcement procedures in relation to such Loans include the ability to appoint a receiver of rent (except in relation to Scottish Loans as it is not possible to appoint a receiver of rent in Scotland), in which case such a receiver would collect any rents payable in respect of such property and apply them in payment of any arrears of principal and interest under the Loan. Under Scots law, a receiver cannot be appointed under a standard security (the Scottish equivalent to a legal mortgage) and the only enforcement which may be carried out under a standard security is a full enforcement of the security (as it cannot be enforced selectively by, for instance, attaching to rental income). Accordingly, in Scotland, any attempt to secure the rental flows will depend upon the enforcement of the standard security.

The UK Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax. Such restriction is being introduced on a phased basis with the restriction taking full effect from 6 April 2020.

From 1 April 2018, landlords of relevant domestic properties in England and Wales may not grant a tenancy to new or existing tenants if their property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property) and from 1 April 2020, landlords must not continue letting a relevant domestic property which is already let if that property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate for the property). In both cases described above this is referred to in the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the **Energy Efficiency Regulations 2015**) as the prohibition on letting sub-standard property. Where a landlord wishes to continue letting property which is currently sub-standard, they will need to ensure that energy efficiency improvements are made which raise the EPC rating to a minimum of E. In certain circumstances, landlords may be able to claim an exemption from this prohibition on letting sub-standard property; this includes situations where the landlord is unable to obtain funding to cover the cost of making improvements, or where all improvements which can be made have been made, and the property remains below an EPC rating of E. Local authorities will enforce compliance with the domestic minimum level of energy efficiency. They may check whether a property meets the minimum level of energy efficiency, and may issue a compliance notice requesting information where it appears to them that a property has been let in breach of the Energy Efficiency Regulations 2015 (or an invalid exemption has been registered in respect of it). Where a local authority is satisfied that a property has been let in breach of the Energy Efficiency Regulations 2015, it may serve a notice on the landlord imposing financial penalties.

Landlords in Scotland currently need to have a valid EPC available for a property offered for let when there is a change in tenancy. Under the Energy Performance of Building (Scotland) Regulations 2008 the EPC is valid for a period of up to 10 years, and must be lodged on the EPC register. There are existing mechanisms to enforce this requirement, although it should be noted that in Scotland the basis for assessment of EPC ratings is different from that in England and Wales, which can lead to different ratings for similar buildings in both jurisdictions.

In order to set similar standards in the private rented sector in Scotland compared to those in England and Wales, on 7 April 2017, the Scottish government published a consultation on proposals to ensure that all privately rented homes in Scotland meet a minimum standard of energy efficiency. Whilst the Scottish government still has to publish draft regulations in response to the consultation, the consultation has a stated aim of requiring all private rented sector properties to have a minimum Energy Performance Certificate (EPC) rating of 'E' at a change in tenancy from 1 April 2020 – and rising to EPC rating level 'D' from 1 April 2022.

The introduction of these measures may adversely affect the private residential rental market in England, Wales, Scotland and Northern Ireland in general and (in the case of the restriction of income tax relief) the ability of individual Borrowers of buy-to-let loans to meet their obligations under those Loans.

Unfair relationships

Under the CCA, the earlier "extortionate credit" regime was replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except Regulated Mortgage Contracts under the FSMA and also applies to (as described above) "consumer credit back book mortgage contracts". If the court makes a determination that the relationship between a lender and a Borrower is unfair, then it may make an order, among other things, requiring the relevant Originator, or any assignee such as the Issuer, to repay amounts received from such borrower. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the conduct of the creditor (or anyone acting on behalf of the creditor) before and after making the agreement or in relation to any related agreement. There is no statutory definition of the word "unfair" in the CCA as the intention is for the test to be flexible and subject to judicial discretion and it is therefore difficult to predict whether a court would find a relationship "unfair". However, the word "unfair" is not an unfamiliar term in UK legislation due to the UTCCR and the CRA (each as defined below). The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The principle of "treating customers fairly" under the FSMA, and guidance published by the FSA and, subsequently, the FCA on that principle and by the OFT on the unfair relationship test, may also be relevant. Under the CCA, once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

Plevin v Paragon Personal Finance Limited [2014] UKSC 61 (**Plevin**), a Supreme Court judgment, has clarified that compliance with the relevant regulatory rules by the creditor (or a person acting on behalf of the creditor) does not preclude a finding of unfairness, as a wider range of considerations may be relevant to the fairness of the relationship than those which would be relevant to the application of the rules. Where add on products such as insurance are sold and are subject to a significant commission payments, it is possible that the non-disclosure of commission by the lender is a factor that could form part of a finding of unfair relationship.

In March 2017, the FCA published final rules and guidance with respect to payment protection insurance complaints in light of Plevin. The rules will not apply to Borrowers with Regulated Mortgage Contracts. The FCA rules came into force on 29 August 2017 and required firms that sold PPI to write to previously rejected mis-selling complainants who are eligible to complain again in light of Plevin in order to explain this to them by 29 November 2017. The FCA rules state that if the anticipated profit share and commission or the likely range of profit share and commission on a PPI Contract were not disclosed to the Borrower before the PPI Contract was entered into, the firm should consider whether it can satisfy itself on reasonable grounds that an unfair relationship did not arise. A firm should make a rebuttable presumption that failure to disclose commission gave rise to an unfair relationship if the anticipated profit share plus the commission known or reasonably foreseeable at the time of sale was in relation to a single premium payment protection contract, more than 50% of the total amount paid in relation to the PPI Contract or in the case of a regular premium PPI Contract, at any time in the relevant period or periods more than 50% of the total amount paid in relation to the PPI Contract in respect of the relevant period or periods. The FCA cites, amongst others, an example of such presumption being rebutted by the lender not having known and not being reasonably expected to have known or foreseen the level of commission and anticipated profit share. Where the firm

concludes that the non-disclosure of commission on a PPI Contract has given rise to an unfair relationship, the firm should remedy the unfairness by paying the complainant a sum equal to the total commission paid by the complainant for PPI plus an amount representing any profit share payment, minus 50% of the total amount paid by the complainant for the PPI (Compensation Sum). The firm should also repay interest received by it in relation to the Compensation Sum where relevant and also pay simple interest on the whole amount.

The FCA have made a new rule which sets a deadline by which consumers will need to make their PPI complaints or lose their right to have them assessed by firms or the FOS (although consumers will still be able to bring claims in court after the deadline). This rule came into force on 29 August 2017 with the deadline for complaints falling on 29 August 2019.

If a court determined that there was an unfair relationship between the Lender and the Borrowers in respect of the Loans and ordered that financial redress was made in respect of such Loans or if redress was due in accordance with the FCA guidance on PPI Complaints, such redress may adversely affect the ultimate amount received by the LLP in respect of the relevant Loans, and the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

Automatic capitalisation

On 24 April 2017, the FCA issued a finalised guidance (FG17/4) relating to issues arising from automatic capitalisation, in particular cases where lenders both add arrears to an account balance (and as a result readjust the amount of regular payments due under the loan) and keep a separate record of the Borrower's arrears and seek separate (and additional) payment of those. In the finalised guidance, the FCA state that they expect FCA authorised firms to ensure this practice ceases and to carry out remediation. The review period for remediation begins from 25 June 2010 and the FCA expected all remediation programmes to be concluded by 30 June 2018.

The FCA have proposed a framework for remediation and in broad terms, the FCA expect Borrowers to be compensated for any incorrectly charged fees and interest and where fees have been paid by the customer, simple interest of 8% p.a. and simple interest of 8% on any "overpayments", i.e. any actual payments of monthly payments in excess of those which would have been required to pay off the arrears had there been no automatic capitalisation. Firms using the remediation framework will only reconstitute mortgage accounts where at least one automatic capitalisation resulted in an additional payment greater than £10 per month. Use of the framework is not mandatory, but the FCA expect firms to determine a remediation approach to achieve fair outcomes for the affected customers.

If any remediation is required or Borrowers bring claims in connection with their Loans in respect of an automatic capitalisation, such remediation and claims and any set-off by Borrowers in respect of such claims against the amount due by Borrowers under the relevant Loans, may adversely affect the ultimate amount received by the LLP in respect of the relevant Loans and the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

Distance Marketing of Financial Services

In the United Kingdom, the Financial Services (Distance Marketing) Regulations 2004 (the **DM Regulations**) apply to, amongst other things, credit agreements entered into on or after 31 October 2004 by a "consumer" within the meaning of the regulations by means of distance communication (i.e. without any substantive simultaneous physical presence of the lender and the Borrower).

The DM Regulations (and MCOB in respect of activities related to regulated mortgage contracts) require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for the supply of the financial services in question and includes, but is not limited to, general

information in respect of the supplier and the financial service, contractual terms and conditions, and whether or not there is a right of cancellation.

A Regulated Mortgage Contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Where the credit agreement is cancellable under these regulations, the Borrower may send notice of cancellation at any time before the end of the 14th day beginning with the 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.

Compliance with the DM Regulations may be secured by way of injunction (interdict in Scotland), granted on such terms as the court thinks fit to ensure such compliance, and certain breaches of the DM Regulations may render the supplier or intermediaries (and their respective relevant officers) liable to a fine. Failure to comply with MCOB rules could result in, inter alia, disciplinary action by the FCA and possible claims under Section 138D of the FSMA for breach of FCA rules.

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

(i) the Borrower is liable to repay the principal, and any other sums paid by the originator to the Borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the Borrower sending the notice of cancellation or, if later, the originator receiving notice of cancellation;

(ii) the Borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and

(iii) any security provided in relation to the contract is to be treated as never having had effect.

If a significant portion of the Loans are characterised as being cancellable under these regulations, then there could be an adverse effect on the LLP's receipts in respect of the Loans, affecting the LLP's ability to make payments on the Covered Bond Guarantee.

Unfair Terms in Consumer Contracts Regulations and the Consumer Rights Act 2015

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 Regulation 1994 (together with the 1999 Regulations, (the **UTCCR**)), apply to business-to-consumer agreements made on or after 1 July 1995 and before 1 October 2015 where the terms have not been individually negotiated (and the "consumer" for these purpsoes falls within the definition provided in the UTCRR). The Consumer Rights Act 2015 (the **CRA**) has revoked the UTCCR in respect of contracts made on or after 1 October 2015 (see "*Consumer Rights Act 2015*" below).

(i) UTCCR

The UTCCR and the CRA provide that a consumer (which would include a Borrower under all or almost all of the Loans) may challenge a term in an agreement on the basis that it is "unfair" within the UTCCR or the CRA as applicable and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term) and provide that a regulator may take action to stop the use of terms which are considered to be unfair.

The UTCCR will not generally affect terms which define the main subject matter of the contract, such as the Borrower's obligation to repay the principal, provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention. The UTCCR may affect terms that are not

considered to be terms which define the main subject matter of the contract, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees. For example, if a term permitting the lender to vary the interest rate (as the originator is permitted to do) is found to be unfair, the Borrower will not be liable to pay interest at the increased rate or, to the extent that the Borrower has paid it, will be able, as against the lender, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the Borrower under the loan or any other loan agreement that the Borrower has taken with the lender (or exercise analogous rights in Scotland). Any such non-recovery, claim or set-off may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

(ii) CRA

The main provisions of the CRA came into force on 1 October 2015. The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR for contracts entered into on or after 1 October 2015. The CRA has revoked the UTCCR in respect of contracts made on or after 1 October 2015 and introduced a new regime for dealing with unfair contractual terms as follows:

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). Additionally, an unfair notice is not binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer. In determining whether a term is fair it is necessary to: (i) take into account the nature of the subject matter of the contract; (ii) refer to all the circumstances existing when the term was agreed; and (iii) refer to all of the other terms of the contract or any other contract on which it depends.

Schedule 2 of the CRA contains an indicative and non-exhaustive "grey list" of terms of consumer contracts that may be regarded as unfair. Notably, paragraph 11 lists "a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract" although paragraph 22 of Schedule 2 provides that this does not include a term by which a supplier of financial services reserves the right to alter the rate of interest payable by or due to the consumer, or the amount of other charges for financial services without notice where there is a valid reason if the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

A term of a consumer contract which is not on the "grey list" may nevertheless be regarded unfair.

Where a term of a consumer contract is "unfair" it will not bind the consumer. However, the remainder of the contract, will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible of multiple different meanings, the meaning most favourable to the consumer will prevail. It is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings have explicitly raised the issue of fairness.

(iii) Regulatory Developments

On 12 January 2016, the FCA and the Competition and Markets Authority (the **CMA**) entered into a memorandum of understanding in relation to consumer protection (the **MoU**) which stated that the CMA may consider fairness, but will not usually expect to do so, where the firm concerned is an authorised firm or an authorised representative under FSMA. Further, the MoU stated that the FCA will consider fairness within the meaning of the CRA and the UTCCR, of standard terms, and within the meaning of the CRA of negotiated terms, in financial services contracts entered into by authorised firms or appointed

representatives, when such firms or representatives are undertaking any regulated activity (as specified in Part II of the RAO), in the United Kingdom. In this MoU 'authorised' includes having an interim permission and a 'relevant permission' includes an interim permission. This will include contracts for:

- mortgages and the selling of mortgages;
- insurance and the selling of insurance;
- bank, building society and credit union accounts;
- life assurance;
- pensions;
- investments;
- consumer credit;
- consumer hire; and
- other credit-related regulated activities.

MCOB rules for Regulated Mortgage Contracts require that, (a) charges for a payment shortfall can be objectively justified as equal to or lower than a reasonable calculation of the cost of the additional administration required as a result of the customer having a payment shortfall, and (b) from 15 December 2016, when a payment is made which is not sufficient to cover a payment shortfall and the firm is deciding how to allocate the payment between (i) the current month's periodic instalment of capital or interest (or both), (ii) the payment shortfall; and (iii) interest or charges resulting from the payment shortfall, the firm must set the order of priority in a way that will minimise the amount of the payment shortfall once the payment has been allocated. In October 2010, the FSA issued a statement that, in its view, early repayment charges are likely to amount to the price paid by the Borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR, provided that they are written in plain and intelligible language and are adequately drawn to the Borrower's attention. In January 2012, the FSA issued a further statement intended to raise awareness of issues that it commonly identifies under the UTCCR (such statement has since been withdrawn - *see below*).

In July 2012, the Law Commission and the Scottish Law Commission launched a consultation in order to review and update the recommendations set out in their 2005 Report on Unfair Terms in Contracts. In March 2013, the Law Commission and the Scottish Law Commission published its advice, in a paper entitled "Unfair Terms in Consumer Contracts: Advice to the Department for Business, Innovation and Skills". This advice paper repeated the recommendation from the 2005 Report on Unfair Terms in Contracts that the Unfair Contract Terms Act 1977 and the UTCCR should be consolidated, as well as providing new recommendations, including extending the protections of unfair terms legislation to notices and some additions to the "grey list" of terms (as included in Schedule 2 of the CRA) which are indicatively unfair. The Law Commission and the Scottish Law Commission also recommended that the relevant legislation should expressly provide that, in proceedings brought by consumers, the court is required to consider the fairness of the term, even if the consumer has not raised the issue, where the court has available to it the legal and factual elements necessary for that task. Such reforms are included in the CRA.

Historically the OFT, FSA and FCA (as appropriate) have issued guidance on the UTCCR. This has included: (i) OFT guidance on fair terms for interest variation in mortgage contracts dated February 2000; (ii) an FSA statement of good practice on fairness of terms in consumer contracts dated May 2005; (iii) an FSA statement of good practice on mortgage exit administration fees dated January 2007; and (iv) FSA

finalised guidance on unfair contract terms and improving standards in consumer contracts dated January 2012.

On 2 March 2015, the FCA updated its online unfair contract terms library by removing some of its material (including the abovementioned guidance) relating to unfair contract terms. The FCA stated that such material "no longer reflects the FCA's views on unfair contract terms" and that firms should no longer rely on the content of the documents that have been removed.

The broad and general wording of the UTCCR and the CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made to Borrowers covered by the UTCCR and the CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans entered into between 1 July 1995 and 30 September 2015 is found to be unfair for the purpose of the UTCCR, this may reduce the amounts available to meet the payments due in respect of the Covered Bond Guarantee.

On 19 December 2018, the FCA published finalised guidance: "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (FG 18/7), outlining factors the FCA consider firms should have regard to when drafting and reviewing variation terms in consumer contracts. This follows developments in case law, including at the Court of Justice of the EU. The finalised guidance relates to all financial services consumer contracts entered into since 1 July 1995. The FCA stated that firms should consider both this guidance and other rules that apply when they draft and use variation terms in their consumer contracts. The FCA stated that the finalised guidance will apply to FCA authorised persons and their appointed representative in relation to any consumer contracts which contain variation terms.

The Unfair Contract Terms and Consumer Notices Regulation Guide (UNFCOG in the FCA handbook) explains the FCA's policy on how it uses its powers under the CRA and the CMA published guidance on the unfair terms provisions in the CRA on 31 July 2015 (the CMA Guidance). The CMA indicated in the CMA Guidance that the fairness and transparency provisions of the CRA are regarded to be "effectively the same as those of the UTCCR". The document further notes that "the extent of continuity in unfair terms legislation means that existing case law generally, and that of the Court of Justice of the European Union particularly, is for the most part as relevant to the Act as it was the UTCCRs".

In general, there is little reported case law on the UTCCR and/or the CRA and the interpretation of each is open to some doubt. The broad and general wording of the CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made to Borrowers covered by the CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans entered into on or after 1 October 2015 is found to be unfair for the purpose of the CRA, this may reduce the amounts available to meet the payments due in respect of the Covered Bond Guarantee. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Seller, the LLP and/or the Servicer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Loans.

The guidance issued by the regulators has changed over time and it is possible that it may change in the future. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Seller, the LLP and/or the Servicer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Loans.

Consumer Protection from Unfair Trading Regulations 2008

On 11 May 2005, the European Parliament and the Council adopted a Directive (2005/29/EC) regarding unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, these Unfair Practices 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, the Unfair Practices Directive permits Member States to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

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

The Unfair Practices Directive is implemented into UK law by the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), which came into force on 26 May 2008. The CPUTR prohibit certain practices which are deemed "unfair" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but is a criminal offence punishable by a fine and/or imprisonment.

The possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreements may result in irrecoverable losses on amounts to which such agreements apply. The CPUTR did not originally provide consumers with a private act of redress. Instead, consumers had to rely on existing private law remedies based on the law of misrepresentation and duress. The Consumer Protection (Amendment) Regulations 2014 (SI No.870/2014) was laid before Parliament on 1 April 2014 and came into force on 1 October 2014. In certain circumstances, these amendments to the CPUTR give consumers a right to redress for misleading or aggressive commercial practices (as defined in the CPUTR), including a right to unwind agreements.

In addition, the Unfair Practices Directive is taken into account in reviewing rules under the FSMA. For example, MCOB rules for Regulated Mortgage Contracts from 25 June 2010 prevent the lender from: (a) repossessing the mortgaged property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of the term, change in product type, and (b) automatically capitalising a payment shortfall.

Financial Ombudsman Service

Under the FSMA, the Ombudsman is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance. Transitional provisions exist by which certain complaints relating to breach of the Mortgage Code issued by the Council of Mortgage Lenders, occurring before the Regulation Effective Date may be dealt with by the Ombudsman.

Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman. As the Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to a complaining borrower, it is not possible to predict how any future decision of the Ombudsman would affect the ability of the LLP to make payments of amounts due to Covered Bondholders.

Pre-action Protocol for mortgage possession cases

A protocol for mortgage possession cases in England and Wales (the **Pre-action Protocol**) came into force on 19 November 2008, and a revised protocol for mortgage repossession cases in Northern Ireland came into force on September 2011. Both protocols set out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders have confirmed that they will delay the initiation of repossession action for at least three months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium is subject to the wishes of the relevant borrower and may not apply in cases of fraud. In addition, the Mortgage Repossessions (Protection of Tenants etc) Act 2010 came into force on 1 October 2010. The Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. In addition, under the protocol the lender must consider whether to postpone the start of a possession claim where the borrower has made a genuine complaint to the FOS about the potential possession claim.

These protocols and the Mortgage Repossessions (Protection of Tenants etc) Act 2010 may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee. The protocol expressly states that it does not apply to "Buy to Let mortgages" (although the protocol; has not been updated to expressly confirm that it does not apply to CBTL mortgages).

Land Registration Reform in Scotland

The Land Registration etc. (Scotland) Act 2012 (the **2012 Act**) received Royal Assent on 10 July 2012 and the majority of its provisions came into force in Scotland on 8 December 2014. One of the policy aims of the 2012 Act is to encourage the transfer of property titles recorded in the historic General Register of Sasines to the more recently established Land Register of Scotland with the aim of eventually closing the General Register of Sasines.

Previously, title to a residential property that was recorded in the General Register of Sasines would usually only require to be moved to the Land Register of Scotland (a process known as 'first registration') when that property was sold or if the owner decided voluntarily to commence first registration. However, the 2012 Act sets out, in provisions which are being brought into effect in stages, additional circumstances which will trigger first registration of properties recorded in the General Register of Sasines, including (i) the recording of a standard security (which would extend to any standard security granted by the LLP in favour of the Security Trustee over Scottish Mortgages in the Portfolio recorded in the General Register of Sasines, pursuant to the terms of the Deed of Charge following a transfer to the LLP of legal title to the Scottish Loans and their Related Security pursuant to the Mortgage Sale Agreement (a **Scottish Sasine Sub-Security**)), or (ii) the recording of an assignation of a standard security (which would extend to any assignation granted by the Seller in favour of the LLP in respect of Scottish Mortgages in the Portfolio recorded in the General Register of Sasines, pursuant to the terms of the Mortgage Sale Agreement (a **Scottish Sasine Transfer**)).

The relevant provisions of the 2012 Act relating to the recording of standard securities came into force on 1 April 2016 (the **Commencement Date**). As of this date, the General Register of Sasines is now closed to the recording of standard securities. Notwithstanding the provisions of the 2012 Act mentioned above, for the time being other deeds such as assignations of standard securities (including Scottish Sasine Transfers) will continue to be accepted in the General Register of Sasines indefinitely (although Registers of Scotland have reserved the right to consult further on this issue in the future).

If the General Register of Sasines becomes closed to assignations of standard securities at any time after the date of this Prospectus, then this would also have an impact on the registration of Scottish Sasine Transfers,

with the probability of higher legal costs and a longer period required to complete registration than would currently be the case.

In addition, the 2012 Act introduced provision for Registers of Scotland to transfer a property title currently registered in the General Register of Sasines to the Land Register of Scotland without any application from the borrower (and in certain circumstances without the borrower being made aware of such transfer), known as "**Keeper-induced Registrations**". Registers of Scotland has now commenced Keeper-induced Registrations in certain areas of Scotland for both publicly and privately owned properties, and has published a list of affected postcodes on its website.

As noted above, such events will only occur following a trigger event to perfect legal title of the loans and, given that the proportion of residential properties in Scotland which remain recorded in the General Register of Sasines continues to decline, the Registers of Scotland estimate that, in April 2016, around 60 percent of property titles in Scotland were registered in the Land Register of Scotland, it is likely that, in relation to the current portfolio, only a minority of the Scottish Mortgages will be recorded in the General Register of Sasines.

The Mortgage Repossession (Protection of Tenants etc) Act 2010 and Home Owner and Debtor Protection (Scotland) Act 2010

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

Part I of the Home Owner and Debtor Protection (Scotland) Act 2010 came into force on 30 September 2010 and imposes additional requirements on heritable creditors (the Scottish equivalent to a mortgagee) in relation to the enforcement of standard securities over residential property in Scotland. Under Part I of this Act, the heritable creditor, which may be the Seller or, in the event of it taking legal title to the Scottish Loans and their Related Security, the LLP, has to obtain a court order to exercise its power of sale (in addition to initiating the enforcement process by the service of a two-month "calling up" notice), unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor also has to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, and comply with further procedural requirements, which may restrict the ability of the Seller (or LLP, as applicable) as heritable creditor in respect of the Scottish Loans and their Related Security to exercise its power of sale.

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

Private Housing (Tenancies) (Scotland) Act 2016

In 2016 the Scottish Parliament passed the Private Housing (Tenancies) (Scotland) Act 2016 which came into force in December 2017. One of the changes made by this legislation was to introduce a new form of tenancy in Scotland known as a "private residential tenancy" which will (except in a very limited number of exceptions) provide tenants with security of tenure by restricting a landlord's ability to regain possession of the property to a number of specific eviction grounds.

Accordingly, a lender or security-holder may not be able to obtain vacant possession if it wishes to enforce its security unless one of the specific eviction grounds under the legislation applies. It should be noted though that one of the grounds on which an eviction order can be sought is that a lender or security-holder

intends to sell the property and requires the tenant to leave the property in order to dispose of it with vacant possession. The effect of this legislative change will primarily be restricted to any buy-to-let loans secured over Scottish Property.

The Private Housing (Tenancies) (Scotland) Act 2016 does not affect holiday lets, social, police or military housing or student accommodation that is either (i) purpose-built and the landlord is an institutional provider of student accommodation or (ii) provided by academic institutions.

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

The Renting Homes (Wales) Act 2016

The Renting Home (Wales) Act (the Renting Homes Act) received royal assent on 18 January 2016 but has not yet been brought into force. This Act will convert the majority of residential tenancies in Wales into a 'standard contract' with retrospective effect when it has been brought into force, however some tenancies will not be converted with retrospective effect (including those which have Rent Act protection and tenancies for more than 21 years).

The Renting Homes Act (which only has effect in Wales) does not contain an equivalent mandatory ground for possession that a lender had under the Housing Act 1988 where a property was subject to a mortgage granted before the beginning of the tenancy and the lender required possession in order to dispose of the property with vacant possession.

The Renting Homes Act may result in lower recoveries in relation to buy-to-let mortgages over Properties in Wales and may affect the ability of the LLP to make payments under the Covered Bond Guarantee.

Mortgage Prisoners

In March 2019, the FCA issued the Mortgages Market Study Final Report (the **MMS Final Report**) and published a consultation paper (the **Consultation**) setting out detailed proposals to remove regulatory barriers to changing mortgages for "mortgage prisoners". The Consultation closes in June 2019. The term "mortgage prisoners" has been defined by the FCA to mean mortgage customers who would benefit from changing their mortgage product (either with their existing lender or with a new lender) (**Switching**) but are unable to do so despite being up to date with their current mortgage payments. The FCA has confirmed that the findings from the MMS Final Report are aimed at the first charge residential mortgage market in particular and that it did not focus on second charge, buy-to-let, commercial mortgages or home reversion plans. The FCA have however stated that insights gained from the MMS Final Report are likely to be relevant to other markets within the FCA's regulatory scope.

The FCA previously recognised that the affordability rules applicable to new lenders (being whether the consumer can afford to service the mortgage, accounting for income and expenditure and includes consideration of future changes, taking account of likely future interest rates and the extent to which the customer is borrowing in to retirement) was an obstacle to new lenders being able to facilitate Switching. The Consultation sets out proposals as to how to modify these rules so that a borrower Switching who is up to date with their mortgage payments and is not taking on additional borrowing (other than to fund any product or arrangement fee) can pass the affordability test if the new product is cheaper than the existing product. The FCA is also consulting, pursuant to the Consultation on imposing on mortgage administrators and servicers who act for unregulated lenders, an obligation to notify all relevant borrowers of that unregulated lender serviced by that administrator or servicer of the fact that the borrower may be able to switch to a cheaper product following the change in rules and to direct the borrowers to information which explains how they may change their mortgage to a lender which applies the relevant modified affordability

test. These notices would only apply to residential borrowers (excluding lifetime mortgages) who were on a reversion rate and who were up to date with payments for the previous 12 months.

The proposed modification of the rules should make it easier for a borrower who is a mortgage prisoner to switch to a new lender and this, together with the proposed notification obligations, could increase redemption rates where there are a significant number of mortgage prisoners held by a lender.

General

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

Potential effects of any additional regulatory changes

In the United Kingdom and elsewhere, there is continuing political and regulatory scrutiny of the banking industry and, in particular, retail banking. In the United Kingdom, the FSA (and in relation to current enquiries, the FCA and the PRA) and the CMA have recently carried out, or are currently conducting, several enquiries. In recent years there have been several issues in the UK financial services industry in which the FCA has intervened directly, including the sale of personal pensions and the sale of mortgage-related endowments. No assurance can be given that changes will not be made to the regulatory regime and developments described above in respect of 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 Group and its businesses and operations. This may adversely affect the Issuer or the LLP's (as the case may be) ability to make payments in full when due on the Covered Bonds.

Implementation of and/or changes to the Basel III framework may affect the capital requirements and/or the liquidity associated with a holding of the Covered Bonds for certain investors

In Europe, the U.S. and elsewhere, there is significant focus on fostering greater financial stability through increased regulation of financial institutions, and their corresponding capital and liquidity positions. This has resulted in a number of regulatory initiatives which are currently at various stages of implementation and which may have an impact on the regulatory position for certain investors in covered bond exposures and/or on the incentives for certain investors to hold covered bonds, and may thereby affect the liquidity of such securities. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the Guarantor, the Lead Managers or the Arrangers makes any representation to any prospective investor or purchaser of the Covered Bonds regarding the treatment of their investment on the date of issuance of any Covered Bond or at any time in the future.

In particular, it should be noted that the Basel Committee on Banking Supervision (the **BCBS**) has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as "**Basel III**"). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the **Liquidity Coverage Ratio** and the **Net Stable Funding Ratio**).

The BCBS published a package of further revisions to Basel III in December 2017, including changes to: standardised approach for credit risk, internal ratings based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework, and a revised output floor. The BCBS expects these changes to be implemented from January 2022, with transitional arrangements up to January 2027, although these timelines remain unclear until such rules are translated into draft European legislation.

As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds, may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdictions' initiatives, such as the Solvency II framework in Europe.

The changes under Basel III as described above may also have an impact on the capital requirements in respect of the Covered Bonds and/or on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Covered Bonds.

Prospective investors should therefore consult their own advisers as to the regulatory capital requirements in respect of the Covered Bonds and as to the consequences to and effect on them of any changes to the Basel framework and make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Covered Bonds where denominations involve integral multiples: definitive Covered Bonds

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

Limited Liability Partnerships

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

Pensions Act 2004

Under the Pensions Act 2004, a person that is 'connected with' or an 'associate' of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction.

The Society is an employer under an occupational scheme and also a member of the LLP. On this basis, the LLP is likely to be treated as 'connected to' the Society.

A contribution notice could be served on the LLP if it was party to an act, or a deliberate failure to act (a) which has caused a material detriment to the pension scheme (whether or not intentionally); or (b) 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.

As a result of the Supreme Court decision in *Re Nortel, Re Lehman Companies* [2013] UKSC 52, if the Pensions Regulator issued a financial support direction or contribution notice against the LLP then, depending on when such a direction or notice was issued (and regardless of whether the LLP was in liquidation or administration, as the case may be, at that time), any corresponding liability would not be treated as an expense of the administration or liquidation (as the case may be). As a result, such a claim would be treated as an ordinary unsecured debt and such claim would not rank in priority to, or *pari passu* with, the rights and claims of the Security Trustee under the Deed of Charge with respect to any charged asset.

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

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without interest coupons and/or talons attached, or registered form, without interest coupons and/or talons attached. Bearer Covered Bonds will be issued outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Covered Bonds will be issued both outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S and within the United States or to, or for the account or benefit of U.S. persons in reliance on Rule 144A or otherwise in private transactions that are exempt from or not subject to the registration requirements of the Securities Act and any applicable local, state or federal securities laws.

Bearer Covered Bonds

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

(a) 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, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**); and

(b) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream Luxembourg.

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

On and after the date which is 40 days after a Temporary Global Covered Bond is issued (the **Exchange Date**), interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for: (i) interests in a Permanent Global Covered Bond of the same Series; or (ii) for Bearer Definitive Covered Bonds of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of non-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 will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, interest coupons and talons attached upon either: (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Principal Paying Agent as described therein; or (ii) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that: (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Global Covered Bond in definitive form. The Issuer will promptly give notice to the Covered Bondholders of each Series of Bearer Global Covered Bonds in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The exchange of a Permanent Global Covered Bond for definitive Covered Bond upon notice from Euroclear and/or Clearstream (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Covered Bonds are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Covered Bonds which is to be represented on issue by a Temporary Global Covered Bond exchangeable for definitive Covered Bonds.

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 (other than Temporary Global Covered Bonds) which have an original maturity of more than one year and on all interest coupons and talons relating to such Bearer Covered Bonds:

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

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds, interest coupons or talons 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, interest coupons or talons.

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 or for the account or benefit of U.S. persons in private transactions exempt from registration under the Securities Act: (i) to **qualified institutional buyers** within the meaning of Rule 144A under the Securities Act (**QIBs**); or (ii) to **accredited investors** (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) institutional "Accredited Investors" or (**Institutional Accredited Investors** or **IAIs**) who agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof in accordance with the Securities Act.

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

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

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

The Registered Covered Bonds of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (**Definitive IAI Registered Covered Bonds**). Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Covered Bonds will be issued only in minimum denominations of U.S.$500,000 and integral multiples of U.S.$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Covered Bonds will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under *Subscription and Sale and Transfer and Selling Restrictions*. Institutional Accredited Investors that hold Definitive IAI Registered Covered Bonds may elect to hold such Covered Bonds through DTC, but transferees acquiring the Covered Bonds in transactions exempt from or not subject to the Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under *Subscription and Sale and Transfer and Selling Restrictions*. The Rule 144A Global Covered Bonds and the Definitive IAI Registered Covered Bonds will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5(d)) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, the

LLP, the Bond Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

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

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes. **Exchange Event** means that: (i) in the case of Covered Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act; (ii) in the case of Covered Bonds registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form. The Issuer will promptly give notice to the Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of U.S.$250,000 and integral multiples of U.S.$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

Transfer of Interests

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

General

Pursuant to the Agency Agreement (as defined under Conditions of the Covered Bonds), the Principal Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are

different from the common code, ISIN, CUSIP and CINS assigned to Covered Bonds of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Covered Bonds of such Tranche.

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

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

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

FORM OF FINAL TERMS

[**IMPORTANT – PROHIBITION OF SALES TO EEA RETAIL INVESTOR**S – The Covered Bonds are not intended, to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the PRIIPs Regulation) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][2]

MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

[Date]

Yorkshire Building Society

Legal entity identifier (LEI): WXD0EHQRPI7HKN3I5T57

Issue of Regulated [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] irrevocably and unconditionally guaranteed as to payment of principal and interest by Yorkshire Covered Bonds LLP under the €7.5 billion Global Covered Bond Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [date] [and the supplemental Prospectus dated [date]] which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus. 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 Prospectus. Copies of the Prospectus [and the supplemental Prospectus] are available free of charge to the public at the registered office of the Issuer and from the specified office of each of the Paying Agents and have been published on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the **Conditions**) set forth in the prospectus dated [●] (which have been incorporated by reference into the prospectus dated [●]) [and the supplemental prospectus(es) dated [●] and [●]]], which

[together] constitute[s] a base prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a Member State) (the **Prospectus Directive**). This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer and the LLP and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms and the Prospectus dated [current date] [and the supplemental Prospectus dated [date]]. Copies of such Prospectus(es) is/are available free of charge to the public at the registered office of the Issuer and from the specified office of each of the Paying Agents and have been published on the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.]

1.	(i)	Issuer:	Yorkshire Building Society
	(ii)	Guarantor:	Yorkshire Building Society Covered Bonds LLP
2.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
	(iii)	Series which Covered Bonds will be consolidated and form a single Series with:	[●]/[Not Applicable]
	(iv)	Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above:	[●]/[Issue Date]/[Not Applicable]
3.		Specified Currency or Currencies:	[●]
4.		Nominal Amount of Covered Bonds to be issued:	[●]
5.		Aggregate Nominal Amount of the Covered Bonds Admitted to trading:	
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
6.	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
7.	(i)	Specified Denominations:	[●]/ €100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Covered Bonds in definitive form will be issued with a denomination above [€199,000].)]
	(ii)	Calculation Amount:	[●]

8.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement:	[●][Issue Date]/[Not Applicable]
9.	(i)	Final Maturity Date:	(Interest Payment Date falling in or nearest to [●]]
	(ii)	Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee:	[[●]/[Interest Payment Date falling in or nearest to [●]/[Not Applicable]
10.	Interest Basis:		[[●] per cent. Fixed Rate] [SONIA/[[●] month [LIBOR/EURIBOR]] +/- [●] per cent. [Floating Rate] [Zero Coupon]
11.	Redemption/Payment Basis:		[●] per cent. of the nominal value
12.	Change of Interest Basis or Redemption/Payment Basis:		[●]/[in accordance with paragraphs [15] and [16] below]
13.	Call Options:		[Issuer Call]/[Not Applicable]
14.	[Date [Board] approval for issuance of Covered Bonds obtained:		[●] [and [●], respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Covered Bond Provisions:		[Applicable/Not Applicable]
	(i)	Fixed Rate(s) of Interest:	[●] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[●] in each year up to and including the [Final Maturity Date] [Extended Due for Payment Date, if applicable]/ (provided however that after the Extension Determination Date, the Interest Payment Date shall be [monthly])
	(iii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv)	Business Day(s):	[●]
		Additional Business Centre(s):	[New York], [●]
	(v)	Fixed Coupon Amount(s):	[●] per Calculation Amount
	(vi)	Initial Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/[Not Applicable]
	(vii)	Final Broken Amount:	[●]

	(viii)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA)]
	(ix)	Determination Date(s):	[[●] in each year]/[Not Applicable]
16.	Floating Rate Covered Bond Provisions:		[Applicable/Not Applicable]
	(i)	Specified Period(s)/Specified Interest Payment Date(s):	[●] (provided however that [prior to the Extension Determination Date,][the Specified Interest Payment Date shall be no more frequent than quarterly][, and provided further that] [after the Extension Determination Date, the Interest Payment Date shall be [monthly][quarterly]]) The first Interest Payment Date shall be [●].
	(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iii)	Additional Business Centre(s):	[New York], [●]
	(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
	(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[●]
	(vi)	Screen Rate Determination:	[Applicable/Not Applicable]
		– Reference Rate and Relevant Financial Centre:	Reference Rate: [SONIA]/[[●]-month] [LIBOR/EURIBOR]
		– Relevant Financial Centre:	[London/Brussels]
		– Interest Determination Date(s):	[●]
		– Relevant Screen Page:	[●]
	(vii)	ISDA Determination:	[Applicable/Not Applicable]
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]
		– Reset Date:	[●]
	(viii)	Margin(s):	[+/-] [●] per cent. per annum.
	(ix)	Minimum Rate of Interest:	[●] per cent. per annum
	(x)	Maximum Rate of Interest:	[●] per cent. per annum

	(xi)	Day Count Fraction:	[Actual/Actual [(ISDA)] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 360/360 Bond Basis 30E/360 30E/360 (ISDA) Eurobond Basis]
	(xii)	Observation Period (being no less than 5 London Business Days):	*[specify number]*
17.	Zero Coupon Covered Bond Provisions:		[Applicable/Not Applicable]
	(i)	Accrual Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]
	(iii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv)	Business Day(s):	[●]
		Additional Business Centre(s):	[New York], [●]
	(v)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Condition 6(e) applies]

PROVISIONS RELATING TO REDEMPTION BY THE ISSUER

18.	Issuer Call:		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[●] per Calculation Amount]
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●]
		(b) Higher Redemption Amount:	[●]
19.	Final Redemption Amount:		[Nominal Amount/[●] per Calculation Amount]
20.	Early Redemption Amount payable on redemption for taxation reasons, on		[[●] per Calculation Amount]

	acceleration following an Issuer Event of Default or an LLP Event of Default	

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

21.	New Global Covered Bond:	[Yes][No]
22.	Form of Covered Bonds:	[Bearer Covered Bonds: [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/ on not less than 60 days' notice] [Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event] [Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds in definitive form only after an Exchange Event[/on not less than 60 days' notice] Registered Covered Bonds: [Regulation S Global Covered Bond (U.S.$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]] [Rule 144A Global Covered Bond (U.S.$[●] nominal amount) registered in the name of a nominee for [DTC/ a common depositary for Euroclear and Clearstream, Luxembourg]] [Definitive IAI Registered Covered Bonds (specify nominal amounts)]]
23.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[●]/ Not Applicable]
24.	Talons for future Coupons to be attached to Bearer Definitive Covered Bonds (and dates on which such Talons mature):	[Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupons payments are still to be made]/[No]
25.	Redenomination:	[Not applicable/The provisions in Condition 5(h) apply]

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Admission to Trading:	Application is expected to/has] [be/been] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the London Stock Exchange's Regulated Market and to, the Official List of the FCA with effect from [●].]
(ii)	Estimate of total expenses related to admission to trading:	[●]

2. RATINGS

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

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

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

4. OPERATIONAL INFORMATION:

(i)	ISIN Code:	[●]
(ii)	Common Code:	[●]
(iii)	CFI Code:	[[●], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]
(iv)	FISN:	[[●], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]
(v)	[(Any other relevant codes such as CUSIP AND CINS codes)]:	[Not Applicable/[●]]
(vi)	Names and addresses of additional Paying Agent(s) (if any):	[●]

(vii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper]. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

5. DISTRIBUTION

U.S. Selling Restrictions	[Rule 144A/sales to Institutional Accredited Investors under the Securities Act permitted/Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable]
Prohibition of Sales to EEA Retail Investors	[Applicable/Not Applicable] *(If the offer of the Covered Bonds is concluded prior to 1 January 2018, or on and after that date the Covered Bonds clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Covered Bonds will be concluded on or after 1 January 2018 and the Covered Bonds may constitute "packaged" products, "Applicable" should be specified.*)

6. YIELD (Fixed Rate Covered Bonds only)

Indication of yield:	[●]

Signed on behalf of the Issuer:

By:

Duly authorised

Signed on behalf of the LLP:

By:

Duly authorised

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond.

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Yorkshire Building Society (the **Issuer**) constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) originally dated 1 November 2006 (the **Initial Programme Date**) as supplemented on or about 25 April 2008, 26 June 2009, 23 July 2010, 15 March 2012, 17 May 2013, 3 June 2015, 3 June 2016 and 28 June 2018) made between the Issuer, Yorkshire Building Society Covered Bonds LLP as guarantor (the **LLP**) and HSBC Trustee (C.I.) Limited as bond trustee (in such capacity, the **Bond Trustee**, which expression shall include any successor as Bond Trustee) and as security trustee (in such capacity, the **Security Trustee**, which expression shall include any successor as Security Trustee).

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

(i) in relation to any Covered Bonds represented by a global covered bond (a **Global Covered Bond**), units of the lowest Specified Denomination in the Specified Currency;

(ii) any Global Covered Bond;

(iii) any Definitive Covered Bonds in bearer form (Bearer Definitive Covered Bonds) issued in exchange for a Global Covered Bond in bearer form; and

(iv) any Definitive Covered Bonds in registered form (Registered Definitive Covered Bonds) (whether or not issued in exchange for a Global Covered Bond in registered form).

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

Interest-bearing Bearer Definitive Covered Bonds have interest coupons (**Coupons**) and in the case of Covered Bonds which when issued in definitive form, have more than 27 interest payments remaining talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Covered Bonds and Global Covered Bonds do not have Coupons or Talons attached on issue.

The Final Terms for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Covered Bond which completes these terms and conditions (the **Conditions**). References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond or as set out in any drawdown prospectus issued specifically in relation to a particular series of Covered Bonds.

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

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

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

The security for the obligations of the LLP under the Covered Bond Guarantee and the other Transaction Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a deed of charge (such deed of charge as amended and/or supplemented and/or restated from time to time, the **Deed of Charge**) dated the Initial Programme Date as supplemented on 25 April 2008 and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors.

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

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being at the Programme Date at HSBC House, Esplanade, St Helier, Jersey JE1 1GT, Channel Islands and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms for all Covered Bonds of each Series are obtainable during normal business hours at the specified office of each of the Paying Agents and any Covered Bondholder must produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity. The Covered Bondholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents and the applicable Final Terms which are applicable to them and to have notice of each set of Final Terms relating to each other Series.

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

1. Form, Denomination and Title

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

This Covered Bond may be denominated in any currency.

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

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

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

For so long as any of the Covered Bonds is represented by a Global Covered Bond deposited with a common depositary (in the case of a CGCB) or common safekeeper (in the case of a NGCB) for Euroclear SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**Clearstream, Luxembourg**) or so long as The Depository Trust Company (**DTC**) or its nominee is the registered holder of a Registered Global Covered Bond, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by the Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, and, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expression **Covered Bondholder** and related expressions shall be construed accordingly.

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

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

2. Transfers of Registered Covered Bonds

(a) Transfers of interests in Registered Global Covered Bonds

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

(b) Transfers of Registered Covered Bonds in definitive form

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

will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

(c) Registration of transfer upon partial redemption

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

(d) Costs of registration

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

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

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

(i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a **Transfer Certificate**), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made:

(A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(B) to a person who is an Institutional Accredited Investor, together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an **IAI Investment Letter**); or

(ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

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

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

(f) Transfers of interests in Legended Covered Bonds

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

(i) to a transferee who takes delivery of such interest through a Regulation S Global Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(ii) to a transferee who takes delivery of such interest through a Legended Covered Bond:

(A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(B) where the transferee is an Institutional Accredited Investor,

subject, in the case of (B), to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

(iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

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

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

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

(g) Exchanges and transfers of Registered Covered Bonds generally

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

(h) Definitions

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

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

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

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

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

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

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

Regulation S means Regulation S under the Securities Act;

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

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

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

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

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

(a) Status of the Covered Bonds

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

(b) Status of the Covered Bond Guarantee

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

Any payment made by the LLP under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 9) discharge *pro tanto* the obligations of the Issuer in respect of such payment under the Covered Bonds and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

4. Interest

(a) Interest on Fixed Rate Covered Bonds

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

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

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

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

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

(ii) in the case of Fixed Rate Covered Bonds in definitive form, the Specified Denomination;

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

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

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

(A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the

product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

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

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

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

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

(b) Interest on Floating Rate Covered Bonds

(i) Interest Payment Dates

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

(1) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

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

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

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

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

(2) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

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

(4) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

(B) in the case of any sum payable, either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency and which if the Specified

Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any Covered Bonds denominated or payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto (the **TARGET2 System**) is open.

(ii) Rate of Interest

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

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

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

(1) the Floating Rate Option is as specified in the applicable Final Terms;

(2) the Designated Maturity is the period specified in the applicable Final Terms; and

(3) the relevant Reset Date is the day specified in the applicable Final Terms.

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

Unless otherwise stated in the Final Terms the Minimum Rate of Interest shall be deemed to be zero.

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

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

(1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

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

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

If the Relevant Screen Page is not available or if, in the case of (1) above, no offered quotation appears or if, in the case of (2) above, fewer than three offered quotations appear, in each case as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR), the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 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. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the eighth decimal place, with 0.000000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London interbank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

Unless otherwise stated in the Final Terms the Minimum Rate of Interest shall be deemed to be zero.

SONIA

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined and the Reference Rate in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms as being SONIA, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus (as indicated in the applicable Final Terms) the Margin.

Compounded Daily SONIA means the rate of return of a daily compound interest investment (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) as at the Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SONIA_{i-pLBD}\times n_i}{365}\right)-1\right]\times\frac{365}{d}$$

where:

d is the number of calendar days in the relevant Interest Period;

d_o is the number of London Business Days in the relevant Interest Period;

i is a series of whole numbers from one to d_o, each representing the relevant London Business Day in chronological order from, and including, the first London Business Day in the relevant Interest Period;

LBD means a London Business Day;

n_i, for any day "i", means the number of calendar days from and including such day "i" up to but excluding the following London Business Day;

Observation Period means the period from and including the date falling "p" London Business Days prior to the first day of the relevant Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling "p" London Business Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" London Business Days prior to such earlier date, if any, on which the Covered Bonds become due and payable);

p means for any Interest Period, the number of London Business Days included in the Observation Period, as specified in the applicable Final Terms being no less than five London Business Days;

the **SONIA reference rate**, in respect of any London Business Day, is a reference rate equal to the daily Sterling Overnight Index Average (**SONIA**) rate for such London Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors (on the London Business Day immediately following such London Business Day); and

$SONIA_{i-pLBD}$ means, in respect of any London Business Day falling in the relevant Observation Period, the SONIA reference rate for the London Business Day falling "p" London Business Days prior to the relevant London Business Day "i".

If, in respect of any London Business Day in the relevant Observation Period, the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) determines that the SONIA reference rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA reference rate shall be: (i) the Bank of England's Bank Rate (the **Bank Rate**) prevailing at close of business on the relevant London Business Day; plus (ii) the mean of the spread of the SONIA reference rate to the Bank Rate over the previous five days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate.

Notwithstanding the paragraph above, in the event the Bank of England publishes guidance as to (i) how the SONIA reference rate is to be determined or (ii) any rate that is to replace the SONIA reference rate, the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) shall, subject to receiving written instructions from the Issuer and to the extent that it is reasonably practicable, follow such guidance in order to determine $SONIA_i$ for the purpose of the relevant Series of Covered Bonds for so long as the SONIA reference rate is not available or has not been published by the authorised distributors.

In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms), the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Covered Bonds for the first Interest Period had the Covered Bonds been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Period).

If the relevant Series of Covered Bonds become due and payable in accordance with Condition 9, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the applicable Final Terms, be deemed to be the date on which such Covered Bonds became due and payable and the Rate of Interest on such Covered Bonds shall, for so long as any such Covered Bond remains outstanding, be that determined on such date.

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

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

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

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

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

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

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

(A) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(B) if **Actual/365 (Fixed**) is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(C) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(D) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(v) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent (in the case of Floating Rate Covered Bonds) will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Bond Trustee and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the 40 Business Day (as defined in Condition 4(b)(i)) thereafter by the Principal Paying Agent. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed or by which they have been admitted to listing and to the Covered Bondholders in accordance with Condition 13.

(vi) Determination or Calculation by Bond Trustee

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent 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, 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), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Bond Trustee shall calculate (or appoint an agent to calculate) the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Principal Paying Agent or the Bond Trustee shall (in the

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

(c) Accrual of interest

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

5. Payments

(a) Method of payment

Subject as provided below:

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

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

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction but without prejudice to the provisions of Condition 7, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto. References to Specified Currency will include any successor currency under applicable law.

(b) Presentation of Bearer Definitive Covered Bonds and Coupons

Payments of principal and interest (if any) will (subject as provided below) be made against presentation and surrender of Bearer Definitive Covered Bonds or Coupons, as the case may be, at

any specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

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

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

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

(c) Payments in respect of Bearer Global Covered Bonds

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

(d) Payments in respect of Registered Covered Bonds

Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by electronic transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Register**) at the close of business on the third Business Day (being for 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 in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the Registrar is located on the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the 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 electronic transfer on the due date in the manner provided in the preceding paragraph. Any such application for electronic transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) 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 will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

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

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

None of the Issuer, the LLP, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership

interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) General provisions applicable to payments

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

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

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of interest on the Bearer Covered Bonds in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and

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

(f) Payment Day

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

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(A) the relevant place of presentation;

(B) London; and

(C) any Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for

general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open; and

(iii) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) Interpretation of principal and interest

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

(i) any additional amounts which may be payable with respect to principal under Condition 7 or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(ii) the Final Redemption Amount of the Covered Bonds;

(iii) the Early Redemption Amount of the Covered Bonds;

(iv) the Optional Redemption Amount(s) (if any) of the Covered Bonds;

(v) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6(e));

(vi) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and

(vii) any Excess Proceeds which may be payable by the Bond Trustee under or in respect of the Covered Bonds.

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

(h) Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders and the Couponholders, on giving prior written notice to the Bond Trustee, the Security Trustee, the Agents, the Registrar (in the case of Registered Covered Bonds), Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 13, elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro. In relation to any Covered Bonds where the applicable Final Terms provides for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area, it shall be a term of any

such redenomination that the holder of any Covered Bonds held through Euroclear and/or Clearstream, Luxembourg and/or DTC must have credited to its securities account with the relevant clearing system a minimum balance of Covered Bonds of at least euro 100,000.

The election will have effect as follows:

(i) the Covered Bonds shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Covered Bond equal to the nominal amount of that Covered Bond in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, in consultation with the Agents and the Bond Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the competent listing authority, stock exchange and/or market (if any) on or by which the Covered Bonds may be listed and/or admitted to trading and the Paying Agents of such deemed amendments;

(ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(iii) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 100,000 and/or such higher amounts as the Agents may determine and notify to the Covered Bondholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 6;

(iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds and Coupons so issued will also become void on that date although those Covered Bonds and Coupons will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds and Coupons will be issued in exchange for Covered Bonds and Coupons denominated in the Specified Currency in such manner as the Agents may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;

(v) after the Redenomination Date, all payments in respect of the Covered Bonds and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(vi) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated

(a) in the case of Covered Bonds represented by a Global Covered Bond, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Covered Bonds represented by such Global Covered Bonds; and

(b) in the case of definitive Covered Bonds, by applying the Rate of Interest to the Calculation Amount;

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

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

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

(i) Definitions

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

Calculation Amount has the meaning given in the applicable Final Terms.

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

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

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

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

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

6. Redemption and Purchase

(a) Final redemption

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

Without prejudice to Condition 9, if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (or after expiry of the grace period set out in Condition (B)(i)) and following the service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date the LLP has insufficient monies available to apply under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition (B)(i)) under the terms of the Covered Bond Guarantee or (b) the Extension Determination Date, then (subject as provided below) payment of the unpaid amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above may be paid by the LLP on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date. The Issuer shall confirm to the Principal Paying Agent as soon as reasonably practicable and in any event at least four Business Days prior to the Final Maturity Date of a Series of Covered Bonds whether (a) payment will be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date or (b) payment will not be made in full of the Final Redemption Amount in respect of a Series of Covered Bonds on that Final Maturity Date. Any failure by the Issuer to notify the Principal Paying Agent shall not affect the validity or effectiveness of the extension.

The LLP shall notify the relevant Covered Bondholders (in accordance with Condition 13), 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 preceding paragraph of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the LLP to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.

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

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the amounts to be paid by the LLP under the Covered Bond Guarantee in connection with this Condition 6(a).

For the purposes of these Conditions:

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

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

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

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

(b) Redemption for taxation reasons

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Covered Bond is not a Floating Rate Covered Bond) or on any Interest Payment Date (if this Covered Bond is a Floating Rate Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 13, the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that on the occasion of the next date for payment of interest, the Issuer is or will be required to pay additional amounts as provided in Condition 7. 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 Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, (in the case of the redemption of Registered Covered Bonds) the Registrar and, in accordance with Condition 13, the Covered Bondholders (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. In the event of a redemption of some only of the Covered Bonds, such redemption must be for an amount being the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of DTC, Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Covered Bonds represented by a

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

(d) Redemption due to illegality

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

Covered Bonds redeemed pursuant to this Condition 6(d) 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.

(e) Early Redemption Amounts

For the purpose of Conditions 6(b) above and 6(h) below and Condition 9, each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

(i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of a Covered Bond (other than a Zero Coupon Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(iii) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:

(a) the Reference Price; and

(b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable,

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

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

(f) Purchases

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

(g) Cancellation

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

(h) 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) or (c) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 6(e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and

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

(i) Certification on redemption under Condition 6(b) and 6(d)

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

7. Taxation

All payments of principal and interest (if any) in respect of the Covered Bonds and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In the event of a withholding or deduction being made by the Issuer in respect of a payment made by it, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Covered Bondholders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond or Coupon presented for payment:

(a) in the United Kingdom; or

(b) by or on behalf of a holder who (i) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so; or (ii) is liable for such taxes, duties, assessments or governmental charges in respect of such Covered Bonds or Coupons (as the case may be) by reason of his having some connection with the United Kingdom other than merely by reason of the holding of such Covered Bonds or Coupons; or

(c) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on the last day of such period of 30 days; or

(d) where the holder is able to avoid such withholding or deduction by presenting an appropriate certificate.

As used herein:

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

Should any payments made by the LLP under the Covered Bond Guarantee be made subject to any withholding or deduction for or on account of taxes or duties of whatever nature imposed or levied by or on account of the United Kingdom or any political sub-division thereof or by any authority

therein or thereof having power to tax, the LLP will not be obliged to pay any additional amounts as a consequence.

8. Prescription

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless presented for payment within 12 years (in the case of principal) and six years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7) therefor, subject in each case to the provisions of Condition 5.

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5 or any Talon which would be void pursuant to Condition 5.

9. Events of Default and Enforcement

(a) Issuer Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25% of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution referred to in this Condition 9(a) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall, (but in the case of the happening of any of the events mentioned in subparagraphs (ii) to (vi) below, only if the Bond Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, provided that a breach of any obligation to provide notices, reports or other information to the FSA under the RCB Regulations and/or the RCB Sourcebook shall not be considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee) (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

(i) the Issuer fails to pay any principal or interest in respect of the Covered Bonds within 14 days of the due date; or

(ii) if the Issuer fails to perform or observe any obligations under the Covered Bonds or Coupons of any Series, the Trust Deed or any other Transaction Document to which the Issuer is a party (other than the Programme Agreement and the Subscription Agreement) but excluding any obligation of the Issuer to comply with the Asset Coverage Test or any representation or warranty given by the Issuer in respect of the Asset Coverage Test, and such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied (except in circumstances where the Bond Trustee considers such failure to be incapable of remedy in which case no period of continuation will apply and no notice by the Bond Trustee will be required); or

(iii) the Issuer or any Principal Subsidiary becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or receiver or

administrator or similar officer of itself or the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or stops or threatens to cease to carry on its business or any substantial part of its business except in any case in connection with a substitution pursuant to Condition 14 or for the purpose of a reconstruction, union, transfer (of engagements or of business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution, or in the case of a Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer; or

(iv) if the Issuer ceases to carry on its business or substantially the whole of its business (except in any case in connection with a substitution pursuant to Condition 14, or for the purpose of or in connection with a reconstruction, union, transfer (of engagements or business), reorganisation, merger, or amalgamation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution); or

(v) (a) any other present or future indebtedness in respect of monies borrowed or raised in an amount of £10,000,000 or more (or its equivalent in any other currency) of the Issuer or any Principal Subsidiary becomes due and payable prior to its stated maturity pursuant to a default; or

(b) any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor; or

(c) the Issuer or any Principal Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefor any amount payable by it under any present or future guarantee in an amount of £10,000,000 or more (or its equivalent in any other currency) (other than any guarantee given in the ordinary course of its business) for any indebtedness in respect of monies borrowed or raised; or

(d) any mortgage, charge, pledge, lien or other encumbrance present or future securing an amount of £10,000,000 or more (or its equivalent in any other currency) and created or assumed by the Issuer or any Principal Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same; or

(vi) a distress, diligence or execution or other similar legal process is levied or enforced or sued out upon or against the whole or a substantial part of the property, assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or

(vii) an order is made, an effective resolution is passed or the necessary consent of the Issuer's members is given for the winding up or dissolution of the Issuer or any Principal Subsidiary or the authorisation or registration of the Issuer is or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs (except in any case in connection with a substitution pursuant to Condition 14 or for the purposes of a reconstruction, union, transfer (of engagements or business), merger, amalgamation or reorganisation the terms of which have previously been approved in writing by the Bond Trustee or by an Extraordinary Resolution or in the case of a voluntary solvent winding up of a wholly-owned Principal Subsidiary in connection with the transfer of all or the major part of its business, undertaking and assets to the Issuer or another wholly-owned Subsidiary of the Issuer or pursuant to which the assets thereof attributable directly or indirectly to the Issuer are distributable to one or more of the Issuer and its other Subsidiaries); or

(viii) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice.

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

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

Following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9(c).

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

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

(b) LLP Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 25% of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9(b) means the Covered Bonds of this Series together with the Covered Bonds of any other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction), but in the case of the happening of any of the events described in paragraphs (ii) to (vii) below, only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholder of any Series, 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 (7) days or more in the payment of any Guaranteed Amounts when Due for Payment in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount when Due for Payment under Condition 6(a) where the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or

(ii) if default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document to which the LLP is a party and, except where such default is or the effects of such default are, in the opinion of the Bond Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or

(iii) an order is made or an effective resolution passed for the liquidation or winding-up of the LLP; or

(iv) if the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(v) the LLP shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or

(vi) proceedings are initiated against the LLP under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver and/or manager, administrative receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or

(vii) a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any 12th day of each month (or, if that is not a Business Day, then the immediately preceding Business Day) (the **Calculation Date**) following an Issuer Event of Default; or

(viii) the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect.

Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice on the LLP each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9(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, at its discretion and without further notice, take such proceedings against the Issuer and/or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds and the Coupons, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds or the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 25% of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured to its satisfaction.

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

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

No Covered Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Covered Bonds, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

10. Replacement of Covered Bonds Coupons and Talons

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

require. Mutilated or defaced Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

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

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar, the initial Transfer Agent, the initial Exchange Agent and their initial specified offices are set out below.

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Principal Paying Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Principal Paying Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

The Issuer is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Paying Agent or the Registrar and/or appoint additional or other Paying Agents or the Registrar and/or approve any change in the specified office through which any Paying Agent or the Registrar acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in continental Europe;

(c) so long as any of the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or as the case may be, other relevant authority; and

(d) so long as any of the Registered Global Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City.

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

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

12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon

sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8.

13. Notices

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

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the 40 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) the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the Covered Bondholders and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or, as the case may be, or any other relevant authority. Any such notice shall be deemed to have been given to the Covered Bondholders on the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg.

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

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

The Trust Deed contains provisions for convening meetings of the Covered Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing the Covered Bondholders whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned

such meeting one or more persons holding or representing not less than one third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Couponholders in respect of such Series of Covered Bonds. Pursuant to the Trust Deed, the Bond Trustee 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 such Covered Bondholders, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 or to direct the Bond Trustee or the Security Trustee to take any enforcement action (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the Covered Bondholders of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by the Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all the Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related 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 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 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, and (ii) in the opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series; or

(b) any modification of the Covered Bonds of any one or more Series, the related Coupons or any Transaction Document which is of a formal, minor or technical nature or is in the opinion of the Bond Trustee and Security Trustee made to correct a manifest error or to comply with mandatory provisions of law.

Notwithstanding the above:

(i) the Issuer, the LLP and the Principal Paying Agent may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders or Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law;

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

(iii) the Bond Trustee shall, without the consent of the holders of any of the Covered Bonds issued after 17 May 2013 or any other Secured Creditor, (other than any Secured Creditor party to the relevant Transaction Document to be amended) be obliged to concur with the Issuer and/or the LLP, and/or direct the Security Trustee to concur with the Issuer and/or the LLP, in making any modifications to the Transaction Documents and/or the Conditions of the Covered Bonds that are requested by the Issuer and/or the LLP in order to enable the Issuer to comply with any requirements which apply to it under the European Market Infrastructures Regulation, subject to receipt by the Bond Trustee of a certificate of the Issuer (upon which the Bond Trustee may rely without further enquiry or liability to any person) certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer and/or the LLP to satisfy any requirements which apply to either of them under EMIR. For the avoidance of doubt, in relation to any Series of Covered Bonds issued prior to 17 May 2013, such modifications must be made pursuant to other provisions of this Condition 14, as applicable. The Bond Trustee and the Security Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and the Security Trustee, as applicable, would have the effect of (a) exposing the Bond Trustee and the Security Trustee, as applicable, to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the protections, of the Bond Trustee and the Security Trustee, as applicable, in the Transaction Documents and/or the Conditions of the Covered Bonds.

(iv) in relation to any Covered Bonds issued after 28 June 2018, the Bond Trustee and the Security Trustee shall (other than in respect of a Series Reserved Matter, provided that a Base Rate Modification (as defined below) will not constitute a Series Reserved Matter) concur in making any amendments to the Conditions and/or any Transaction Document (including, for the avoidance of doubt but without limitation, the Covered Bond Swap in relation to the relevant Series of Covered Bonds and subject to the consent only of the Secured Creditors (i) party to the relevant Transaction Document being amended or (ii) whose ranking in any Priorities of Payments is affected) that the Issuer considers necessary for the purpose of changing the base rate in respect of the Covered Bonds from LIBOR,

EURIBOR or such other benchmark rate (each, a **Reference Rate**) to an alternative base rate (any such rate, an **Alternative Base Rate**) and make such other amendments as are necessary or advisable in the reasonable judgment of the Issuer to facilitate such change (a **Base Rate Modification**), provided that:

(A) the Issuer certifies to the Bond Trustee in writing (such certificate, a **Base Rate Modification Certificate**) that:

(I) such Base Rate Modification is being undertaken due to:

(1) a material disruption to the relevant Reference Rate, an adverse change in the methodology of calculating the relevant Reference Rate or the relevant Reference Rate ceasing to exist or be published; or

(2) a public statement by the administrator of the relevant Reference Rate that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator for the Reference Rate has been appointed that will continue publication of the relevant Reference Rate) and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable; or

(3) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued or will be changed in an adverse manner and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable; or

(4) a public statement by the supervisor of the administrator of the relevant Reference Rate that means such Reference Rate may no longer be used or that its use is subject to restrictions or adverse consequences; or

(5) it becoming unlawful for any Agent, any Calculation Agent or the Issuer to calculate any payments due to be made to any Covered Bondholder or any party to the Transaction Documents using the Applicable Base Rate; or

(6) the reasonable expectation of the Issuer that any of the events specified in sub-paragraphs (1), (2), (3), (4) or (5) will occur or exist within six months of the proposed effective date of such Base Rate Modification,

and, in each case, has been drafted solely to such effect; and

(II) such Alternative Base Rate is:

(1) a base rate published, endorsed, approved or recognised by the Bank of England, any regulator in the United States, the United Kingdom or the European Union or any stock exchange on which the Covered Bonds are listed or any relevant committee (or other

body established, sponsored or approved by any of the foregoing); or

(2) in relation to LIBOR, the Sterling Overnight Index Average (or any rate which is derived from, based upon or otherwise similar to either of the foregoing); or

(3) a base rate utilised in a material number of publicly-listed new issues of floating rate covered bonds or floating rate senior unsecured notes prior to the effective date of such Base Rate Modification (for these purposes, unless agreed otherwise by the Bond Trustee, five such issues shall be considered material); or

(4) a base rate utilised in a publicly-listed new issue of floating rate covered bonds where the issuer (or in the case of asset backed securities the originator of the relevant assets) is the Issuer or an Affiliate of the Issuer;

(B) at least 30 days' prior written notice of any proposed Base Rate Modification has been given to the Bond Trustee;

(C) the Base Rate Modification Certificate is provided to the Bond Trustee both at the time the Bond Trustee is notified of the Base Rate Modification and on the effective date of such Base Rate Modification;

(D) with respect to each Rating Agency, either:

(I) the Issuer obtains from such Rating Agency written confirmation that such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the relevant Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent) and delivers a copy of each such confirmation to the Bond Trustee; or

(II) the Issuer certifies in writing to the Bond Trustee that it has notified such Rating Agency of the Base Rate Modification and, in its opinion, formed on the basis of due consideration and consultation with such Rating Agency (including, as applicable, upon receipt of oral confirmation from an appropriately authorised person at such Rating Agency), such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent);

(E) the Issuer pays (or arranges for the payment of) all reasonable and documented fees, costs and expenses (including legal fees) incurred by the Bond Trustee and the Security Trustee in connection with such Base Rate Modification;

(F) the Issuer certifies in writing to the Bond Trustee (which certification may be in the Base Rate Modification Certificate) that it has provided at least 30 days' notice to the Covered Bondholders of the relevant Series of Covered Bonds of the Base Rate Modification in accordance with Condition 13 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the Covered Bonds (in each

case specifying the date and time by which Covered Bondholders must respond), and Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have not contacted the Issuer or the Principal Paying Agent in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification.

If Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have notified the Issuer or the Principal Paying Agent in accordance with the then current practice of any applicable Clearing System through which the Covered Bonds may be held by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification, then the Base Rate Modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the relevant Series then outstanding is passed in favour of the Base Rate Modification in accordance with this Condition 14 (*Meetings of holders of the Covered Bonds, Modification, Waiver and Substitution*).

Objections made other than through the applicable Clearing System must be in writing and accompanied by evidence to the Bond Trustee's satisfaction (having regard to prevailing market practices) of the relevant Covered Bondholder's holding of the relevant Series of Covered Bonds.

(v) When implementing any modification pursuant to paragraph (iv) above:

(A) (save to the extent the Bond Trustee considers that the proposed modification would constitute a Series Reserved Matter, provided that a Base Rate Modification will not constitute a Series Reserved Matter), the Bond Trustee shall not consider the interests of the Covered Bondholders, any other Secured Creditor or any other person and shall act and rely solely and without investigation or liability on any Base Rate Modification Certificate or other certificate or evidence provided to it by the Issuer and shall not be liable to the Covered Bondholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and

(B) neither the Bond Trustee nor the Security Trustee shall be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and/or the Security Trustee would have the effect of (i) exposing the Bond Trustee and/or the Security Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights, powers, authorisations, discretions, indemnification or protections, of the Bond Trustee and/or the Security Trustee in the Transaction Documents and/or these Conditions.

For the avoidance of doubt, the Issuer may propose an Alternative Base Rate on more than one occasion provided that the conditions set out in paragraph (iv) above are satisfied.

The Bond Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, provided that, in any such

case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series. The Security Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related 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, it is not, in the opinion of the Security Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series.

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

(a) such modification, waiver, authorisation or determination would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or

(b) if such modification, waiver, authorisation or determination would require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FSA and the FSA has given its consent to such proposed modification, waiver, authorisation or determination.

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

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

Substitution

(a) Subject as provided in the Trust Deed, the Bond Trustee, if it is satisfied that to do so would not be materially prejudicial to the interests of the Covered Bondholders, may agree, without the consent of the Covered Bondholders or Couponholders, to the substitution of any Successor in Business of the Issuer or of a Subsidiary of the Issuer or any such Successor in Business, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to Section 93 of the Building Societies Act or a building society to which the Issuer has transferred all of its engagements

pursuant to Section 94 of the Building Societies Act or the successor in accordance with Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to any order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act), in place of the Issuer as principal debtor under the Covered Bonds and the Trust Deed, provided (in case of the substitution of any company which is a Subsidiary of the Issuer or such Successor in Business) that the obligations of such Subsidiary in respect of the Covered Bonds and the Trust Deed in respect thereof shall be guaranteed by the Issuer or such Successor in Business in such form as the Bond Trustee may require.

(b) The Issuer has covenanted with the Bond Trustee in the Trust Deed that it will not transfer its business to a successor in accordance with Section 97 of the Building Societies Act unless either (1) the Bond Trustee is satisfied that the successor will be or (as the case may be) will remain an authorised person under the FSMA (or any statutory modification or re-enactment thereof) and the Rating Condition is satisfied in respect of such transfer or (2) such transfer is approved by the Bond Trustee or by an Extraordinary Resolution of the Covered Bondholders.

(c) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Building Societies Act or transfer all of its engagements to another building society pursuant to Section 94 of the Building Societies Act or transfer the whole of its business to a successor in accordance with Section 97 of the Building Societies Act or transfer the whole of its business to a subsidiary of a mutual society pursuant any order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act, the successor will, pursuant to such provisions and provided that the Rating Condition is satisfied in respect of such amalgamation or transfer, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed without any prior approval thereof being required from the Covered Bondholders, the Couponholders or the Bond Trustee (but without prejudice to the provisions of paragraphs (a) and (b) above).

(d) Any substitution pursuant to this Condition 14 shall be binding on the Covered Bondholders and the Couponholders and, unless the Bond Trustee agrees otherwise, shall be notified to the Covered Bondholders as soon as practicable thereafter in accordance with Condition 13.

It shall be a condition of any substitution pursuant to this Condition 14 that:

(i) the Covered Bond Guarantee shall remain in place or be modified to apply *mutatis mutandis* and continue in full force and effect in relation to any Successor in Business or any Subsidiary of the Issuer or any other successor entity which is proposed to be substituted for the Issuer as principal debtor under the Covered Bonds and the Trust Deed; and

(ii) any successor to the Issuer, including any Successor in Business or any Subsidiary of the Issuer or of such Successor in Business, is included in the register of Issuers pursuant to the RCB Regulations and that all other provisions of the RCB Regulations (including Regulation 20 of the RCB Regulations) are satisfied prior to the substitution of the Issuer.

Rating Agencies

If:

(a) a confirmation or affirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and

(b) a written request for such confirmation or response is delivered to that Rating Agency by any of the LLP, the Issuer, Bond Trustee and/or the Security Trustee, as applicable (each a **Requesting Party**) and the Rating Agency indicates that it does not consider such confirmation, affirmation or response necessary in the circumstances,

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

For the purposes of this Condition 14:

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

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

Successor in Business means:

(a) any building society (not being a building society which is established by the amalgamation of the Society under and in accordance with the terms of Section 93 of the Building Societies Act) which is validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, registered as a successor society to the Issuer and to another building society or other building societies in order to effect the amalgamation of the Issuer with such other society or societies; or

(b) any building society (not being a building society which undertakes under and in accordance with the terms of Section 94 of the Building Societies Act to fulfil the engagements of the Issuer) which validly and effectually, in accordance with all enactments, orders and regulations in force from time to time, undertakes to fulfil the obligations of the Issuer as part of a transfer of engagements by the Issuer to such building society; or

(c) a company or other entity (not being a successor within the meaning of Section 97 of the Building Societies Act or a subsidiary of a mutual society to which the Issuer has transferred the whole of its business pursuant to any order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act) to which the Issuer validly and effectually, in accordance with all enactments, orders and regulations in force for the time being and from time to time, as part of a transfer of the whole or substantially the whole of its business, undertaking or assets, transfers the whole or substantially the whole of its business, undertaking or assets for the purpose of such other company or entity assuming and conducting the business of the Issuer in its place and which company or other entity undertakes to fulfil the obligations of the Issuer under these presents; or

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

carried on by the Issuer prior thereto undertakes to fulfil the obligations of the Issuer under these presents,

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

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

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

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

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

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

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for: (i) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test or the Amortisation Test; or (iv) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholder 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.

17. Limited Recourse

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

(a) it has determined in its sole opinion that there is no reasonable likelihood of there being any further realisations in respect of the Charged Property (whether arising from enforcement of the Security or otherwise) which would be available to pay amounts outstanding under the Transaction Documents; and

(b) all amounts available to be applied to pay amounts owing under the Transaction Documents have been so applied in accordance with the Transaction Documents,

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

18. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. Governing Law

The Trust Deed, the Agency Agreement, the Corporate Services Agreement, the Covered Bonds, the Coupons and the other Transaction Documents (other than each declaration of trust in relation to the sale of Scottish loans and their related security to the LLP (each a **Scottish Declaration of Trust**) and certain documents to be granted pursuant to the Deed of Charge) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust and certain supplemental security documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

USE OF PROCEEDS

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after swapping the proceeds of the Term Advances into Sterling, if necessary) either to (i) acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 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 or to invest the same in Substitution Assets up to the prescribed limit; and/or

(ii) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or

(iii) subject to complying with the Asset Coverage Test, to make a Capital Distribution to a Member; and/or

(iv) to deposit all or part of the proceeds into the GIC Account (including, without limitation, to fund the Reserve Amount to an amount not exceeding the prescribed limit).

THE ISSUER

YORKSHIRE BUILDING SOCIETY

Introduction

Yorkshire Building Society's principal office is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ (telephone number: 01274 740740). The Society and its subsidiaries (the **Group**) was, in terms of total assets, at 31 December 2018 the third largest building society in the United Kingdom with total assets of £43.1 billion (source: Annual Report and Accounts 2018).

The Society was formed in 1884 as The Bradford Self-Help Permanent Building Society. It was incorporated in England in 1885 under the Building Societies Act 1874. In 1975 it merged with the Huddersfield Building Society (incorporated in 1864) to become the Huddersfield and Bradford Building Society. The present name was adopted following a further merger with the West Yorkshire Building Society in 1982. The engagements of Haywards Heath Building Society were transferred to the Society on 31 December 1992. On 31 December 2001 the Gainsborough Building Society merged with the Society. The engagements of Barnsley Building Society were transferred to the Society on 31 December 2008, on 1 April 2010 the engagements of Chelsea Building Society were transferred to the Society and on 1 November 2011, the engagements of Norwich and Peterborough Building Society were transferred to the Society, in each case under section 94 of the Building Societies Act 1986.

On 31 October 2011, the Society acquired the mortgages and savings business of Egg Banking plc, comprising a £2.1 billion savings book and a £0.4 billion mortgage book.

Except as otherwise stated, financial information contained herein is either (i) extracted from the audited consolidated annual accounts of the Society and its subsidiaries or (ii) calculated using financial information extracted from such annual accounts.

Constitution

The Society is regulated by the Financial Conduct Authority and the Prudential Regulation Authority and operates in accordance with the Building Societies Act and the Society's memorandum (the **Memorandum**) and rules (the **Rules**). It is an authorised building society within the meaning of the Building Societies Act and is registered under the FSMA, Registered Number 66B.

The Society, as a building society, is a mutual organisation and, unlike a company incorporated under the Companies Act 1985 or the Companies Act 2006, does not have equity shareholders in the usual sense. A share in the Society is not the same as a share in a company and voting power is not weighted according to the number or value of shares held. No individual member is entitled to more than one vote on any resolution proposed at a general meeting. Holders of investment shares may withdraw funds from their share accounts subject to the rules of the Society and the terms upon which their shares are issued. Depositors with and lenders to the Society are not members and accordingly have no voting rights.

A building society may, subject to the approval of its members (by a requisite shareholders' resolution of investing members and a borrowing members' resolution) and confirmation by the relevant regulatory authority, transfer its business to a specially formed public company limited by shares incorporated in the United Kingdom or an EEA company which has power to offer its shares or debentures to the public in a procedure commonly referred to as "conversion" or to an existing successor company which is a public company limited by shares incorporated in the United Kingdom or an EEA company with power to offer its shares or debentures to the public in a procedure commonly referred to as a "takeover".

The Mutual Societies Transfer Order modifies section 97 of the Building Societies Act to permit a building society to transfer the whole of its business to a relevant subsidiary of a building society, friendly society or registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014 incorporated in the United Kingdom or other EEA mutual society (as defined in that legislation).

The Society is committed to its existing status as a mutual building society run for the benefit of its current and future members. During 1998 the Society announced the establishment of a charitable foundation. Since the date of its establishment, new members of the Society have to agree to assign to the foundation their rights to any windfall benefits arising from a conversion to plc status during the period of five years from commencement of their membership. Members retain their full rights to vote on any conversion resolution during the five year assignment period.

The affairs of the Society are conducted and managed by a board of directors who are elected by members of the Society and who serve in accordance with the rules of the Society. The board is responsible to the members for the proper conduct of the affairs of the Society and appoints and supervises the senior executives of the Society who are responsible to the board for the day-to-day management of the Society. Eligibility to vote at general meetings is governed by the Building Societies Act and the rules of the Society.

Board of Directors

The directors of the Society and their responsibilities within the Society, their business occupations outside the Society (if any), their other directorships, their dates of birth and the dates that they were appointed as directors, as of the date hereof, are as set out below:

Director Name and Date of Birth	***Business Occupation***	***Date of Appointment***	***Other Directorships***
J R Heaps, LLB 8 July 1953	Chairman	20 November 2014	TheCityUK Limited The Garden Bridge Trust
N A K Atkar, BSc 11 November 1965	Non Executive Director	25 April 2017	British Business Bank plc British Business Finance Ltd British Business Financial Services Ltd National Financial Services Skills Academy Nomura Bank International plc Nomura Europe Holdings plc Nomura Financial Products Europe Nomura International plc
Guy Bainbridge, MA (Cantab), ACA 13 September 1960	Non Executive Director	1 January 2019	None
A E Hutchinson, CBE, BSc 5 February 1967	Charity Chief Executive	4 February 2015	DFS Furniture plc Liverpool Victoria Friendly Society Ltd Your Penny Ltd
G R Ireland, BSc, FCA 17 May 1953	Non Executive Director	1 September 2015	Aspen Insurance Holdings Ltd Aspen Insurance UK Ltd Iccaria Insurance ICC Ltd
A B Lenman, MA, ACMA 25 December 1969	Chief Finance Officer and Executive Director	4 December 2017	None
M C Regnier, MEng, MBA 30 September 1971	Chief Executive Officer and Executive Director	3 June 2014	BCS Loans and Mortgages Ltd
S C White, BComm 4 April 1971	Chief Operating Officer and Executive Director	24 February 2016	Accord Mortgages Ltd YBS Properties (Edinburgh) Ltd Yorkshire Key Services Ltd

M A Pain, BSc, FCA 15 June 1961	Non Executive Director	1 August 2013	Axa Insurance UK plc Axa UK plc Empiric Student Property plc Empiric Student Property Trustees Ltd London Square Developments (Holdings) Ltd London Square Ltd LSQ Management Ltd
G P C Parsons, BA 31 July 1963	Company Director	1 May 2013	EasyHotel plc EasyHotel UK Ltd

The business address of the Society's directors is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ.

Management

Whilst the Society's board of directors is responsible for strategy and policy, implementation of policy and day-to-day management is delegated to the following senior executives:

M.C. Regnier, MENG, MBA	Chief Executive Officer and Executive Director
O Hunt, BA, FCIPD	Chief People Officer
C.P. Canning	Chief Customer Officer
A.B. Lenman, MA, ACMA	Chief Finance Officer and Executive Director
D.E.T. Morris, MA, BA	Chief Commercial Officer
R. S. Wells, FCIB	Chief Risk Officer
S.C. White, BComm	Chief Operating Officer and Executive Director
G.J. Willmott, MA, BPhil	Chief Strategy and Digital Officer
S Clarke, MCIS,FCA	Chief Internal Audit Officer

The business address of the Society's senior executives is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ.

There exists no potential conflicts of interest between (i) any duties owed to the Society by any member of the board of directors or any of the senior executives listed above and (ii) their private interests and/or other duties.

Business and Strategy of the Society

The Group purpose is to deliver real help for real life with a mission to be simply brilliant in our core markets of mortgages and savings. Our purpose and mission is underpinned by 5 strategic priorities: trading competitively; completing integration; reducing the cost base, developing capabilities and working better together.

Our business model is simple: we accept deposits from our savings customers and lend to our mortgage customers to enable them to buy their own homes. We also raise additional funds from the wholesale markets and government funding schemes, which helps to diversify our funding base. The majority of our lending is in the residential property market, but we also provide loans to the buy-to-let, commercial and housing association sectors.

As a mutual organisation we set our profitability targets around being financially sustainable, so that we can continue to offer value to our members through competitively priced savings and mortgage products.

The other purposes and powers of the Society are specified in the Memorandum.

Recent Developments

During 2018 we delivered a significant integration and migration project to streamline our business and focus on what we do best – mortgages and savings. This included: Successfully completing the re-sizing of the distribution network announced in January 2016; Retiring the N&P brand from the high street and the re-branding a number of N&P branches to Yorkshire Building Society; assisted our N&P account holders in transferring their balances to Yorkshire Building Society or helping them find a suitable alternative and successfully completed the migration of N&P savings customers onto our core Yorkshire Building Society platform. We also completed the restructuring our head office teams and this includes preparations for the closure of our Cheltenham site and reciprocal increase of teams in Bradford, utilising our resources more effectively.

International Financial Reporting Standards

With effect from 1 January 2005 the Group has been required to prepare its financial statements in accordance with International Financial Reporting Standards as adopted by the EU (**IFRS**). Previously the Group had prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles.

Group Income

The Total Interest Receivable for the year ended 31 December 2018 amounted to £1,018.7 million. The Net Interest Income was £471.7 million, Net Fee and Commission Income was £7.4 million and Other Income and charges was £31.1 million giving a total of £510.2 million. The operating profit before tax was £192.5million.

Group Lending

Group Lending can be summarised as follows:

	2018	*2017*	*2016*
	£'000	*£'000*	*£'000*
Average balance outstanding.....	35,881.8	34,582.2	33,712.5
Interest earned	883.0	957.6	1,050.8
Annualised average yield (%)	2.5	2.8	3.1

Mortgage Losses

The following table shows for the three years ended 31 December 2018, 2017 and 2016 charges for impairment of loans and advances to customers for the period as a percentage of mortgage balances net of impairment provisions:

	Year ended 31 December	
	Annualised (release)/charge for provisions for losses on loans and advances to customers as a percentage of mortgage balances	*Mortgages Balances £'000*
2016.....	0.0003	34,103.3
2017.....	(0.028)	35,061.2
2018.....	(0.0011)	36,702.4

Liquidity

Building societies are required to hold a proportion of their assets in a readily realisable form. At 31 December 2018 the Group held liquid assets of £5,504.7 million, being 13.9 per cent. of total shares and borrowings, and a liquidity coverage ratio of 159 per cent.

The types of investment in which building societies may invest funds are laid down in rules and guidance issued by the United Kingdom regulatory authorities.

Group Reserves

At the end of December 2018, December 2017 and December 2016 the gross and free capital ratios of the Society for the purposes of the Building Societies (Accounts and Related Provisions) Regulations 1998 were as follows:

Year ended 31 December

	2018	*2017*	*2016*
Gross capital as a percentage of shares and borrowings	7.9	7.7	6.9
Free capital as a percentage of shares and borrowings.....	7.5	7.4	6.5

Gross capital represents the Group's total equity attributable to members (£2,528.4 million as at 31 December 2018) plus Subscribed capital of £6.1 million and Subordinated Debt of £585.1 million. Free capital represents the gross capital less the book value of fixed assets plus the collective impairment provision.

The Common Equity Tier 1 ratio is a key capital measure. The Common Equity Tier 1 ratio increased from 15.8 percent at 31 December 2017 to 16.3 percent on 31 December 2018 and is above the regulatory minimum.

Other Financial Information

Financial Measure	**2016**	**2017**	**2018**	**Definition**	**Rationale for inclusion**
Core Operating Profit (£m)	128	160	181	Core operating profit measures underlying performance by excluding non-core items, both positive and negative, such as timing differences that reverse over time (e.g. fair value adjustments) or items of a one-off nature (e.g. asset sales).	Measures underlying performance.
Net Interest Margin (%)	1.22	1.23	1.11	This ratio calculates the net interest income as a percentage of mean total assets.	Measure of the interest margin being a key indicator of margin performance.
Liquidity (%)	12.8	15.7	13.9	An amount as defined by the Building Societies (Accounts and Related Provisions) Regulations 1998. This comprises cash in hand, balances with the Bank of England, debt securities (including Government investment securities (gilts)),	Measure of readily available liquidity.

				loans to credit institutions and other liquid assets, expressed as a percentage of Shares, Deposits and Liabilities (SDLs)	
Cost to Income Ratio (%)	67	63	61	A ratio that represents management expenses as a percentage of total income.	Measure of the efficiency of the business.

Core Operating Profit is derived as follows:

	2016	**2017**	**2018**
		(£m)	
Statutory profit before tax	**152**	**166**	193
Reverse out:			-
FSCS levy	5	2[1]	-1
Non-core investments	-1	-6[2]	-7
Net gains/losses from fair value volatility on financial instruments	-1	-7[3]	13
Mergers - adjustments to balances acquired	-3	-4[4]	-3
Other non-core items	-24	9[5]	12
Core operating profit	**128**	**160**	181

(1) The Issuer's share of the overall cost of funding failed institutions through this scheme

(2) Gains/losses on the Issuer's outstanding structured credit portfolio

(3) Reflects changes in market rates on some assets and liabilities. These are mostly timing differences and will reverse in time.

(4) The release of fair value adjustment made on merger for the provision of expected lifetime losses

(5) The impact of the following:

- Charge of £104m for restructuring costs expected to be incurred as a result of organisational changes announced in 2018
- Charge of £2m relating to guaranteed minimum pension equalisation.

Net Interest margin is derived as follows:

	(£m)	**(£m)**	
Total Interest Receivable	1,018.7		
Total Interest Payable	547.0		
		471.7	
Net Interest Receivable expressed as a percentage of mean assets:			
Assets c/f	43,054.7		
Assets b/f	42,047.2		
Mean		42,551.0	
Net interest margin			1.11

Liquidity is derived as follows:

	(£m)
Cash in Hand & Balances with the Bank of England	3,539.8

Loans and Advances to Credit Institutions	294.6	
Debt Securities	1,670.3	
Total Liquid Assets	5,504.7	
as a percentage of SDLs:		
Shares	29,558.6	
Amounts Owed to Credit Institutions	4,485.1	
Other Deposits	508.6	
Debt Securities in Issue	5,145.9	
Total SDLs	39,698.2	
Liquidity ratio		13.9

Cost / income ratio is derived as follows:

	(£m)	
Management expenses	311.2	
as a percentage of total income:		
Net interest receivable	471.7	
Gains/losses arising on realisation	8.0	
Gains/losses on fair value volatility	20.1	
Income from investments	-0.1	
Fees and commission receivable	29.1	
Fees and commission payable	-21.7	
Other operating income	3.1	
Total income	510.2	
Cost/income ratio		61

Funding Activities

Savings from the personal sector are the primary source of funds for the building society industry. However, since 1981 societies have been permitted to raise funds from the wholesale money markets, principally in the form of certificates of deposit, time deposits, loans from banks and note issues.

The proportion of shares and borrowings not in the form of shares held by individuals at 31 December 2018 was 25.5 per cent. compared with the statutory limit of 50 per cent.

The statutory limits are as laid down under the Building Societies Act 1986 (as amended by the Building Societies Act 1997 and secondary legislation) and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

The wholesale funding of the Group at 31 December 2018, 31 December 2017 and 31 December 2016 was:

Year ended 31 December	*2018*	*2017*	*2016*
	£m	*£m*	*£m*
Amounts owed to credit institutions	4,485.1	4,451.6	3,120.8
Debt securities in issuance	5,145.9	4,933.3	4,361.4
Other Deposits	186.7	91.1	5.4
	9,817.7	9,476.0	7,487.6

The retail funding of the Group at 31 December 2018, 31 December 2017 and 31 December 2016 was:

Year ended 31 December	*2018*	*2017*	*2016*
	£m	*£m*	*£m*
Shares	29,558.6	28,938.0	28,693.2
Deposits	321.9	329.1	429.3
	29,880.5	29,267.1	29,122.5

The Rules of the Society provide that the Board may limit the amount which may be withdrawn from the Society in respect of any shares. Higher rates of interest are generally paid for larger investments in tiered or fixed rate accounts especially where there are restrictions against early withdrawal. Investing shareholders and Borrowers automatically become members of the Society and such membership ceases on withdrawal in full of funds by investing shareholders or redemption of all loans by Borrowers. Depositors do not become members of the Society on making deposits.

THE LLP

Introduction

The LLP was incorporated in England and Wales on 22 September 2006 as a limited liability partnership (partnership number OC322580) with limited liability under the LLPA 2000 by YBS and the Liquidation Member as its Members. The principal place of business of the LLP is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ (telephone number: 01274 740740). The LLP has no subsidiaries.

Principal Activities

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

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

Members

The members of the LLP as at the date of this Prospectus are and their principal offices are:

Name	*Principal Office*
YBS	Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ
Liquidation Member	c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London EC2R 7AF

The LLP has no employees.

Directors of the Members

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

Name	*Business Address*	*Business Occupation*
Daniel Jonathan Wynne	Third Floor, 1 King's Arms Yard, London EC2R 7AF	Company Director
Christopher Lee Parrish	Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ	Building Society Group Treasurer
Wilmington Trust SP Services (London) Limited	Third Floor, 1 King's Arms Yard, London EC2R 7AF	

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

The directors of the corporate director of the LLP (Wilmington Trust SP Services (London) Limited) are set out below.

LLP Management Board

The LLP Management Board, consisting as at the Programme Date of directors, officers and/or employees of YBS, will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which require a unanimous decision of the Members) the Members delegate all matters. Any decision by the LLP Management Board relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

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

Directors of the corporate director of the LLP (Wilmington Trust SP Services (London) Limited)

Name	*Business Address*	*Business Occupation*
William James Farrell II	Third Floor, 1 King's Arms Yard, London EC2R 7AF	Banker
Daniel Jonathan Wynne	Third Floor, 1 King's Arms Yard, London EC2R 7AF	Company Director
Nicolas Patch	Third Floor, 1 King's Arms Yard, London EC2R 7AF	Company Director
Alan Geraghty	Fourth Floor, 3 George's Dock, IFSC, Dublin 1, Ireland	Company Director
John Merrill Beeson	Third Floor, 1 King's Arms Yard, London EC2R 7AF	Banker
Eileen Marie Hughes	Third Floor, 1 King's Arms Yard, London EC2R 7AF	Company Director
Angela Icolaro	Third Floor, 1 King's Arms Yard, London EC2R 7AF	Company Director
Nicolas Patch	Third Floor, 1 King's Arms Yard, London EC2R 7AF	Company Director

No potential conflicts of interest exist between any duties to the LLP of the individual directors of Wilmington Trust SP Services (London) Limited and their private interests or other duties in respect of their management roles.

SUMMARY OF THE PRINCIPAL DOCUMENTS

Trust Deed

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

Following the occurrence of an Issuer Event of Default and after the Covered Bonds have been declared due and payable by the Bond Trustee as against the Issuer, following service of an Issuer Acceleration Notice, the Bond Trustee will serve a Notice to Pay on the LLP. Payment by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of: (i) the day which is two Business Days following service of a Notice to Pay on the LLP; or (ii) the day on which the Guaranteed Amounts are otherwise Due for Payment.

All payments of Guaranteed Amounts by or on behalf of the LLP will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, assessments or other governmental charges are required by law or regulation or administrative practice of the United Kingdom or any political subdivision thereof or any authority therein or thereof having the power to tax. If any such withholding or deduction is required, the LLP will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay any amount to the Bond Trustee or any 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 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 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 or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9(b) of the Conditions, failure by the LLP to pay the Guaranteed Amounts when Due for Payment will result in an LLP Event of Default.

The Trust Deed provides that the Excess Proceeds 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 (or the Stand-by GIC Account, as applicable) and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other monies from time to time standing to the credit of the LLP Accounts. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and Notice to Pay or, if earlier, service of an LLP Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

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

The Trust Deed is governed by English law.

Intercompany Loan Agreement

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the Principal Amount Outstanding on the Issue Date of the issue of the related Covered Bonds to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms, and will be swapped into Sterling pursuant to the relevant Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP: (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – "*Mortgage Sale Agreement – Sale by the Seller of Loans and their Related Security*"; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit to the extent required to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP: (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – "*Mortgage Sale Agreement – Sale by the Seller of Loans and their Related Security*"; and/or (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or (iii) (subject to satisfying the Asset Coverage Test), to make a Capital Distribution to a Member; and or (iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or (v) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit). Each Term Advance will bear interest at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments. Prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked) or a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all

higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. The Issuer may use the proceeds of the Term Advances to pay amounts due on the Covered Bonds. However, any failure by the LLP to pay any amounts due on the Term Advances will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so long as an Asset Coverage Test Breach Notice is outstanding and has not been revoked, the LLP may not borrow any new Term Advances (and the Issuer may not make any new Term Advances) under the Intercompany Loan Agreement.

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

The Intercompany Loan Agreement is governed by English law.

Mortgage Sale Agreement

The Seller

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement between YBS (in its capacity as Seller), the LLP and the Security Trustee.

Sale by the Seller of Loans and Related Security

The Portfolio will consist of Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming part of the Portfolio will vary over time provided that, at the time the relevant Loans are sold to the LLP, the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Transfer Date. Accordingly, the Portfolio may, at any time, include Loans with characteristics that were not being offered to Borrowers on previous Transfer Dates. Following the merger of the Seller and Chelsea Building Society in April 2010 it is intended, subject to the consent of the FCA as regulator under the RCB Regulations, that Chelsea Loans may be sold to the LLP in accordance with the Mortgage Sale Agreement. Any such sale will be subject to the representations and warranties and the Eligibility Criteria set out below.

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

(a) First, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied in whole or in part by the LLP to acquire Loans and their Related Security from the Seller. In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the True Balance of those Loans sold by it as at the Transfer Date, which will be satisfied by a combination of:

    (i) a cash payment to be made by the LLP from the proceeds of the relevant Term Advance and/or from Available Principal Receipts; and/or

    (ii) the Seller being treated as having made a Capital Contribution in an amount equal to the difference between the True Balance of the Loans sold by the Seller as at the relevant Transfer Date and the cash payment (if any) made by the LLP; and

    (iii) Deferred Consideration.

(b) Second, prior to service of an Asset Coverage Test Breach Notice on the LLP (which has not been revoked), the LLP will use the Available Principal Receipts to acquire New Loans and their Related Security from the Seller and/or Substitution Assets (in respect of any Substitution Assets, up to the prescribed limit) on each LLP Payment Date.

(c) Third, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test the Seller will use all reasonable endeavours to offer to sell sufficient New Loans and their Related Security to the LLP on or before the next Calculation Date in consideration of the Seller being treated as having made a Capital Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and in consideration of the right to receive the Deferred Consideration.

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

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

Eligibility Criteria

The sale of Loans and their Related Security to the LLP will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Transfer Date or in respect of 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 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% 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 Loan has a True Balance of more than £1,000,000;

(e) no Loan which is proposed as a New Loan to be sold on the First Transfer date nor any subsequent Transfer Date relates to a Property which is not a residential Property; and

(f) no Loan constitutes a New Loan Type, in respect of which the Rating Condition has not been satisfied in accordance with the terms of the Mortgage Sale Agreement.

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

If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch or 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 Criterion in paragraph (c) above is met.

Transfer of Title to the Loans to the LLP

English Loans and Northern Irish Loans will be sold by the Seller to the LLP by way of equitable assignment. Scottish Loans will be sold by the Seller to the LLP on the First Transfer Date by way of a Scottish Declaration of Trust and, in relation to Scottish Loans sold by the Seller to the LLP after the First Transfer Date, by further Scottish Declarations of Trust, under which the beneficial interest in such Scottish Loans will be transferred to the LLP. In relation to Scottish Loans, references in this document to a sale of Loans or to Loans having been sold are to be read as references to the making of such Scottish Declarations of Trust. 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 and their Related Security will remain with the Seller until legal assignments or assignations (as appropriate) are delivered by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignation (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 assignation (as appropriate) of the Loans and their Related Security to the LLP (or, where specified, of the Selected Loans and their Related Security) will be completed on or before the 20th Business Day after the earliest of the following:

(a) either: (i) the occurrence of an Issuer Event of Default under Condition (B)(i) to (vii) and service on the Issuer of an Issuer Acceleration Notice and the service on the LLP of a Notice to Pay; or (ii) if the Bond Trustee has previously served on the Issuer an Issuer Acceleration Notice and served on the LLP a Notice to Pay in respect of an Issuer Event of Default under Condition (B)(viii), then the occurrence of any other Issuer Event of Default;

(b) a written direction is received by the Issuer from the FSA requiring the transfer of all of the engagements or the business of the Issuer to another entity in circumstances where the rights of borrowing members of YBS will cease (provided that, where approval of the transfer from the members of the Issuer is required by either the FSA or applicable law, such approval is obtained);

(c) in respect of Selected Loans only, at the request of the LLP following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;

(d) the Seller and/or the LLP being required: (i) by law; (ii) by an order of a court of competent jurisdiction; (iii) by a regulatory authority which has jurisdiction over the Seller; or (iv) by any organisation of which the Seller is a member, or whose members comprise, but are not necessarily limited to, mortgage lenders and with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans; and

(e) the Seller requesting a transfer by way of assignment or assignation (as appropriate) by giving notice in writing to the LLP and the Security Trustee.

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

Except where lodged with the relevant registry in relation to any registration or recording which may be pending at the Land Registry or the Registers of Scotland, and save in relation to Loans which are Dematerialised Loans, the Title Deeds and Loan Files relating to the Loans in the Portfolio will be held by or to the order of the Seller or the Servicer, as the case may be, or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security. The Seller or the Servicer, as the case may be, will undertake that, save in relation to Loans which are Dematerialised Loans, all the Title Deeds and Loan Files relating to the Loans in the Portfolio which are at any time in their possession or under their control or held to their order will be held to the order of the LLP or as the LLP may direct.

Representations and warranties

None of the LLP, the Security Trustee or the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which shall be given if the Rating Condition has been satisfied in respect of the proposed amendment), 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 Additional Loan Advance or Product Switch in respect of the Loan to which the Additional Loan Advance or Product Switch relates only:

- save for the Gainsborough Loans and the Chelsea Loans, each Loan was originated or purchased by the Seller in the ordinary course of business not less than three calendar months prior to the relevant Transfer Date and was denominated in pounds Sterling upon origination or acquisition (or was denominated in euro upon origination or acquisition if the euro has been adopted as the lawful currency of the United Kingdom) and in respect of Loans purchased by the Seller: (i) confirmation has been received that the purchase of such Loans by the Seller (other than the Gainsborough Loans and the Chelsea Loans) would not adversely affect the then current ratings by Fitch of the Covered Bonds and Moody's has been notified of such purchase; and (ii) the amount of Loans purchased by the Seller (other than the Gainsborough Loans and the Chelsea Loans) does not exceed 20% of the Portfolio;

- at least two monthly payments due in respect of each Loan has been paid by the relevant Borrower;

- no Loan has a True Balance of more than £1,000,000;

- each Loan has a remaining term of less than 50 years as at the relevant Transfer Date;

- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to exceptions and waivers as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- the Lending Criteria are consistent with the criteria that would be used by a Reasonable, Prudent Mortgage Lender;

- all of the Borrowers are individuals and were aged 18 years or older at the date he or she executed the relevant Mortgage;

- subject to, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the relevant local authority or other social landlord (or in Northern Ireland, the Northern Ireland Housing Executive) which has not been postponed, the whole of the True Balance on each Loan is secured by a Mortgage over residential property;

- subject to, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the relevant local authority or other social landlord (or in Northern Ireland, the Northern Ireland Housing Executive) which has not been postponed, and subject in certain appropriate cases to the completion of an application for registration or recording at the Land Registry, the Registers of Scotland/or the Registers of Northern Ireland, each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) a valid and subsisting first ranking standard security over the relevant Property or (in Northern Ireland) a valid and subsisting first charge (in relation to registered land) or a valid and subsisting mortgage by way of demise or sub-demise (in relation to unregistered land);

- the True Balance on each Loan and its Related Security constitute a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower enforceable in accordance with their terms and non-cancellable except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies;

- none of the terms of the Loans or their Related Security (other than in relation to Early Repayment Charges) are not binding by virtue of their being unfair pursuant to the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999;

- all approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the LLP, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the LLP, the Security Trustee or any of their successors in title or assigns;

- all of the Properties are located in England or Wales, Scotland or Northern Ireland;

- not more than 12 months (or a longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the granting of each Mortgage, the Seller received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- prior to the taking of each Mortgage (other than a remortgage), the Seller instructed its solicitor, licensed 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 in accordance with the instructions which the Seller issued to the relevant solicitor, licensed conveyancer or (in Scotland) qualified conveyancer as are set out, in the case of English Loans, in the CML's Lenders' Handbook for England and Wales (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, the Seller's standard form instructions to solicitors) and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland (or, for Mortgages taken before the CML's Lenders' Handbook for Scotland was adopted in 2000, the Seller's standard form instructions to solicitors), the CML's Lender's Handbook for Northern Ireland (or, for Mortgages taken before the CML's Lender's Handbook was adopted in 2003, the Seller's standard form instructions to solicitors) or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- buildings insurance cover for each Property is available under either: (i) a policy arranged by the Borrower; or (ii) in the case of leasehold property or a commonhold property a policy arranged by the relevant landlord or property management company; or (iii) the Block Insurance Policy;

- subject to registration or recording at the Land Registry or the Registers of Scotland or (as the case may be) Registers of Northern Ireland, the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security agreed to be sold and/or assigned by the Seller to the LLP under the Mortgage Sale Agreement;

- the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan;

- there are no governmental authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence in a court in England and Wales which have not been obtained;

- each Loan and its Related Security will be "eligible property" for the purposes of Regulation 2 of the RCB Regulations;

- the rate of interest under each Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto; and

- at the time of origination of the Loan, the relevant Property was owner-occupied.

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

Repurchase of Loans

If the Seller receives a Repurchase Notice from the Cash Manager identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase: (i) any such Loan and its Related Security; and (ii) any other Loans of the relevant Borrower and their Related Security that are included in the Portfolio. The repurchase price payable upon the repurchase of any Loan is an amount (not less than zero) equal to the True Balance thereof and expenses as at the relevant repurchase date. The repurchase proceeds received by the LLP will be applied (other than Accrued Interest and Arrears of Interest) in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cashflows*" below).

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

(a) an Additional Loan Advance made in respect of a Loan results in certain Eligibility Criteria being breached;

(b) a Product Switch occurs. In these circumstances, the Seller will be able to offer to sell the affected Loan back to the LLP; or

(c) a proposed Product Switch or Additional Loan Advance would result in the LLP being required to be regulated by the FSA by reason of it entering into a Regulated Mortgage Contract. In these

circumstances, if the Seller or Borrower accepts an offer for the Product Switch, the Servicer or administrator (as the case may be) will notify the LLP and the Seller will be required to repurchase the affected Loan or Additional Loan Advance before the Product Switch takes place.

Defaulted Loans

If a Seller receives a Defaulted Loans Notice from the Cash Manager identifying any Defaulted Loan, then that Defaulted Loan will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. In addition, the Seller may, at its option, repurchase a Defaulted Loan and its Related Security from the LLP for an amount equal to its True Balance as at the date of repurchase.

General ability to repurchase

Prior to the occurrence of an Issuer Event of Default, the Seller may from time to time offer to repurchase a Loan and its Related Security from the LLP for a purchase price of not less than the aggregate True Balance of the relevant Loan. The LLP may accept such offer at its discretion.

Right of Pre-emption

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans and their Related Security.

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

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

For the purposes hereof:

Adjusted Required Redemption Amount means, the Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of the LLP Accounts and the Sterling Equivalent of the principal balance of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant

Series of Covered Bonds) plus or minus any swap termination amounts payable by or to the LLP under the Interest Rate Swap Agreement.

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

the Principal Amount Outstanding of the relevant Series of Covered Bonds	×	(1+ Negative Carry Factor × (days to maturity of the relevant Series of Covered Bonds/365))

Further drawings under Loans

The Seller is solely responsible for funding all Additional Loan Advances in respect of Loans sold by the Seller to the LLP, if any. The amount of the Seller's Capital Contribution will increase by the amount of the funded Additional Loan Advances.

Authorised Underpayments

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

New Sellers

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

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;

- each New Seller accedes to the terms of the Mortgage Sale Agreement (with such subsequent amendments as may be agreed by the parties thereto) or enters into a new mortgage sale agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;

- each New Seller accedes to the Programme Agreement and enters into such other documents as may be required by the Security Trustee and/or the LLP (acting reasonably) to give effect to the addition of a New Seller to the transactions contemplated under the Programme;

- any New Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the Mortgage Sale Agreement;

- either the Servicer services the New Loans and their Related Security sold by a New Seller on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Seller (or its nominee) enters into a servicing agreement with the LLP and the Security Trustee which sets out the servicing obligations of the New Seller (or its nominee) in relation to the New Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (fees payable to the Servicer or the New Seller (or its

nominee) acting as servicer of such New Loans and their Related Security would be determined on the date of the accession of the New Seller to the Programme);

- the Security Trustee is satisfied that any accession of a New Seller to the Programme will not prejudice the Asset Coverage Test; and

- the Security Trustee is satisfied that the accession of a New Seller to the Programme is not materially prejudicial to the Covered Bondholders, and the Rating Condition has been satisfied in relation thereto.

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

The Mortgage Sale Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law (other than certain aspects relating to the Scottish Loans and their Related Security and Northern Irish Loans and their Related Security, which are governed by Scots law and Northern Irish law respectively).

Servicing Agreement

Pursuant to the terms of the Servicing Agreement entered into on the Initial Programme Date by the LLP, Yorkshire Building Society (in its capacity as Seller, Servicer and Cash Manager) and the Security Trustee, the Servicer has agreed to service on behalf of the LLP the Loans and their Related Security sold by the Seller to the LLP.

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

(i) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; and

(ii) in accordance with the Seller's administration, arrears and enforcement policies and procedures forming part of the Seller's policy from time to time as they apply to those Loans.

The Servicer's actions in servicing the Loans in accordance with the Seller's 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 in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

- keep records and accounts on behalf of the LLP in relation to the Loans;

- keep the Loan Files and Title Deeds in its possession or under its control in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to the Title Deeds (other than Title Deeds in relation to Loans which are Dematerialised Loans) and other records relating to the administration of the Loans and their Related Security;

- maintain a register in respect of the Portfolio;
- make available upon request to the LLP and the Security Trustee a report on a monthly basis containing information about the Loans and their Related Security comprised in the Portfolio;
- provide to the FSA such information about the Loans and their Related Security contained in the Portfolio and/or such other information as the FSA may direct pursuant to the RCB Regulations;
- assist the Cash Manager in the preparation of a monthly asset coverage report in accordance with the Cash Management Agreement;
- take all reasonable steps to recover all sums due to the LLP, including instituting proceedings and enforcing any relevant Loan or Mortgage using the discretion of a Reasonable, Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's policy; and
- enforce any Loan which is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

CB Collection Account

If the short-term ratings of the Seller fall below P-2 by Moody's or F2 by Fitch, the Seller will use reasonable endeavours to procure that within 30 calendar days of such downgrade:

(a) a separate account in the name of the Seller is set up at National Westminster Bank plc into which all amounts received in relation to the Loans and Related Security comprised in the Portfolio will be transferred;

(b) all further instructions by the Servicer to debit the accounts of Borrowers that are subject to direct debit mandates will direct that amounts be paid to the CB Collection Account;

(c) all Monthly Payments made by a Borrower under a payment arrangement other than the Direct Debiting Scheme are credited on the Business Day immediately following receipt by the Servicer to the CB Collection Account;

(d) notice is sent to the bank at which the CB Collection Account is held that the account is a trust account and that the Seller holds all amounts standing to the credit of the CB Collection Account on trust for the LLP pursuant to the terms of the Servicing Agreement; and

(e) acknowledgement of such notice is received from such bank by the Seller.

All amounts credited to the CB Collection Account will be paid to the GIC Account or the Stand-by GIC Account, as applicable, in accordance with the requirements of, and in accordance with the time limits set out in, the Servicing Agreement.

Setting of Standard Variable Rate and other discretionary rates and margins

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

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

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set in relation to all the Loans in the Portfolio the LLP Standard Variable Rate and any other discretionary rates and margins (in accordance with the policy to be adhered to by the LLP above) except in the limited circumstances described below in this subsection when the LLP will be entitled to do so. The Servicer will not at any time prior to service of a Notice to Pay on the LLP and/or the transfer of legal title to the Portfolio (or any part thereof) to the LLP, without the prior consent of the LLP, set or maintain:

(i) the LLP Standard Variable Rate applicable to the Loans sold by the Seller to the LLP and in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Standard Variable Rate of the Seller which applies to mortgage loans beneficially owned by the Seller outside the Portfolio; and

(ii) any other discretionary rate or margin in respect of any other Loan sold by the Seller to the LLP and in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin which applies to that type of mortgage loan beneficially owned by the Seller outside the Portfolio.

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

(a) the income which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);

(b) the LLP Standard Variable Rate and any other discretionary rate or margin in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the Relevant LLP Payment Period; and

(c) the other resources available to the LLP including the Interest Rate Swap Agreement, the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of income during the Relevant LLP Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of (1) the amount of interest which would be payable (or provisioned to be paid) under the Intercompany Loan or, if a Notice to Pay has been served, the Covered Bond Guarantee on each LLP Payment Date falling at the end of the Relevant LLP Payment Period and relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on each LLP Payment Date of each Series of Covered Bonds falling at the end of the Relevant LLP Payment Period and (2) the other senior expenses payable by the LLP ranking in priority thereto in accordance with the relevant Priority of Payments applicable prior to an LLP Event of Default and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security.

If the Servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the LLP and the Security Trustee, within one Business Day, of the amount of the shortfall. If the LLP or the Security Trustee notifies the Servicer and the Seller that, having regard to the obligations of the LLP and the amount of the shortfall, further Loans and their Related Security should be sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, the Seller will use all reasonable endeavours to offer to sell New Loans and their Related Security to the LLP on or before the next Calculation Date which have a Standard Variable Rate and/or other discretionary rates or margins sufficient to avoid such shortfall on future Calculation Dates. In consideration of such sale, the Seller will be treated as having made a Capital

Contribution (in an amount equal to the True Balance of the New Loans) sold by the Seller as at the relevant Transfer Date and will be entitled to receive the Deferred Consideration.

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

(a) the LLP Standard Variable Rate and any other discretionary rate or margin, in respect of the Loans which the Servicer proposes to set under the Servicing Agreement for the Relevant LLP Payment Period; and

(b) the other resources available to the LLP under the Interest Rate Swap Agreement,

whether the LLP would receive an aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement during the Relevant LLP Payment Period which would give a yield on the Loans of at least LIBOR plus 0.15%

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

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

Compensation

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

Removal or resignation of the Servicer

The LLP and the Security Trustee may, upon written notice to the Servicer, terminate the Servicer's rights and obligations immediately if any of the following events (each a **Servicer Termination Event** and, each of the first three events set out below, a **Servicer Event of Default**) occurs:

- the Servicer defaults in the payment of any amount due to the LLP under the Servicing Agreement and fails to remedy that default for a period of three Business Days after the earlier of the Servicer becoming aware of the default and receipt by the Servicer of written notice from the Security Trustee or the LLP requiring the same be remedied;

- the Servicer fails to comply with any of its other obligations under the Servicing Agreement which failure in the opinion of the Security Trustee is materially prejudicial to the Covered Bondholders

and does not remedy that failure within the earlier of 20 Business Days after becoming aware of the failure and receipt by the Servicer of written notice from the Security Trustee or the LLP requiring the same be remedied;

- an Insolvency Event occurs in relation to the Servicer; or
- the LLP resolves that the appointment of the Servicer should be terminated.

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

If the appointment of the Servicer is terminated, the Servicer must deliver the Title Deeds and Loan Files relating to the Loans 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 sold to the LLP and serviced under the Servicing Agreement that have been comprised in the Portfolio.

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

Neither the Bond Trustee nor the Security Trustee is obliged to act as servicer in any circumstances. The Servicing Agreement is governed by English law and will be made by way of deed.

Asset Monitor Agreement

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

For so long as YBS is acting as Cash Manager, if the long-term ratings of the Cash Manager or the Issuer fall below BBB-/Baa3 (by Moody's or Fitch, respectively), or if an Asset Coverage Test Breach Notice has been served and has not been revoked, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to report on such arithmetic accuracy following each Calculation Date and, following a determination by the Asset Monitor of any errors in the calculations performed by the Cash Manager such that the Asset Coverage Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated by an amount exceeding 1% of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable, (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the Cash Manager for the purpose of reporting on the arithmetic accuracy is true and correct and not misleading, and is not required to report as such or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

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

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

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

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

The Asset Monitor Agreement is governed by English law.

LLP Deed

The Members of the LLP have agreed to operate the business of the LLP in accordance with the terms of the LLP Deed.

Members

As at the Programme Date, each of YBS and the Liquidation Member is a member (each a **Member**, and together with any other members from time to time, the **Members**) of the LLP. YBS and the Liquidation Member are designated members (each a **Designated Member**, and together with any other designated members from time to time, the **Designated Members**) of the LLP. The Designated Members shall have such duties as are specified in the LLPA 2000 or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

For so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed to YBS, the Liquidation Member may, by written notice to the LLP, appoint another Member as a Designated Member or may, at its sole discretion (acting on behalf of itself and the other Members), admit a New Member to the LLP (in each case with the prior written consent of the Security Trustee).

No New Member may be otherwise appointed without the consent of the Security Trustee and the Rating Condition being satisfied.

Capital Contributions

From time to time YBS (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 YBS shall be calculated in Sterling on each Calculation Date as the difference between (a) the True Balance of the Portfolio as at the last day of the immediately preceding Calculation Period plus Principal Receipts standing to the credit of the LLP Accounts plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the immediately preceding Calculation Period and

(b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the preceding Calculation Period.

If at any time, YBS is acting as the Cash Manager and a Cash Manager Relevant Event occurs and is continuing YBS will:

(a) within 3 London Business Days of such downgrade notify the LLP, the Stand-by Account Bank or the Account Bank, as applicable, and each Covered Bond Swap Provider of such event;

(b) within 10 London Business Days of such downgrade make a Cash Capital Contribution to the LLP in an aggregate amount equal to:

  (i) (in the case of each Term Advance where a Covered Bond Swap is not in place other than an Accumulation Series of Covered Bonds), the Required Coupon Amount payable on the immediately succeeding Loan Interest Payment Date for each such Term Advance; and/or

  (ii) (in the case of a Term Advance where a Covered Bond Swap is in place), the Required Coupon Amount payable on the immediately succeeding Party B payment date (as defined in each relevant Covered Bond Swap Agreement) (other than those amounts due in respect of an Interim Exchange Date or Final Exchange Date (each as defined in the relevant Covered Bond Swap Agreement)) relating to each Term Advance; and/or

  (iii) (in the case of a Term Advance relating to an Accumulation Series of Covered Bonds), the Required Coupon Amount payable on the immediately succeeding LLP Payment Date for each such Term Advance; and

(c) thereafter, make a Cash Capital Contribution to the LLP not less than 1 London Business Day after:

  (i) each Loan Interest Payment Date, in an amount equal to the aggregate of the Required Coupon Amount due on the next following Loan Interest Payment Date in respect of each Term Advance without a Covered Bond Swap in place other than an Accumulation Series of Covered Bonds; and/or

  (ii) each Party B payment date, in an amount equal to the aggregate of the Required Coupon Amount due on that Party B payment date in respect of each Term Advance with a Covered Bond Swap in place; and/or

  (iii) each LLP Payment Date, in an amount equal to the aggregate of the Required Coupon Amount due on the next following LLP Payment Date in respect of each Term Advance relating to an Accumulation Series of Covered Bonds.

Any such Cash Capital Contribution representing Required Coupon Amounts will be treated as a revenue item but will not form part of Available Revenue Receipts.

Within 1 Business Day of receipt of such Cash Capital Contribution from the Seller, the LLP will transfer to the GIC Account or the Stand-by GIC Account, as applicable, an amount equal to the amount of the Cash Capital Contribution received by the LLP from the Seller in respect of items (b) and (c) above.

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

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

Asset Coverage Test

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

If on any Calculation Date, the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) will notify the Members, the Bond Trustee and the Security Trustee thereof and the Members (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see "*Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of Loans and their Related Security*") or provide Cash Capital Contributions to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP and shall send notice of the same to the FSA pursuant to the RCB Regulations. The Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

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

(a) the LLP will be required to sell Selected Loans (as described further under "LLP Deed – Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice");

(b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in "Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice" below; and

(c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

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

For the purposes hereof:

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

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

where,

A = the lower of (i) and (ii), where:

(i) = the sum of the **Adjusted True Balance** of each Loan in the Portfolio, which shall be the lower of (1) the actual True Balance of the relevant Loan in the Portfolio as calculated on the last day of the immediately preceding Calculation Period and (2) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are less than three months in arrears or not in arrears, M = 0.75, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75%, M = 0.40 and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than 75%, M = 0.25),

minus

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

(1) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated on the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the Adjusted True Balance of the relevant Loan or Loans (as calculated on the last day of the immediately preceding Calculation Period) of the relevant Borrower; and/or

(2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in any preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted True Balance of the Loans in the Portfolio (as calculated on the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss); AND

(ii) = the aggregate **Arrears Adjusted True Balance** of the Loans in the Portfolio which in relation to each Loan shall be the lower of (1) the actual True Balance of the relevant Loan as calculated on the last day of the immediately preceding Calculation Period and (2) the Indexed Valuation relating to that Loan multiplied by N (where for all Loans that are less than three months in arrears or not in arrears, N = 1, for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of less than or equal to 75%, N = 0.40 and for all Loans that are three months or more in arrears and have a True Balance to Indexed Valuation ratio of more than 75%, N = 0.25);

minus

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

(1) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant

Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the Arrears Adjusted True Balance of the relevant Loan or Loans (as calculated on the last day of the immediately preceding Calculation Period) of the relevant Borrower; and/or

(2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Arrears Adjusted True Balance of the Loans in the Portfolio (as calculated on the last day of the immediately preceding Calculation Period) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller to indemnify the LLP for such financial loss),

the result of the calculation in this paragraph A(ii) being multiplied by the Asset Percentage (as defined below);

B = the aggregate amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;

C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with this Deed and/or the other Transaction Documents;

D = the aggregate outstanding principal balance of any Substitution Assets;

Y = an amount equal to the aggregate Deposit Set Off Amounts for each Borrower whose Loan is included in the Portfolio;

Z = the weighted average remaining maturity of all Covered Bonds then outstanding multiplied by the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds ***multiplied by*** the Negative Carry Factor where the **Negative Carry Factor** is (i) 0.5% if the weighted average margin of the interest rate payable on the Covered Bonds is less or equal to 0.1% per annum or (ii) 0.5% plus that margin minus 0.1%, if that margin is greater than 0.1% per annum (provided that if the weighted average remaining maturity is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one).

Asset Percentage means:

(a) 92.5 per cent; or

(b) such lesser percentage figure as determined from time to time in accordance with the terms of the LLP Deed, being the asset percentage that is necessary to ensure the Covered Bonds maintain the then current rating assigned to them by Fitch; or

(c) such lesser percentage figure as determined from time to time in accordance with the terms of the LLP Deed being the figure as selected by the LLP (or the Cash Manager acting on its behalf) and notified to Moody's and the Security Trustee on such Calculation Date or, where the LLP (or the Cash Manager acting on its behalf) has not notified Moody's and the Security Trustee of the minimum percentage figure on the relevant Calculation Date, on the last date of such notification), being the difference between 100 per cent. and the amount of credit enhancement required to support the then current ratings of the covered bonds under Moody's expected loss methodology, PROVIDED THAT in the event that any of the Covered Bonds are not then currently rated Aaa (i) for as long as any Covered Bonds remain outstanding whose ratings have been downgraded at any point since their relevant original Issue Date and until they have been subsequently upgraded to at least the rating as at their original Issue Date, the Asset Percentage may not be greater than the higher of (a) the Asset Percentage specified in the most recently delivered Asset Percentage Notification Form prior to the first such downgrade, or (b) the lowest value for (X) in respect of each downgrade where (X) in respect of each downgrade is equal to the respective Attributed Moody's Asset Percentage specified in the relevant Investor Reports most recently delivered prior to such downgrade; and (ii) for so long as Series 5, Series 7 and/or Series 8 remain outstanding and such series have been downgraded and until they are upgraded to at least the rating as at their original Issue Date, the Asset Percentage may not be greater than 83.7%,

where **Attributed Moody's Asset Percentage** means the percentage figure as set out in each Investor Report which notwithstanding the percentage figure that may be selected by the LLP or the Cash Manager on its behalf from time to time and notified to the Security Trustee and Moody's, is the percentage as at each Calculation Date, being the difference between 100 per cent. and the amount of credit enhancement required to support the then current ratings of the Covered Bonds under Moody's expected loss methodology.

Save where otherwise agreed with the Rating Agencies, the Asset Percentage will be adjusted in accordance with various Rating Agency methodologies to ensure that sufficient credit enhancement will be maintained. Notwithstanding the above, the Asset Percentage may not, at any time, exceed 92.5 *per cent*. unless otherwise agreed with the Rating Agencies.

In addition, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the percentage figure selected by it.

Deposit Set Off Amount means, for each Borrower whose Loan is included in the Portfolio, the lesser of (a) 100% of the aggregate balance of each savings account held at the Seller by such Borrower (whether such savings account is a joint account or not and whether such other joint savings account holder is a Borrower under a Loan in the Portfolio or not and to avoid double counting, such savings balance shall only be included in the calculation once), and (b) the aggregate True Balance of such Borrower's Loan which is included in the Portfolio, in each case as calculated on any day after the last day of the immediately preceding Calculation Period but prior to the Calculation Date.

Amortisation Test

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

Following service of Notice to Pay on the LLP, if on any Calculation Date the Amortisation Test Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date, then the Amortisation Test will be deemed to

be breached and an LLP Event of Default will occur. The LLP or the Cash Manager, as the case may be, will immediately notify the Members, the Security Trustee and (whilst Covered Bonds are outstanding) the Bond Trustee of any breach of the Amortisation Test and the Bond Trustee shall be entitled to serve an LLP Acceleration Notice in accordance with the Conditions.

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

$$A + B + C - Z$$

where,

A = the aggregate **Amortisation Test True Balance** of each Loan, which shall be the lower of (1) the actual True Balance of the relevant Loan as calculated on the last day of the immediately preceding Calculation Period multiplied by M and (2) 100% of the Indexed Valuation multiplied by M.

Where for all the Loans that are less than three months in arrears or not in arrears M = 1 or for all the Loans that are three months or more in arrears M = 0.7;

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

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

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

Sale of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice

After service of an Asset Coverage Test Breach Notice (which has not been revoked) or the service of a Notice to Pay and prior to service of an LLP Acceleration Notice, 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 and subject to any Cash Capital Contribution made by the Members. The proceeds from any such sale or refinancing will be credited to the GIC Account and applied as set out in the Priorities of Payments (see "*Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice*" below).

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

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

Method of Sale of Selected Loans

If the LLP is required to sell Selected Loans and their Related Security to Purchasers following either the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will be required to ensure that before offering Selected Loans for sale:

(a) the Selected Loans have been selected from the Portfolio on a random basis as described in the LLP Deed; and

(b) the Selected Loans have an aggregate True Balance in an amount (the **Required True Balance Amount**) which is as close as possible to the amount calculated as follows:

(1) following the Service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their True Balance plus the Arrears of Interest and Accrued Interest thereon, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on the next Calculation Date); or

(2) following service of a Notice to Pay:

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

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

The LLP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

(i) following the service of an Asset Coverage Test Breach Notice (but prior to the service of a Notice to Pay), for an amount not less than the True Balance of the Selected Loans plus the Arrears of Interest and Accrued Interest thereon; and

(ii) following service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount.

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

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

The LLP is also permitted to offer for sale to Purchasers a Partial Portfolio. Except in circumstances where the portfolio of Selected Loans is being sold within six months of, as applicable, the Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

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

In respect of any sale or refinancing of Selected Loans and their Related Security following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay, the LLP will instruct the portfolio manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed.

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

Following the service of a Notice to Pay, if Purchasers accept the offer or offers from the LLP so that some or all of the Selected Loans shall be sold prior to the next following Final Maturity Date or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the next following Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers. Any such sale will not include any Representations and Warranties from the LLP in respect of the Loans and the Related Security unless expressly agreed by the Security Trustee or otherwise agreed with the Seller.

Covenants of the LLP and the Members

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

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

(a) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future (unless arising by operation of law);

(b) transfer, sell, lend, part with or otherwise dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;

(c) have an interest in a bank account other than as set out in the Transaction Documents;

(d) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;

(e) consolidate or merge with or transfer its properties or assets substantially as an entirety to any other person;

(f) have any employees, premises or subsidiaries;

(g) acquire assets other than pursuant to the Mortgage Sale Agreement, the Cash Management Agreement and the LLP Deed;

(h) engage in any activities 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 covenants that it will:

(i) ensure that the Asset Pool will only comprise those assets set out in items (a) to (h) of Regulation 3(1) (*Asset Pool*) of the RCB Regulations;

(ii) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of "eligible property" in Regulation 2 (*Eligible Property*) of the RCB Regulations;

(iii) keep a record of those assets that form part of the Asset Pool which, for the avoidance of doubt, shall not include any Swap Collateral; and

(iv) at all times comply with its obligations under the RCB Regulations and/or the RCB Sourcebook.

Limit on Investing in Substitution Assets

Prior to the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances standing to the credit of the LLP Accounts in Substitution Assets, provided that the aggregate amount so invested in Substitution Assets does not exceed 10% of the total assets of the LLP at

any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Depositing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

Following service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the LLP, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the GIC Account and the LLP will be permitted to invest all available monies in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

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

Other Provisions

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

The LLP Management Committee, comprised as at the Programme Date of directors, officers and/or employees of YBS, will act on behalf of the LLP to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which require a unanimous decision of the Members) the Members delegate all matters. Any decision by the LLP Management Committee relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any amendment to the LLP Deed, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not 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.

Following the appointment of a liquidator to any Member (other than the Liquidation Member), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only.

The LLP Deed is governed by English law.

Cash Management Agreement

The Cash Manager will provide certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement.

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

(a) maintaining the Ledgers on behalf of the LLP;

(b) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable;

(c) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under Cashflows, below;

(d) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under "*Credit Structure – Asset Coverage Test*, below";

(e) determining whether the Amortisation Test is satisfied on each Calculation Date following an Issuer Event of Default in accordance with the LLP Deed, as more fully described under "*Credit Structure – Amortisation Test*", below;

(f) providing the FSA with information on the composition of any 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;

(g) preparation of Investor Reports for the Covered Bondholders, the Rating Agencies and the Bond Trustee; and

(h) making the necessary notifications and procuring the necessary payments with respect to any Cash Capital Contributions which are to be credited to the Coupon Payment Ledger.

In relation to each Series of Covered Bonds that (a) does not have monthly Interest Payment Dates and (b) does not have a Covered Bond Swap in place, the Cash Manager shall maintain the Interest Accumulation Ledger, to which the LLP Monthly Interest Amount will be credited on each LLP Payment Date. Amounts standing to the credit of the Interest Accumulation Ledger which have accumulated in respect of a Series of Covered Bonds will be applied (i) prior to the service of a Notice to Pay, on the immediately following Loan Interest Payment Date or where the Loan Interest Payment Date is also a LLP Payment Date, on such LLP Payment Date in making interest payments, in accordance with the terms of the Intercompany Loan Agreement and the Cash Management Agreement or (ii) following the service of a Notice to Pay, on the immediately following Interest Payment Date, or where the Interest Payment Date is also an LLP Payment Date on that Interest Payment Date (together with any applicable Available Revenue Receipts) in making payments in respect of interest due on the Covered Bonds.

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager in which event the LLP will appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

The Cash Management Agreement is government by English law.

Interest Rate Swap Agreement

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time that may be linked either to the Seller's Standard Variable Rate or linked to an interest rate other than the Seller's Standard Variable Rate, such as a rate that tracks the Bank of England base rate. Other Loans 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 the Loans in the Portfolio; and

(b) LIBOR for three month Sterling deposits,

the LLP, the Interest Rate Swap Provider and the Security Trustee have entered into the Interest Rate Swap Agreement on the Initial Programme Date.

The Interest Rate Swap will terminate on the earlier of:

(a) the Final Maturity Date or, if the LLP notifies the Interest Rate Swap Provider, prior to the Final Maturity Date, of the inability of the LLP to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount, the final Interest Payment Date on which an amount representing the Final Redemption Amount is paid (but in any event not later than the Extended Due for Payment Date);

(b) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments following the enforcement of the Security pursuant to Condition 9(b);

(c) the date on which the Notional Amount of the Interest Rate Swap reduces to zero (as a result of the reduction for the amount of any Early Redemption Amount paid in respect of the Series pursuant to Condition 9(b) or any Final Redemption Amount paid pursuant to Condition 6(a) following the Final Maturity Date); and

(d) the date of redemption pursuant to Conditions 6(b) or 6(d).

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 for the Interest Rate Swap Provider, 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 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 ratings specified in the Interest Rate Swap Agreement, procuring another entity with rating(s) specified in the Interest Rate Swap Agreement to become co-obligor in respect of its obligations, or taking such other action as may be specified in current published rating agency criteria published by or as otherwise agreed with the Rating Agencies as being sufficient to maintain the current ratings of the Covered Bonds. A failure to take such steps will allow the LLP to terminate the Interest Rate Swap Agreement.

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

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under the Interest Rate Swap Agreement (for the avoidance of doubt, no such failure to pay by the Issuer will entitle the Interest Rate Swap Provider to terminate the Interest Rate Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and

- upon the occurrence of the insolvency of the Interest Rate Swap Provider, or any guarantor and certain insolvency-related events in respect of the LLP, or the merger of the Interest Rate Swap Provider without an assumption of the obligations under the Interest Rate Swap Agreement.

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

If withholding taxes are imposed on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement, 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 Agreement, 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 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 such 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 such Loans, and such purchaser will thereby become party to a separate interest rate swap transaction with the relevant Interest Rate Swap Provider.

Under the Interest Rate Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property.

The Interest Rate Swap Agreement is governed by English law.

Covered Bond Swap Agreements

The LLP will enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers and the Security Trustee. Each Covered Bond Swap will provide a hedge against certain interest rate and currency risks in respect of amounts received by the LLP under the Loans and the relevant Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to the service of a Notice to Pay on the LLP) 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 Provider the amount received by the LLP under the applicable Term Advance (being an amount equal to the gross proceeds of the issue of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay an amount equal to the Sterling Equivalent of the applicable Term Advance. Thereafter, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date amounts equivalent to the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will pay to the Covered Bond Swap Provider on each LLP Payment Date an amount in Sterling calculated by reference to LIBOR for 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 or the Covered Bond Guarantee.

If prior to the Final Maturity Date in respect of the relevant Series or Tranche of Covered Bonds or (if an Extended Due for Payment Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the payment of the amount corresponding to the Final Redemption Amount or any part of it by the LLP under the Covered Bond Guarantee is deferred until the relevant Extended Due for Payment Date pursuant to Condition 6(a) of the Terms and Conditions of the Covered Bonds) any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date, the LLP notifies (pursuant to the terms of the Covered Bond Swap) the relevant Covered Bond Swap Provider of the amount in the Specified Currency to be paid by the Covered Bond Swap Provider on such Final Maturity Date or Interest Payment Date (such amount being equal the Final Redemption Amount or the relevant portion thereof payable by the LLP on such Final Maturity Date or Interest Payment Date under the Covered Bond Guarantee in respect of the

relevant Series or Tranche of Covered Bonds), the Covered Bond Swap Provider will pay the LLP such amount and the LLP will pay the Covered Bond Swap Provider the Sterling Equivalent of such amount. Further, if on any day an Early Redemption Amount is payable pursuant to Condition 9(b), the Covered Bond Swap Provider will pay the LLP such Amount (or the relevant portion thereof) and the LLP will pay the Covered Swap Provider the Sterling Equivalent thereof, following which the notional amount of the relevant Covered Bond Swaps will reduce accordingly.

Each Covered Bond Swap will terminate on the earlier of:

(a) the Final Maturity Date or, if the LLP notifies the Covered Bond Swap Provider, prior to the Final Maturity Date, of the inability of the LLP to pay in full Guaranteed Amounts corresponding to the Final Redemption Amount, the final Interest Payment Date on which an amount representing the Final Redemption Amount is paid (but in any event not later than the Extended Due for Payment Date); and

(b) the final date on which the Security Trustee distributes the proceeds of the Security in accordance with the Post-Enforcement Priority of Payments, following the enforcement of the Security pursuant to Condition 9(b).

Under the terms of each Covered Bond Swap Agreement, in the event that 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 for the Covered Bond Swap Provider, 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 Covered Bond Swap Agreement, arranging for its obligations under the Covered Bond Swap Agreement to be transferred to an entity with the ratings specified in the Covered Bond Swap Agreement, procuring another entity with the rating(s) specified in the Covered Bond Swap Agreement to become co-obligor in respect of its obligations under the Covered Bond Swap Agreement, or taking such other action as may be specified in current rating agency criteria published by or as otherwise agreed with the Rating Agencies as being sufficient to maintain the current ratings of the Covered Bonds. A failure to take such steps will allow the LLP to terminate the Covered Bond Swaps entered into under that Covered Bond Swap Agreement.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to pay any amounts due under such Covered Bond Swap Agreement (for the avoidance of doubt, no such failure to pay by the LLP will entitle the relevant Covered Bond Swap Provider to terminate the Covered Bond Swap Agreement, if such failure is due to the assets available at such time to the LLP being insufficient to make the required payment in full); and

- upon the occurrence of the insolvency of the relevant Covered Bond Swap Provider or any guarantor, and certain insolvency-related events in respect of the LLP or the merger of the Covered Bond Swap Provider without an assumption of the obligations under the relevant Covered Bond Swap Agreement.

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

Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap Agreement will first be used to the extent necessary (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Covered Bond Swap Provider (or replacement Covered Bond Swap Providers) to enter into a replacement Covered Bond Swap with the LLP, unless a replacement Covered Bond Swap Agreement (or replacement Covered Bond Swap Agreements) has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap Agreement, unless such termination payment has already been made on behalf of the LLP.

Any Swap Collateral Excluded Amounts will be paid to the Covered Bond Swap Provider directly and not via the Priorities of Payments.

If withholding taxes are imposed on payments made by any Covered Bond Swap Provider to the LLP under a Covered Bond Swap Agreement, such Covered Bond Swap Provider 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 Agreement, the LLP shall not be obliged to gross up those payments.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating:

(i) the Adjustment Required Redemption Amount for the Sale of Selected Loans; and

(ii) the purchase price to be paid for the relevant Covered Bonds purchased by the LLP in accordance with Condition 6(e).

Under each Covered Bond Swap Agreement, the LLP's obligations are limited in recourse to the Charged Property. To the extent that the LLP is unable to make any payment in full under any Covered Bond Swap due to its assets being insufficient to make such payment in full, the relevant Covered Bond Swap Provider's payment obligations will rateably reduce.

The Covered Bond Swap Agreements are (or, as applicable, will be) governed by English law.

Bank Account Agreement

Pursuant to the terms of 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 Bank Account Agreement, the LLP Deed and the Deed of Charge:

(a) the GIC Account into which amounts may be deposited by the LLP (including, following the occurrence of an Issuer Event of Default which is not cured within the applicable grace period, 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 (to the extent maintained); and

(b) the Transaction Account (to the extent maintained) into which amounts may be deposited by the LLP prior to their transfer to the GIC Account. Monies standing to the credit of the GIC Account will be transferred on each LLP Payment Date and applied by the Cash Manager in accordance with the Priorities of Payments described below under **Cashflows**.

If the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank cease to be rated at least P-1 by Moody's or F1 by Fitch then either:

- the GIC Account and the Transaction Account (to the extent maintained) will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a bank whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's and F1 by Fitch; or

- the Account Bank will obtain an unconditional and unlimited guarantee of its obligations under the Bank Account Agreement from a financial institution whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's and F1 by Fitch.

As at the date of this prospectus, the GIC Account and Transaction Account have been closed and amounts standing to credit of those account have been transferred to the Stand-by GIC Account and the Stand-by Transaction Account held at the Stand-by Account Bank.

The Bank Account Agreement is governed by English law.

Stand-by Bank Account Agreement

Pursuant to the terms of a stand-by bank account agreement entered into on the Initial Programme Date between the LLP, HSBC Bank plc (the **Stand-by Account Bank**), the Cash Manager and the Security Trustee (as the same may be amended, amended and restated and/or supplemented from time to time, the **Stand-by Bank Account Agreement**), the LLP will open with the Stand-by Account Bank a stand-by GIC account (the **Stand-by GIC Account**) and a stand-by transaction account (the **Stand-by Transaction Account**) 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 an unconditional and unlimited guarantee of its obligations, in each case if the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank fall below P-1 by Moody's or F1 by Fitch, and the Bank Account Agreement is subsequently terminated or if the Bank Account Agreement is terminated for other reasons. The Stand-by GIC Account and the Stand-by Transaction Account will be operated in accordance with the Cash Management Agreement, the LLP Deed and the Deed of Charge.

If the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Stand-by Account Bank fall below P-1 by Moody's or F1 by Fitch there will be a requirement that the Stand-by Account Bank either be replaced by, or have its obligations guaranteed by, a satisfactorily rated financial institution.

References in this Prospectus to the GIC Account or the Transaction Account include, unless otherwise stated, references to the Stand-by GIC Account or the Stand-by Transaction Account. As at the date of this prospectus, the GIC Account and Transaction Account have been closed and amounts standing to credit of those account have been transferred to the Stand-by GIC Account and the Stand-by Transaction Account held at the Stand-by Account Bank.

The Stand-by Bank Account Agreement is governed by English law.

Guaranteed Investment Contract

The LLP entered into a Guaranteed Investment Contract (or **GIC**) with the GIC Provider, the Cash Manager and the Security Trustee on the Initial Programme Date, pursuant to which the GIC Provider agreed to pay interest on the monies standing to the credit thereof at specified rates determined in accordance with the GIC.

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 HSBC Bank plc (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.

The Stand-by Guaranteed Investment Contract is governed by English law.

Corporate Services Agreement

The Liquidation Member and Holdings have entered into a Corporate Services Agreement with, *inter alios*, Wilmington Trust SP Services (London) Limited, (as Corporate Services Provider) on the Initial Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the Liquidation Member and Holdings respectively.

The Corporate Services Agreement is governed by English law.

Deed of Charge

Pursuant to the terms of the Deed of Charge, the secured obligations of the LLP and all other obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

(a) a first fixed charge (which may take effect as a floating charge) over the LLP's interest in the English Loans, Northern Irish Loans and their Related Security and other related rights comprised in the Portfolio;

(b) an assignment by way of first fixed charge over the rights of the LLP in and to the Insurance Policies;

(c) a first ranking assignation in security of the LLP's interest in the Scottish Loans and their Related Security (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);

(d) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of any Transaction Document to which it is a party (and, in respect of the Interest Rate Swap Agreement and Covered Bond Swap Agreement, after giving effect to all applicable netting provisions therein);

(e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including any Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;

(f) a first fixed charge (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

(g) a first floating charge over all the assets and undertaking of the LLP (including the assets and undertaking of the LLP located in Scotland or governed by Scots law and the assets and undertaking of the LLP located in Northern Ireland or governed by the law of Northern Ireland).

In respect of the 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 on or after the Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge.

Release of Security

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP), release those Loans from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if:

(i) the Security Trustee provides its prior written consent to the terms of such sale as described under "*LLP Deed – Method of Sale of Selected Loans*" above; and

(ii) in the case of the sale of Selected Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.

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

Enforcement

If an LLP Acceleration Notice is served on the LLP, the Security Trustee 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*".

The Deed of Charge is governed by English law (other than each Scottish Supplemental Charge granted pursuant and supplemental to the Deed of Charge and certain other provisions relating to the property, rights and assets referred to in paragraph (c) above which will be governed by Scots law and the first fixed charge over the Northern Irish Loans and their Related Security and the floating charge over the assets and undertaking of the LLP located in or governed by the law of Northern Ireland which will be governed by Northern Irish law).

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the occurrence of an Issuer Event of Default, service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice and on the LLP of a Notice to Pay or, if earlier, following the occurrence of an LLP Event of Default, service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to the Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds at all times;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and service of a Notice to Pay on the LLP;
- a Reserve Fund (unless YBS's short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's) will be established in the GIC Account to trap Available Revenue Receipts; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of 0.25% per annum below LIBOR for one-month Sterling deposits or such greater amount as the LLP and the GIC Provider may agree from time to time.

Certain of these factors are considered more fully in the remainder of this section.

In addition, the Issuer is required to comply with the terms of the Regulated Covered Bonds Regulations, as to which see further "*Description of the UK Covered Bond Regime*" below.

Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any accelerated payment pursuant to Condition 9 (Events of Default and Enforcement) following the occurrence of an Issuer Event of Default. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. A6.1

See further "*Summary of the Principal Documents – Trust Deed*" as regards the terms of the Covered Bond Guarantee. See further "*Cashflows – Guarantee Priority of Payments*" as regards the payment of amounts payable by the LLP to the Covered Bondholders and other Secured Creditors following the occurrence of an Issuer Event of Default.

Asset Coverage Test

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Asset Coverage Test is not satisfied and such failure is not remedied on or before the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of set-off on a Borrower's savings accounts held with the Seller and failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Transfer Date.

See further "*Summary of the Principal Documents – LLP Deed – Asset Coverage Test*", above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

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

The Issuer is additionally required to ensure that the principal amount of the eligible property in the Asset Pool is greater than 108 per cent. of the Principal Amount Outstanding of the Covered Bonds in accordance with the terms of the RCB Regulations. See further "*Description of the UK Regulated Covered Bond Regime*" below.

Amortisation Test

The Amortisation Test is intended to ensure that if, following an Issuer Event of Default, service of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where the Covered Bondholders may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following an Issuer Event of Default and the service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the True Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears. See further "*Summary of the Principal Documents – LLP Deed – Amortisation Test*", above.

Reserve Fund

The LLP has established the Reserve Fund on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default or if YBS's

short term unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's.

The Reserve Fund is funded from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

Coupon Payments

If YBS is acting as Cash Manager pursuant to the Cash Management Agreement and a Cash Manager Relevant Event occurs and is continuing**,** the Seller will (a) within 10 London Business Days of the occurrence of the Cash Manager Relevant Event and, (b) thereafter (i) (in respect of each Term Advance where there is not a Covered Bond Swap in place other than an Accumulation Series of Covered Bonds) within 1 London Business Day of each Loan Interest Payment Date for each such Term Advance make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Term Advance for the next following Loan Interest Payment Date and/or (ii) (in respect of each Term Advance where there is a Covered Bond Swap in place) within 1 London Business Day of each Party B payment date under each Covered Bond Swap make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Covered Bond Swap for the next following Party B payment date (each as defined in the relevant Covered Bond Swap Agreement) and/or (iii) (in the case of a Term Advance relating to an Accumulation Series of Covered Bonds), within 1 London Business Day of each LLP Payment Date for each such Term Advance relating to a Accumulation Series of Covered Bonds make a Cash Capital Contribution to the LLP in an amount equal to the Required Coupon Amount for each such Term Advance on the immediately subsequent LLP Payment Date.

If a Cash Manager Relevant Event has occurred and is continuing, the LLP will not be required to hold amounts in respect of the LLP Monthly Interest Amount in the relevant Interest Accumulation Ledger in respect of an Accumulation Series of Covered Bonds and may apply the payments that would otherwise be paid into the relevant Interest Accumulation Ledger in accordance with the Priority of Payments to make a payment to the Coupon Payment Ledger to fund in whole or in part, the amount to be deposited by the Seller set out above. Any surplus over and above the amount to be deposited as described above, will be paid into the Interest Accumulation Ledger.

The LLP will transfer an amount equal to the Cash Capital Contribution it receives from the Seller within one London Business Day of receipt of such amount into the GIC Account or the Stand-by GIC Account as applicable and make a credit to the Coupon Payment Ledger. On the date of the transfer the LLP will, on the direction of the Issuer, deliver an irrevocable payment instruction (specifying the ISIN Code and/or CUSIP as applicable or the relevant Series of Covered Bonds) to the Account Bank or the Stand-by Account Bank, as applicable, to pay such amounts to the Principal Paying Agent or the relevant Covered Bond Swap Provider, as applicable on the dates referred to above.

Interest Accumulation Ledger

In relation to each Series of Covered Bonds that does not (a) have a Covered Bond Swap in place and (b) does not have monthly Interest Payment Dates (each such Series, an **Accumulation Series of Covered Bonds**), the Cash Manager shall maintain an Interest Accumulation Ledger, to which the LLP Monthly Interest Amount will be credited on each LLP Payment Date. Amounts standing to the credit of the Interest Accumulation Ledger in respect of each such Accumulation Series of Covered Bonds will be applied on the relevant Loan Interest Payment Date, together with Available Revenue Receipts (applied in accordance with the relevant Priorities of Payments), to make payments under the Term Advances or Covered Bonds, as applicable.

CASHFLOWS

As described above under "*Credit Structure*", until a Notice to Pay or LLP Acceleration Notice is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority:

(a) prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;

(b) following service of an Asset Coverage Test Breach Notice (and for so long as it has not been revoked);

(c) following service of a Notice to Pay; and

(d) following service of an LLP Acceleration Notice, realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

If the Transaction Account is closed in accordance with the terms of the Bank Account Agreement, any payment to be made to or from the Transaction Account shall, as applicable, be made to or from the GIC Account, or no payment shall be made at all if such payment is expressed to be from the GIC Account to the Transaction Account.

LLP Payment Dates will occur monthly.

Allocation and distribution of Available Revenue Receipts prior to the service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice

Prior to service of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice on the LLP and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Revenue Receipts will be allocated and distributed as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP or the Cash Manager on its behalf shall calculate the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date and the Reserve Fund Required Amount (if applicable).

Pre-Acceleration Revenue Priority of Payments

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts from the GIC Account to the Transaction Account (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments described below (taking into account any Available Revenue Receipts standing to the credit of the Transaction Account) and (b) the amount of Available Revenue Receipts.

Prior to service of a Notice to Pay or service of an LLP Acceleration Notice on the LLP, Available Revenue Receipts will be applied by or on behalf of the LLP on each LLP Payment Date (except for amounts due to third parties by the LLP under paragraph (a) or Third Party Amounts, which shall be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction 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, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(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), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) amounts due and payable to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon as provided therein; 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 (iii) above), together with applicable VAT (or other similar taxes) thereon to the extent 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*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of:

(i) taking into account any amounts paid from amounts credited to the Coupon Payment Ledger of the GIC Account or the Stand-by GIC Account as applicable, in respect of any Term Advance with a Covered Bond Swap in place, any amounts due and payable or to become due and payable to the Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (other than in relation to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreements; and

(ii) taking into account any amounts paid from amounts credited to the Coupon Payment Ledger and, in respect of any Term Advance that relates to an Accumulation Series of Covered Bonds, any amount credited to the Interest Accumulation Ledger in respect of that Term Advance, in each case, of the GIC Account or the Stand-by GIC Account as applicable, in respect of any Term Advance without a Covered Bond Swap in place, any amounts due and payable or to become due and payable (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance to the Issuer pursuant to the terms of the Intercompany Loan Agreement; and

(iii) in respect of any Accumulation Series of Covered Bonds, where the amount is not due and payable in respect of any related Term Advance, to, if applicable make a credit to the Interest Accumulation Ledger in respect of that Term Advance in an amount equal to the LLP Monthly Interest Amount;

(e) *fifth*, 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 maintained in respect of that account) until such Servicer Event of Default is either remedied by the Servicer or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);

(f) *sixth*, in or 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;

(g) *seventh*, payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement;

(h) *eighth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, and any indemnity amount due to the Members pursuant to the LLP Deed;

(i) *ninth*, amounts (if any) due and payable to the Back-Up Servicer (including costs) pursuant to the terms of the Back-Up Servicing Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein and not otherwise met by YBS;

(j) *tenth*, in or towards repayment to the Seller of any Cash Capital Contributions made by YBS and deemed as revenue items or otherwise made to credit the Coupon Payment Ledger of the GIC Account or the Stand-by GIC Account, as applicable;

(k) *eleventh*, in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP, to pay all remaining Available Revenue Receipts

(except for an amount equal to the fee payable to the Liquidation Member in accordance with (l) and an amount equal to the profit to be paid to the Members in accordance with (m) below) to the Seller;

(l) *twelfth,* in or towards payment of the fee due to the Liquidation Member; and

(m) *thirteenth,* towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) as their profit for their respective interests as Members in the LLP.

On each Loan Interest Payment Date, any amount standing to the credit of the Interest Accumulation Ledger and (without double counting) any amount credited to the Interest Accumulation Ledger on such Loan Interest Payment Date (if such Loan Interest Payment Date is also an LLP Payment Date) in accordance with (d)(iii) above, shall be applied in paying interest due on the Term Advance in respect of such Accumulation Series of Covered Bonds at item (d)(ii) of the Pre-Acceleration Revenue Priority of Payments to the extent such amounts are due and payable

If a Cash Manager Relevant Event occurs, the LLP will not be required to make a credit to the Interest Accumulation Ledger and it may apply the payments that would otherwise be paid into the relevant Interest Accumulation Ledger in accordance with the Priority of Payments to make a payment to the Coupon Payment Ledger to fund in whole or in part, the amount to be deposited by the Seller pursuant to the LLP Deed.

Any amounts received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap under the Covered Bond Swap Agreements or, as the case may be, in respect of each relevant Term Advance under the Intercompany Loan Agreement unless an Asset Coverage Test Breach Notice has been served and not been revoked or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine.

Any amounts (other than in respect of principal) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable *pro rata* and *pari passu* in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and not been revoked.

Any amounts received under the Interest Rate Swap Agreement and any amounts (other than in respect of principal) received under the Covered Bond Swap Agreements on the LLP Payment Date or on any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (d) or the preceding two paragraphs will be credited to the Revenue Ledger on the LLP Accounts and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

Pursuant to the Intercompany Loan Agreement and the LLP Deed, the Issuer requires the LLP to direct each Covered Bond Swap Provider to pay any amounts due to the LLP under a Covered Bond Swap, the proceeds of which would otherwise be applied by the LLP directly towards payment to the Issuer in satisfaction of amounts outstanding under any relevant Term Advance (in respect of which there is a Covered Bond Swap in place), and the LLP is required to pay any other amounts otherwise to be applied directly towards payment to the Issuer in accordance with Clause (d)(ii) above or Clause (c)(ii) below, directly to the Principal Paying Agent, in each case, unless (i) the Issuer has paid or discharged the corresponding payment under the relevant Series of Covered Bonds (in which case, the relevant amount shall be paid by the LLP to such account of the Issuer as is notified to the LLP by the Issuer for this purpose) or, (ii) (in respect of a Term Advance where there is not a Covered Bond Swap in place) following a Cash Manager Relevant Event and

for so long as a Cash Manager Relevant Event is continuing, the corresponding payment under the relevant Series of Covered Bonds has been paid, at the direction of the LLP from amounts standing to the credit of the Coupon Payment Ledger on the GIC Account or the Stand-by GIC Account, as applicable.

Amounts (if any) standing to the credit of the Transaction Account which are not available to be applied in accordance with paragraphs (a) to (m) of the Pre-Acceleration Revenue Priority of Payments above or paragraphs (i) to (iv) of the Pre-Acceleration Principal Priority of Payments below will be credited to the appropriate ledger in the GIC Account on the LLP Payment Date.

Allocation and Distribution of Principal Receipts prior to service of a Notice to Pay

Prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, 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 (to the extent maintained), in an amount equal to the lower of (a) the amount required to make the payments or credits described below (taking into account any Available Principal Receipts standing to the credit of the Transaction Account) and (b) the amount of all Available Principal Receipts standing to the credit of the GIC Account.

If an LLP Payment Date is the same as an Interest Payment Date, then the distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made scheduled interest and/or principal payments on that Interest Payment Date unless payment is made by the LLP directly to the Bond Trustee (or the Principal Paying Agent at the direction of the Bond Trustee).

Pre-Acceleration Principal Priority of Payments

Prior to service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Principal Receipts (other than Cash Capital Contributions made from time to time by the Seller in its capacity as a Member) 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**):

(i) *first*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test and thereafter to acquire Substitution Assets;

(ii) *second*, to deposit the remaining Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that taking into account the other resources available to the LLP, the LLP is in compliance with the Asset Coverage Test;

(iii) *third*, in or towards repayment on the LLP Payment Date (or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine) of the corresponding Term Advance related to such Series of Covered Bonds by making the following payments:

(a) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers *pro rata* and *pari passu* in respect of each relevant Covered

Bond Swap (including any termination payment (relating solely to principal) due and payable by the LLP under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(b) (where appropriate, after taking into account any amounts in respect of principal receivable from a Covered Bond Swap Provider on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine) the amounts (in respect of principal) due or to become due and payable to the Issuer *pro rata* and *pari passu* in respect of each relevant Term Advance; and

(iv) *fourth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution to YBS (as a Member) by way of distribution of its equity in the LLP in accordance with the LLP Deed.

Unless an Asset Coverage Test Breach Notice has been served and not been revoked, any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), to make payments in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling in the future as the Cash Manager may reasonably determine.

Any amounts of principal received under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (iii) above or the preceding paragraph will be credited, on or before the LLP Payment Date, to the Principal Ledger on the GIC Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice

At any time after service on the LLP of an Asset Coverage Test Breach Notice (which has not been revoked), but prior to service of a Notice to Pay or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments save that, whilst any Covered Bonds remain outstanding, no monies (including for the avoidance of doubt, any monies then standing to the credit of the Interest Accumulation Ledger) will be applied under paragraphs (d)(ii) (unless they are paid directly by the LLP to the Principal Paying Agent), (h) (to the extent only that such amounts are payable to the Members), (j) or (k) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (i), (iii)(b) unless they are paid directly by the LLP to the Principal Paying Agent or (iv) of the Pre-Acceleration Principal Priority of Payments.

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

At any time after service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings in respect of the LLP, all Available Revenue Receipts and Available Principal Receipts (other than Third Party Amounts) will be applied as described below under "*Guarantee Priority of Payments*".

On each LLP Payment Date, the LLP or the Cash Manager on its behalf will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Payment Ledger on the LLP Accounts, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the LLP Accounts.

The LLP will create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) of the *Guarantee Priority of Payments* below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled repayment dates thereof.

Guarantee Priority of Payments

On each LLP Payment Date after the service 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 Available Revenue Receipts and Available Principal Receipts to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

(a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) all amounts due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereon as provided therein;

(ii) all amounts due and payable or to become due and payable to the Security Trustee in the immediately succeeding LLP Payment Period under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon 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 Agents under the provisions of the Agency Agreement together with applicable VAT (or other 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 together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iii) amounts (if any) due and payable to the Account Bank (or, as applicable, the Stand-by Bank Account) (including costs) pursuant to the terms of the Bank Account Agreement (or, as applicable, the Stand-by Bank Account Agreement), together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) amounts due and payable to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT (or similar taxes) thereon as provided therein;

(v) amounts (if any) due and payable to the FSA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon; and

(vi) amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (k) below) pursuant to the terms of the Asset Monitor Agreement, together with applicable VAT (or other similar taxes) thereon as provided therein;

(d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any amounts due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement but excluding any Excluded Swap Termination Amount) 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) taking into account any amounts paid from amounts credited to the Coupon Payment Ledger of the GIC Account or the Stand-by GIC Account as applicable, in respect of any Term Advance with a Covered Bond Swap in place, any amounts due and payable, the amounts due and payable (or to become due and payable in the immediately succeeding LLP Payment Period) to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment (other than in respect of principal) due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Provider)) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(ii) taking into account any amounts paid from amounts credited to the Coupon Payment Ledger and, in respect of any Term Advance that related to an Accumulation Series of Covered Bonds, any amount credited to the Interest Accumulation Ledger in respect of that Series of Covered Bonds, in each case, of the GIC Account or the Stand-by GIC Account as applicable, in respect of any Term Advance without a Covered Bond Swap in place, any amounts due and payable 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; and

(iii) in respect of any Accumulation Series of Covered Bonds, where the amount is not due and payable in respect of any related Series of Covered Bonds, to, if applicable make a credit to the Interest Accumulation Ledger in respect of that Series of Covered Bonds in an amount equal to the LLP Monthly Interest Amount,

but, in the case of any such payment or provision, after taking into account any amounts received or receivable from the Interest Rate Swap Provider in respect of the relevant Interest Rate Swap and, if applicable, any amounts (other than in respect of principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the relevant LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received (or to be received) from the 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 Covered Bond Swap 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 (or to become due and payable in the immediately succeeding LLP Payment Period) to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bond but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount pursuant to the terms of the relevant Covered Bond Swap Agreement; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the relevant LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is Due for Payment in respect of the relevant 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 Covered Bond Swap 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*, in respect of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date (the **Extended Covered Bonds**) and any relevant Covered Bond Swap in respect thereof, on a *pro rata* and *pari passu* basis according to the respective amounts thereof:

(i) the amounts (in respect of principal) due and payable to each relevant Covered Bond Swap Provider (or to become due and payable in the immediately succeeding LLP Payment Period) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but, for the avoidance of doubt, excluding any Excluded Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreements; and

(ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* the Final Redemption Amount or the relevant proportion thereof under the relevant Covered Bond Guarantee in respect of each relevant Series of Extended Covered Bonds,

but, in the case of any such payment, after taking into account any amounts (in respect of principal) received or receivable from the relevant Covered Bond Swap Provider in respect of the Covered Bond Swap corresponding to the Extended Covered Bonds on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (g) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final Redemption Amount in respect of each relevant Series of Covered Bonds under sub-paragraph (g)(ii) above, the shortfall shall be divided amongst all such Series of Extended Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (g)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(h) *eighth*, 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 (g) (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);

(i) *ninth*, 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;

(j) *tenth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds), any remaining monies will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;

(k) *eleventh*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and

(l) *twelfth*, thereafter any remaining monies will be applied in accordance with the LLP Deed.

On each Interest Payment Date, any amount standing to the credit of the Interest Accumulation Ledger and (without double counting) any amount credited to the Interest Accumulation Ledger on such Interest Payment Date (if such Interest Payment Date is also an LLP Payment Date) in accordance with (e)(iii) above in respect of an Accumulation Series of Covered Bonds, shall be applied in paying Scheduled Interest that is Due for Payment in respect of such Accumulation Series of Covered Bonds in accordance with item (e)(ii) of the Guarantee Priority of Payments.

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

If the LLP receives any termination payment from a Swap Provider in respect of a Swap Agreement, such termination payment will first be used, to the extent necessary (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Swap Provider(s) to enter into a

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

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

Application of monies received by the Security Trustee following the occurrence of an LLP Event of Default and enforcement of the Security, realisation of the Security and/or the commencement of winding-up proceedings against the LLP

Under the terms of the Deed of Charge, all monies received or recovered by the Security Trustee (or a Receiver appointed on its behalf) (excluding all amounts due or to become due in respect of any Third Party Amounts) following the enforcement of the Security, 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 and applicable VAT (or other 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 and applicable VAT (or other similar taxes) thereon to the extent provided therein;

(ii) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iii) amounts in respect of:

(A) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(B) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(C) amounts due 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, together with applicable VAT (or other similar taxes) thereon to the extent provided therein; and

(D) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar taxes) thereon to the extent provided therein;

(iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment (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)) in accordance with the terms of the relevant Covered Bond Swap Agreement; and

(B) under the Covered Bond Guarantee, to the Bond Trustee on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (a)(v)(B) (excluding any amounts received from any Covered Bond Swap Provider in respect of amounts referred to in (A) above would be insufficient to pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under (B) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bonds under (A) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

(b) *second,* in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the LLP to the relevant Swap Provider under the relevant Swap Agreement;

(c) *third*, after the Covered Bonds have been fully repaid, any remaining monies 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 monies shall be applied in or towards payment to the Members pursuant to the LLP Deed.

Since 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 an administrator, administrative receiver, a receiver, liquidator, provisional liquidator or manager of the LLP in relation to:

(i) persons providing services for the benefit of Covered Bondholders (which pursuant to the RCB Regulations shall 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),

will be expenses which will be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding-up or provisional liquidation), and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further, *Risk Factors – Expenses of Insolvency officeholders*.

THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**) consists (or will consist) of Loans and their Related Security sold by the Seller to the LLP from time to time in accordance with the terms of the Mortgage Sale Agreement, as more fully described under "*Summary of the Principal Documents – Mortgage Sale Agreement*".

For the purposes hereof:

Initial Portfolio means the portfolio of Loans and their Related Security, particulars of which will be delivered on the First Transfer Date pursuant to the Mortgage Sale Agreement (other than any Loans and their Related Security which have been redeemed in full prior to the First Transfer Date or which did not otherwise comply with the terms of the original Mortgage Sale Agreement as at the First Transfer Date), and all right, title, interest and benefit of the Seller in and to:

(a) all payments of principal and interest (including, for the avoidance of doubt, all Accrued Interest, Arrears of Interest, Capitalised Interest, Capitalised Expenses and Capitalised Arrears) and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal monies, interest and costs and the right to sue on all covenants and any undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Conditions;

(b) subject where applicable to the subsisting rights of redemption of Borrowers, all Deeds of Consent, Deeds of Postponement, MH/CP Documentation or any collateral security for the repayment of the relevant Loans;

(c) the right to exercise all the powers of the Seller in relation thereto;

(d) all the estate and interest in the Properties vested in the Seller; and

(e) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof.

New Portfolio means in each case the portfolio of New Loans and their Related Security (other than any New Loans and their Related Security which have been redeemed in full prior to the Transfer Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the Transfer Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (e) above in relation to such New Loans and their Related Security.

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

DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

The Regulated Covered Bonds Regulations 2008 (SI 2008/346), as amended from time to time (the **RCB Regulations**) and the corresponding implementation provisions, set out in the Regulated Covered Bonds Sourcebook published under the FSMA (the **RCB Sourcebook**), came into force in the United Kingdom 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 52(4) of EU Directive 2009/65/EC on undertakings for collective investment in transferable securities (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.

Supervision and registration

The FCA performs certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FCA has certain powers under the RCB Regulations. In particular, in certain circumstances the FCA 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 and direct an issuer to publish information given to the FCA under the RCB Regulations. Moreover, as a body which regulates the financial services industry in the United Kingdom, the FCA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

The Issuer was admitted to the register of issuers and the Programme was admitted to the register of regulated covered bonds under the RCB Regulations on 11 November 2008.

Requirements under the legislative framework

The RCB Regulations and the RCB Sourcebook include various requirements related to registered 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 FCA 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 FCA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above).

The UK authorities undertook reviews of the UK legislative framework in 2011 and 2012 and certain changes were made to the regime with the intention of enhancing the attractiveness of UK regulated covered bonds to investors. These changes took effect from 1 January 2013 and include the following:

- *Single asset pool designation* – issuers are required to designate their programme as being a single asset pool (consisting of either class one assets – public sector debt, class two assets – residential mortgage loans or class three assets – commercial loans and, in each case, liquid assets) or a mixed asset pool (consisting of all eligible property for the purposes of the RCB Regulations). The Issuer has provided the necessary certifications for the Programme to be registered as a single asset pool programme, falling in class two. As a result, the asset pool will consist solely of residential mortgage loans and certain liquid assets, being UK government securities and cash deposits, all of which comply with paragraph 68(a) or (b) of Annex VI to the Banking Consolidation Directive

(2006/48/EC). In keeping with the new requirements under the RCB Regulations, the asset pool will not include any asset-backed securities.

- *Fixed minimum over-collateralisation requirement for principal and fixed minimum coverage requirement for interest* – under the new requirements, the total principal amount outstanding on the loans constituting eligible property in the asset pool is required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8 per cent. and a minimum threshold applies in respect of interest amounts such that the total amount of interest payable in the period of twelve (12) months following any given date in respect of the eligible property in the asset pool is required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period. For the purposes of calculating each of these tests, the issuer can take into account certain liquid assets up to a maximum of 8 per cent. of those covered bonds that have a maturity date of one year or more and 100 per cent. of those covered bonds that have a maturity date of less than one year.

- *Investor reporting, including loan-level data* – new investor reporting requirements apply. In particular, issuers are required to make available detailed loan-level information relating to the asset pool following an issuance of regulated covered bonds after 1 January 2013. Issuers are also required to publish certain transaction documents relating to the programme. The information to be published by the Issuer can be found at www.ybs.co.uk. The information set out in the website and the contents thereof do not form part of this Prospectus.

- *Asset pool monitor role* – new requirements have been introduced to formalise the role of the asset pool monitor. Under the new provisions, an asset pool monitor is required, on an annual basis, to inspect and assess the issuer's compliance with certain principles based requirements under the regime and to report on their findings to the FCA (with additional reporting requirements in the case of issuer non-compliance). Each issuer is required to appoint an asset pool monitor in advance of their annual confirmation of such compliance falling on or after 1 January 2013. Deloitte LLP was appointed as asset pool monitor on 14 August 2013.

See also "*Risk Factors – UK regulated covered bond regime*" and "*Risk Factors – Expenses of insolvency officeholders*".

DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland (but not Northern Ireland) under the Limited Liability Partnership Act 2000 (the **LLPA 2000**). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

Corporate characteristics

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 2006 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2009 and the Limited Liability Partnerships Regulations 2001 (each as amended from time to time) so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

Partnership characteristics

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

Taxation

A limited liability partnership which carries on a trade or business with a view to profit (and which is not the subject of certain insolvency proceedings) is, generally speaking, treated as a partnership for corporation tax purposes. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are subject to tax in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are subject to tax in relation to the business of that partnership.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (the **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. This eliminates 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Direct amd Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's

records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participant and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

DTC may discontinue providing its services as depository with respect to the DTC Covered Bonds at any time by giving reasonable notice to the Issuer or the Principal Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Covered Bonds certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Covered Bonds certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

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 Participant 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 summary of the Issuer's understanding of current United Kingdom law and published HMRC relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) by the Issuer in respect of the Covered Bonds and payments by the LLP in respect of the Covered Bonds. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Covered Bonds. The UK tax treatment of prospective holders of Covered Bonds depends on their individual circumstances and may be subject to change in the future.

Prospective holders of Covered Bonds who may be liable to taxation in jurisdictions other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payment of interest by the Issuer on the Covered Bonds

Payments of interest on the Covered Bonds may be made without withholding or deduction for or on account of United Kingdom income tax provided that the Covered Bonds are and continue to be listed on a "recognised stock exchange" within the meaning of Section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for this purpose and securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Covered Bonds are and remain so listed on a "recognised stock exchange", interest on the Covered Bonds will be payable by the Issuer without withholding or deduction for or on account of United Kingdom income tax.

In other cases, if the Covered Bonds are capable of being listed on a "recognised stock exchange" at the time the interest on the Covered Bonds becomes payable an amount must generally be withheld from such payments on account of United Kingdom income tax at the basic rate (currently 20%), subject to the availability of other exemptions and reliefs. 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 a holder of Covered Bonds, HMRC can issue a notice to the Issuer to pay interest to the holder of the Covered Bonds without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Payments by the LLP

The United Kingdom withholding tax treatment of payments by the LLP under the terms of the Covered Bond Guarantee which have a United Kingdom source is uncertain. In particular, such payments by the LLP may not be eligible for the exemptions described above in relation to payments of interest. Accordingly, if the LLP makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate. 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.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as **FATCA**, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign

financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Covered Bonds, proposed regulations have been issued that provide that such withholding would not apply to foreign passthru payments prior to the date that is two years after the date on which final regulations definiting foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Covered Bonds (as described under "*Terms and Conditions of the Covered Bonds – Further Issues*") that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a Programme Agreement (as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 1 November 2006 (as amended, supplemented and restated on 25 April 2008 and as amended on 23 July 2010 pursuant to the Global Deed of Amendment) and as further amended and restated on 28 June 2017 and on 28 June 2018, agreed with the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under "*Form of the Covered Bonds and Terms and Conditions of the Covered Bonds*" above. The Issuer may pay the Dealers commission from time to time in connection with the sale of any Covered Bonds and, in the Programme Agreement, the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

Transfer Restrictions

As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A, (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;

(ii) that the Covered Bonds are being offered and sold in a transaction not involving an 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 the securities laws of any state of the United States or other territory and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iii) it agrees that neither the Issuer nor the Guarantor has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;

(iv) 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 one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(v) 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;

(vi) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, that Covered Bonds offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Covered Bonds and that Covered Bonds offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;

(vii) that the Covered Bonds, other than the Regulation S Global Covered Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A **QUALIFIED INSTITUTIONAL BUYER** (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN **INSTITUTIONAL ACCREDITED INVESTOR** (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN **INSTITUTIONAL ACCREDITED INVESTOR**); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND

BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISION OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.";

(viii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE COVERED BONDS OF THE TRANCHE OF WHICH THIS COVERED BOND FORMS PART, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OR REGULATION S UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; and

(ix) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Covered Bonds in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Covered Bonds will be issued in definitive registered form, see *Form of the Covered Bonds*.

The IAI Investment Letter will state, among other things, the following:

(i) that the Institutional Accredited Investor has received a copy of the Prospectus and such other information as it deems necessary in order to make its investment decision;

(ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Covered Bonds is subject to certain restrictions and conditions set forth in the Prospectus and the Covered

Bonds (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Covered Bonds except in compliance with such restrictions and conditions and the Securities Act;

(iii) that, in the normal course of its business, the Institutional Accredited investor invests in or purchases securities similar to the Covered Bonds;

(iv) that the Institutional Accredited Investor is an institution that is an accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Covered Bonds, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(v) that the Institutional Accredited Investor is acquiring the Covered Bonds purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Covered Bonds, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(vi) that, in the event that the Institutional Accredited Investor purchases Covered Bonds, it will acquire Covered Bonds having a minimum purchase price of at least U.S.$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Covered Bonds in the United States to any one purchaser will be for less than U.S.$100,000 (or the approximate equivalent in another Specified Currency) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or the approximate equivalent in another Specified Currency) principal amount and no Legended Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$250,000 (or the approximate equivalent in another Specified Currency) or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.$250,000 (or the approximate equivalent in another Specified Currency.)

Selling Restrictions

United States

Regulation S, Category 2, TEFRA D Rules apply, unless TEFRA C Rules are specified as applicable in the applicable Final Terms or unless TEFRA Rules are not applicable. Sales to QIBs in reliance upon Rule 144A under the United States Securities Act of 1933, as amended (the **Securities Act**) or sales to Institutional Accredited Investors who agree to purchase for their own account and not with a view to distribution will be permitted, if so specified in the applicable Final Terms.

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of

the Securities Act and any applicable local, state or federal securities laws. 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 and the U.S. Treasury regulations promulgated thereunder.

In connection with any Covered Bonds which are offered or sold outside the United States in reliance on Regulation S (**Regulation S Covered Bonds**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulations S Covered Bonds (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.$100,000 (or the approximate equivalent in another Specified Currency). To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" within the meaning of the Securities Act, each of the Issuer and the LLP has undertaken in the Trust Deed to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Covered Bonds remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and each of the Issuer and the LLP is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the LLP; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-*ter*, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or

(ii) in other circumstances which are exempted from the rules public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of the Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (i) or (ii) above must:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and

(b) comply with any other applicable laws and regulations or requirement imposed by Commissione Nazionale per le Società e la Borsa (**CONSOB**), the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy (as amended from time to time) and/or any other Italian authority.

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Covered Bonds specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression **retail investor** means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or

  (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the **Prospectus Directive**); and

(b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

If the Final Terms in respect of any Covered Bonds specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has

implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) 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 (a) to (c) 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:

(a) the expression an **offer of Covered Bonds to the public** in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and

(b) the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

The Netherlands

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that any Covered Bonds will only be offered in The Netherlands to Qualified Investors (as defined in the Prospectus Directive), unless such offer is made in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

Germany

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it shall only offer or sell Covered Bonds in the Federal Republic of Germany in compliance with the provisions of the German Securities Prospectus Act (*Wertpapier-prospektgesetz*) of 22 June 2005, or any other laws applicable in the Federal Republic of Germany governing the offer and sale of securities. The Dealer has also agreed, and each further Dealer appointed under the Programme will be required to agree that it shall not offer or sell the Covered Bonds in the Federal Republic in Germany in a manner which could result in the Issuer being subject to any licence requirement under the German Banking Act (*Kreditwesengesetz*).

Republic of France

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has only offered and will only make an offer of Covered Bonds to the public in France in the period beginning on the date of publication of the Final Terms relating to these Covered Bonds and ending at the latest on the date which is 12 months after the date of the visa of the *Autorité des marchés financiers* (**AMF**) Prospectus, all in accordance with Articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF; or

(ii) it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2, D.411-1 and D.411-3 of the French Code *monétaire et financier*.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee nor any of the other Dealers shall have any responsibility therefor. Furthermore, they will not directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other additional or modified restrictions (if any) as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer or sell Covered Bonds a copy of the Prospectus as then amended or supplemented or, unless delivery of the Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The Dealers are not authorised to give any information or to make any representation not contained in the Prospectus in connection with the offer and sale of Covered Bonds to which the Prospectus relates.

This Prospectus may be used by the Dealers for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the Dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the Dealers has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The Dealers are participating in the initial distribution of the Covered Bonds.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by resolutions of the board of directors of the Issuer dated 27 September 2006 and a committee appointed by the board of directors of YBS dated 24 October 2006. The giving of the Covered Bond Guarantee has been duly authorised by a resolution of a committee appointed by the board of directors of YBS in YBS's capacity as Member of the LLP dated 24 October 2006.

The update of the Programme has been duly authorised by:

(a) a written resolution of the management committee of the board of directors of the Issuer dated 9 July 2019; and

(b) a resolution of the management board of the LLP dated 10 July 2019.

Listing of Covered Bonds

The admission of Covered Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the regulated market of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond, a Rule 144A Global Covered Bond or a Definitive IAI Registered Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds is expected to be granted on or about 17 July 2019.

Documents Available

So long as Covered Bonds are capable of being issued under this Prospectus, copies of the following documents will, when published, be available to the Covered Bondholders during usual business hours and upon reasonable notice on any weekday (Saturdays, Sundays and public holidays excepted) from the principal office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(i) the constitutive documents of the LLP and the Issuer;

(ii) the consolidated audited financial statements of the Issuer in respect of the financial periods ended 31 December 2018 and 31 December 2017. The Issuer currently prepares audited accounts on an annual basis;

(iii) the most recently published audited annual financial statements of the Issuer and the LLP and the most recently published consolidated unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis. The LLP will prepare unaudited non-consolidated accounts on an annual basis;

(iv) the forms of the Global Covered Bonds, the Definitive Covered Bonds, the Coupons and the Talons;

(v) a copy of this Prospectus;

(vi) any future prospectuses, information memoranda and supplements including Final Terms to this Prospectus and any other documents incorporated herein or therein by reference;

(vii) the Global Deed of Amendment; and

(viii) each Transaction Document (noting that the Scottish Declaration of Trust will be redacted to remove scheduled data).

In addition, copies of this Prospectus, any documents incorporated by reference and each Final Terms relating to the Covered Bonds issued pursuant to this Prospectus will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

Clearing Systems

The Bearer Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Covered Bonds, together with the relevant ISIN and Common Code, will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

Yield

In relation to any Series or Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the Group since 31 December 2018 being the date of the last audited consolidated financial statements of the Group or of the LLP since 31 December 2018 being the date of the last audited non-consolidated annual accounts of the LLP. There has been no material adverse change in the financial position or the prospects of the Issuer or the Group since 31 December 2018 being the date of the last published audited consolidated financial statements or of the LLP since 31 December 2018 being the date of the last audited non-consolidated annual accounts of the LLP.

Litigation

There have not been and there are no governmental, legal or arbitration proceedings in relation to the Issuer, its consolidated subsidiaries or the LLP which may have or have had in the 12 months prior to the date hereof, a significant effect on the financial position or profitability of the Group or the Issuer or the LLP nor, so far as the Issuer or the LLP is aware, are any such proceedings pending or threatened.

Auditors

The auditor of the Issuer and the LLP for the financial year ended on 31 December 2018 was Deloitte LLP, registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales, who have audited the Issuer's and the LLP's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom. The LLP has prepared financial statements for the years ended on 31 December 2017 and 31 December 2018.

From 30 April 2019, the auditor of the Issuer and the LLP is PricewaterhouseCoopers LLP, registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales,

who will audit the Issuer's and the LLP's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom.

Legal Entity Identifier

The Legal Entity Identifier (LEI) of the Issuer is WXD0EHQRPI7HKN3I5T57.

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. However, the Bond Trustee will have no recourse to the auditors in respect of such reports unless the auditors have agreed to address such certificates or reports to the Bond Trustee.

The Issuer provides monthly Investor Reports detailing compliance with the Asset Coverage Test and information relating to the characteristics of the Portfolio. Investor Reports shall be posted on the Issuer's website at www.ybs.co.uk. Copies of the applicable Final Terms for each series are available to Covered Bondholders during normal business hours at the registered office of the Issuer and at the specified office of each of the Paying Agents.

In addition, the Issuer is required, pursuant to the terms of the RCB Regulations, to provide loan level information relating to the Loans in the Asset Pool and to display the Transaction Documents related to the Programme. The loan level information and the Transaction Documents shall be posted on www.ybs.co.uk. Please note that websites and URLs referred to herein do not form part of this Prospectus.

Contracts

There are no material contracts having been entered into outside the ordinary course of Issuer's business, and which could result in any member of the Group being under an obligation or entitlement that is material to our ability to meet our obligation to Covered Bondholders in respect of the Covered Bonds being issued.

GLOSSARY

30/360, **360/360**, or **Bond Basis**	The meaning given in Condition 4(b)(iv)(E) on page 115;
30E/360 (ISDA)	The meaning given in Condition 4(b)(iv)(G) on page 116;
30E/360 or **Eurobond Basis**	The meaning given in Condition 4(b)(iv)(F) on page 116;
1999 Regulations	The Unfair Terms in Consumer Contracts Regulations 1999, as amended;
€ or **euro**	The lawful currency for the time being of the member states of the European Union that have adopted or may adopt the single currency in accordance with the treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the treaty on European Union;
£ and **Sterling**	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;
$ and **U.S. Dollars**	The lawful currency for the time being of the United States of America;
¥, **Yen** and **JPY**	The lawful currency for the time being of Japan;
Account Bank	YBS;
Accrual Period	The relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date;
Accrued Interest	In respect of a Loan as at any date the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Date immediately preceding the relevant date to (but excluding) the relevant date;
Actual/Actual or **Actual/Actual (ICMA)**	The meaning given in Condition 4(a) on page 98;
Actual/Actual or **Actual/Actual (ISDA)**	The meaning given in Condition 4(a) on page 103;
Actual/360	The meaning given in Condition 4(b)(iv)(D) on page 115;
Actual/365 (Fixed)	The meaning given in Condition 4(b)(iv)(B) on page 115;
Actual/365 (Sterling)	The meaning given in Condition 4(b)(iv)(C) on page 115;
Accumulation Series of Covered Bonds	The meaning given on page 15;
Additional Loan Advance	A further drawing (including, but not limited to, Further Advances) in respect of Loans sold by the Seller to the

	LLP;
Adjusted Aggregate Loan Amount	The meaning given in "*Summary of the Principal Documents*" on page 176;
Adjusted Required Redemption Amount	The Sterling Equivalent of the Required Redemption Amount, plus or minus the Sterling Equivalent of any swap termination amounts payable under the Covered Bond Swap Agreement to or by the LLP in respect of the relevant Series of Covered Bonds less (where applicable) amounts standing to the credit of the LLP Accounts and the Sterling Equivalent of the principal balance of any Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds) plus or minus any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement;
Agency Agreement	The agency agreement dated the Initial Programme Date as amended on 23 July 2010 and as amended and restated on 23 August 2010, 17 May 2013, 30 May 2014, and 21 June 2017 and 5 November 2018 (as amended and/or supplemented and/or restated from time to time) and made between the Issuer, the LLP, the Bond Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agents;
Agent	Each of the Paying Agents, the Registrar, the Exchange Agent and the Transfer Agent;
Amortisation Test	The test as to whether the Amortisation Test Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
Amortisation Test Aggregate Loan Amount	The meaning given in "*Summary of the Principal Documents*" on page 180;
Amortisation Test True Balance	The meaning given in "*Summary of the Principal Documents*" on page 180;
Amortised Face Amount	The meaning given in "*Terms and Conditions of Covered Bonds*" on page 127;
Applicable Final Terms	The meaning given on page 87;
Arrangers	Barclays Bank PLC and HSBC Bank plc;
Arrears Adjusted True Balance	The meaning given in "*Summary of the Principal Documents*" on page 177;

Arrears of Interest	As at any date in respect of any Loan, interest (other than Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date;
Asset Coverage Test	The test as to whether the Adjusted Aggregate Loan Amount is at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;
Asset Coverage Test Breach Notice	The notice required to be served by the Bond Trustee if the Asset Coverage Test has not been met on two consecutive Calculation Dates;
Asset Monitor	A reputable institution appointed as such under the Asset Monitor Agreement;
Asset Monitor Agreement	The asset monitor agreement entered into on the Initial Programme Date as amended on 23 July 2010 (as amended and/or supplemented and/or restated from time to time) between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee;
Asset Monitor Report	The results of the tests conducted by the Asset Monitor in accordance with the Asset Monitor Agreement to be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee;
Asset Percentage	The meaning given in "*Summary of the Principal Documents*" on page 178;
Asset Pool	All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts (apart from the Swap Collateral Accounts) and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) (*Asset Pool*) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations;
Attributed Moody's Asset Percentage	The percentage figure as set out in each Investor Report which notwithstanding the percentage figure that may be selected by the LLP or the Cash Manager on its behalf from time to time and notified to the Security Trustee and Moody's, is the percentage as at each Calculation Date, being the difference between 100 per cent. and the amount of credit enhancement required to support the then current ratings of the Covered Bonds under Moody's expected loss methodology;
Authorised Investments	Sterling gilt-edged securities and Sterling demand or time deposits provided that in all cases such investments have a

remaining maturity date of 30 days or less and mature on or before the next following LLP Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1 by Moody's and F1 by Fitch or their equivalents by two other internationally recognised rating agencies, provided that such Authorised Investments comply with the requirements of Regulation 2(1A) of the RCB Regulations;

Authorised Underpayment

A Borrower making either no Monthly Payment under a Loan or a payment in an amount less than the Monthly Payment then due on the Loan, in each case, where the Seller has authorised such underpayment or non-payment;

Available Principal Receipts

On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

(a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the LLP Accounts (but, for the avoidance of doubt, excluding any Principal Receipts received in the Calculation Period beginning in the month in which the relevant Calculation Date falls);

(b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Portfolios or invest in Substitution Assets), (ii) any Cash Capital Contributions received from a Member and (iii) the proceeds from any sale of Selected Loans pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement but excluding any amount of principal received under the Covered Bond Swap Agreements; and

(c) any Excess Proceeds;

Available Revenue Receipts

On a relevant Calculation Date, an amount equal to the aggregate of:

(a) the amount of Revenue Receipts received during the previous Calculation Period and credited to the Revenue Ledger on the LLP Accounts;

(b) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and Authorised Investments in the previous Calculation Period but excluding amounts received by the LLP under the Interest

Rate Swap Agreement and in respect of interest received by the LLP under each Covered Bond Swap Agreement;

(c) prior to the service of a Notice to Pay amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;

(d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the LLP Accounts; and

(e) following the service on the LLP of a Notice to Pay, amounts standing to the credit of the Reserve Fund;

(f) amounts standing to the credit of the Coupon Payment Ledger in excess of the Required Coupon Amount for (i) each Interest Payment Date for those Series of Covered Bonds that do not have a Covered Bond Swap in place and are not an Accumulation Series of Covered Bonds, or (ii) each party B payment date in respect of those Series of Covered Bonds that have a Covered Bond Swap in place and or (iii) each LLP Payment Date for an Accumulation Series of Covered Bonds immediately succeeding such Calculation Date less, in the case of an Accumulation Series of Covered Bonds, any amount to be paid into the Interest Accumulation Ledger to ensure that the amount credited thereto is equal to the aggregate of all LLP Monthly Interest Amounts that should have been credited for the relevant Interest Period;

less

(g) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller;

and excluding (for the avoidance of doubt) amounts standing to the credit of the Coupon Payment Ledger and the Interest Accumulation Ledger;

Back-Up Cash Manager Any entity appointed as back-up cash manager under a Back-up Cash Management Agreement;

Back-Up Cash Management Agreement Any Agreement of the same name under which the LLP appoints a Back-Up Cash Manager;

Back-Up Servicer: Any entity appointed as back-up servicer under a Back-up Servicing Agreement;

Back-Up Servicing Agreement:	Any Agreement of the same name under which the LLP appoints a Back-up Servicer;
Banking Act	The Banking Act 2009;
Bank Account Agreement	The bank account agreement entered into on the Initial Programme Date as amended and restated on 25 April 2008, 26 June 2009 and as further amended on 23 July 2010 (and as further amended and/or supplemented and/or restated from time to time) between the LLP, the Account Bank, the Cash Manager and the Security Trustee;
Bearer Covered Bonds	Covered Bonds in bearer form;
Bearer Definitive Covered Bonds	A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated Issues) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bonds in bearer form) having Coupons and, where appropriate, Talons attached thereto on issue;
Bearer Global Covered Bond	The meaning given on page 87;
Beneficial Owner	Each actual purchaser of each DTC Covered Bond;
Block Insurance Policy	The block insurance policies written by either Royal & Sun Alliance Insurance Group plc or by Legal and General Insurance Limited in favour of the Seller and any endorsements or extensions thereto as issued from time to time, or any such similar alternative or replacement block insurance policy or policies as may be effected from time to time to cover the Seller and the LLP in respect of Loans and their Related Security;
Bond Trustee	HSBC Trustee (C.I.) Limited, in its capacity as bond trustee under the Trust Deed together with any successor

	bond trustee appointed from time to time;
Borrower	In relation to a Loan, the individual or individuals specified as such in the relevant Mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it;
Buildings Insurance Policies	All buildings insurance policies relating to Properties taken out (a) in the name of the relevant Borrower, and (b) in the name of the landlord in the case of leasehold properties or commonhold properties where the relevant landlord is responsible for insuring the Property;
Buildings Societies Act	Buildings Societies Act 1986, as amended;
Business Day	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 110;
Calculation Agent	In relation to all or any Series of the Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor or separately appointed calculation agent in relation to all or any Series of the Covered Bonds;
Calculation Date	The 12th day of each month (or, if that day is not a Business Day, then the immediately preceding Business Day). The first Calculation Date was on 12 December 2006;
Calculation Period	The period from, and including, the first day of each month to, and including, the last day of each month;
Capital Account Ledger	The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time;
Capital Balance	For a Loan at any date the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues;
Capital Contribution	In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed;
Capital Contribution Balance	The balance of each Member's Capital Contributions as recorded from time to time in the relevant Member's Capital Account Ledger;
Capital Contribution in Kind	A contribution of Loans and their Related Security to the

	LLP in an amount equal to (a) the aggregate of the True Balance of those Loans as at the relevant Transfer Date minus (b) any cash payment paid by the LLP for such Loans and their Related Security on that Transfer Date;
Capital Distribution	Any return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration);
Capitalised Arrears	For any Loan at any date, interest or other amounts which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower;
Capitalised Expenses	In relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding, however, any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the relevant Mortgage Conditions;
Capitalised Interest	For any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that date);
Cash Capital Contributions	A Capital Contribution made in cash;
Cash Management Agreement	The cash management agreement entered into on the Initial Programme Date as amended and restated on 25 April 2008 and 26 June 2009 (and as further amended, amended and restated and/or supplemented and/or restated from time to time) between the LLP, YBS in its capacity as the Cash Manager and the Security Trustee;
Cash Manager	YBS, in its capacity as cash manager under the Cash Management Agreement together with any successor cash manager appointed from time to time;
Cash Manager Relevant Event	If the Cash Manager's long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's falls below Baa1;
CB Collection Account	An account to be opened in the name of YBS with National Westminster Bank plc or such other entity where the Seller has its principal collection account within 30 calendar days of the short-term, unsecured, unguaranteed and unsubordinated debt obligation ratings of the Seller falling below P-2 by Moody's or F2 by Fitch;

CCA	Consumer Credit Act 1974, as amended;
CCA 2006	Consumer Credit Act 2006, as may be amended from time to time;
Certificate of Title	A solicitor's, licensed conveyancer's or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the relevant originator or the Seller in respect of each Property substantially in the form of the pro forma set out in the Standard Documentation;
Charged Property	The property charged by the LLP pursuant to the Deed of Charge;
CGCB	The meaning given on page 107;
Chelsea Loans	Those Loans originated or acquired by the Chelsea Building Society prior to its merger with the YBS;
Clearing Systems	DTC, Euroclear and/or Clearstream, Luxembourg;
Clearstream, Luxembourg	Clearstream Banking S.A.;
CMA	Competition and Markets Authority;
CML	Council of Mortgage Lenders;
Common Depositary	The common depositary for Euroclear and Clearstream, Luxembourg;
Conditions	Terms and conditions of the Covered Bonds;
Consent Agreement	An agreement whereby a person in or intended to be in occupation of a Property agrees with the Seller to postpone his or her interest (if any) in the Property so that it ranks after the interest created in the relevant Mortgage;
Consumer Credit Directive	The meaning given on page 71;
Corporate Services Agreement	The corporate services agreement entered into by each of the Liquidation Member and Holdings, with the Corporate Services Provider and the LLP dated the Initial Programme Date;
Corporate Services Provider	Wilmington Trust SP Services (London) Limited, a company incorporated in England and Wales in its capacity as corporate services provider to Holdings and to the Liquidation Member under a Corporate Services Agreement, together with any successor corporate services provider appointed from time to time;
Couponholders	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons);

Coupons	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 101;
Coupon Payment Ledger	The ledger maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Required Coupon Amounts and any debiting of the same;
Covered Bond	Each covered bond issued or to be issued pursuant to the Programme Agreement and/or under the Conditions and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements or a Covered Bond issued pursuant to Condition 10;
Covered Bondholders	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 102;
Covered Bond Guarantee	An unconditional and irrevocable guarantee by the LLP in the Trust Deed for the payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment;
Covered Bond Swap	Swap transactions governed by the Covered Bond Swap Agreements;
Covered Bond Swap Agreement	Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee governing Covered Bond Swaps entered into with such Covered Bond Swap Provider in the form of an ISDA Master Agreement, including a schedule and confirmations in relation to each such Covered Bond Swap;
Covered Bond Swap Early Termination Event	The meaning given in "*Summary of the Principal Documents*" on page 188;
Covered Bond Swap Provider	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement;
Covered Bond Swap Rate	In relation to a Covered Bond or Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap Agreement relating to such Covered Bond or Series of Covered Bonds or, if the Covered Bond Swap Agreement has terminated, the applicable spot rate;
Custodian	Any custodian with whom the relevant Registered Global Covered Bonds have been deposited;
Day Count Fraction	In the case of a Fixed Rate Covered Bond, the meaning given in Condition 4(a) in "*Terms and Conditions of the Covered Bonds*" on page 100 and in the case of a Floating Rate Covered Bond, the meaning given in Condition 4(b)

	in "*Terms and Conditions of the Covered Bonds*" on page 115;
Dealer	Each of HSBC Bank plc and Barclays Bank PLC and any other dealers appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds;
Deed of Charge	The deed of charge dated the Initial Programme Date as amended and restated on 25 April 2008 (and as further amended, amended and restated and/or supplemented and/or restated from time to time) and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors;
Deed of Postponement	A deed or agreement whereby a mortgagee of or the heritable creditor in relation to a Property agrees with the Seller to postpone its mortgage or standard security (as appropriate) over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;
Defaulted Loan	Any Loan in the Portfolio which is more than three months in arrears;
Defaulted Loans Notice	A notice from the Cash Manager to the Seller identifying any Defaulted Loan;
Deferred Consideration	The consideration payable to a Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priorities of Payments;
Definitive Covered Bond	A Bearer Definitive Covered Bond and/or, as the context may require, a Registered Definitive Covered Bond;
Definitive IAI Registered Covered Bonds	The meaning given in "*Form of Covered Bonds*" on page 89;
Definitive Regulation S Covered Bond	A Registered Covered Bond in definitive form sold to non-U.S. persons outside the United States in reliance on Regulation S;
Definitive Rule 144A Covered Bond	A Registered Covered Bond in definitive form sold to QIBs pursuant to Rule 144A;
Dematerialised Loan	A Loan completed on or after 1 January 2004 over a Property located in England or Wales in respect of which the Seller does not retain the Title Deeds;

Deposit Set Off Amount	For each Borrower whose Loan is included in the Portfolio, the lesser of (a) 100 per cent of the aggregate balance of each savings account held at the Seller by such Borrower (whether such savings account is a joint account or not and whether such other joint savings account holder is a Borrower under a Loan in the Portfolio or not and to avoid double counting, such savings balance shall only be included in the calculation once), and (b) the aggregate True Balance of such Borrower's Loan which is included in the Portfolio, in each case as calculated on any day after the last day of the immediately preceding Calculation Period but prior to the Calculation Date;
Designated Account	The meaning given in Condition 5(d) in "*Terms and Conditions of the Covered Bonds*" on page 98;
Designated Bank	The meaning given in Condition 5(d) in "*Terms and Conditions of the Covered Bonds*" on page 98;
Designated Maturity	The meaning given in the ISDA Definitions;
Designated Member	Each Member appointed and registered as such from time to time having those duties and obligations set out in sections 8 and 9 of the LLPA 2000 being, as at the Programme Date, YBS and the Liquidation Member;
Determination Date	The meaning given in the applicable Final Terms;
Determination Period	The meaning given in Condition 4(a) in "*Terms and Conditions of the Covered Bonds*" on page 109;
Direct Debiting Scheme	The scheme for the manual or automated debiting of bank accounts operated in accordance with the detailed rules of certain members of the Association for Payment Clearing Services;
Direct Participants	The meaning given in "*Book-Entry Clearance Systems*" on page 213;
Directors	The Board of Directors for the time being of the Issuer;
Distribution Compliance Period	The period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);
DTC	The Depository Trust Company;
DTC Covered Bonds	Covered Bonds accepted into DTC's book-entry settlement system;
DTCC	The meaning given on page 213;

Due for Payment

The requirement by the LLP to pay any Guaranteed Amounts following the delivery of a Notice to Pay on the LLP, prior to the occurrence of an LLP Event of Default, on:

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

(b) in relation to any Guaranteed Amounts in respect of the Final Redemption Amount payable on the Final Maturity Date for a Series of Covered Bonds only, the Extended Due for Payment Date, but only (i) if in respect of the relevant Series of Covered Bonds the Covered Bond Guarantee is subject to an Extended Due for Payment Date pursuant to the terms of the applicable Final Terms and (ii) to the extent that the LLP having received a Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date does not pay Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date because the LLP has insufficient monies available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (a) the date which falls two Business Days after service of such Notice to pay on the LLP or, if later, the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 9(b)(i)) under the terms of the Covered Bond Guarantee or (b) the Extension Determination Date, or, if, in either case, such day is not a Business Day, the next following Business Day. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise save as provided in paragraph (c) below; or

(c) following the occurrence of an LLP Event of

	Default, the date on which an LLP Acceleration Notice is served on the Issuer and the LLP;
Earliest Maturing Covered Bonds	At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the LLP Accounts) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to the occurrence of an LLP Event of Default);
Early Redemption Amount	The meaning given in the relevant Final Terms;
Eligibility Criteria	The meaning given on page 162;
English Loans	Loans secured by a Mortgage over a Property located in England or Wales;
EU	European Union;
EURIBOR	Euro-zone inter-bank offered rate;
Euroclear	Euroclear Bank SA/NV;
European Market Infrastructures Regulation or **EMIR**	Regulation (EU) 648/2012;
Excess Proceeds	Monies received (following the occurrence of an Issuer Event of Default and delivery of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer;
Exchange Act	The U.S. Securities Exchange Act of 1934, as amended;
Exchange Agent	HSBC Bank plc in its capacity as exchange agent (which expression shall include any successor exchange agent);
Exchange Date	On or after the date which is 40 days after a Temporary Global Covered Bond is issued;
Exchange Event	In the case of Bearer Covered Bonds, the meaning given in "*Form of Covered Bonds*" on page 88 and in the case of Registered Covered Bonds, the meaning given in "*Form of Covered Bonds*" on page 90;
Excluded Swap Termination Amount	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider;

Existing Covered Bonds	The Covered Bonds of all Series then outstanding;
Extended Due for Payment Date	In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date;
Extension Determination Date	In respect of a Series of Covered Bonds, the date falling two Business Days after the expiry of seven days from (and including) the Final Maturity Date of such Series of Covered Bonds;
Extraordinary Resolution	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed;
FCA	Financial Conduct Authority, known before 1 April 2013 as the Financial Services Authority;
Final Maturity Date	The Interest Payment Date on which each Series of Covered Bonds will be redeemed at their Principal Amount Outstanding in accordance with the Conditions;
Final Redemption Amount	The meaning given in the relevant Final Terms;
Final Terms	Final terms which, with respect to Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange on or before the date of issue of the applicable Tranche of Covered Bonds;
First Transfer Date	The date on which the Initial Portfolio is transferred to the LLP pursuant to the Mortgage Sale Agreement;
Fitch	Fitch Ratings Ltd.;
Fixed Interest Period	The meaning given in Condition 4(a) in "*Terms and Conditions of the Covered Bonds*" on page 108;
Fixed Rate Covered Bonds	Covered Bonds paying a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s);
Floating Rate	The meaning given in the ISDA Definitions;
Floating Rate Convention	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 110;
Floating Rate Covered Bonds	Covered Bonds which 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 ISDA Definitions; or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms;
Floating Rate Option	The meaning given in the ISDA Definitions;
Following Business Day Convention	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 110;
Framework	"International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" published by the BCBS;
FSA	Financial Services Authority and any successor thereto, including (as applicable) the FCA and the PRA;
FSMA	Financial Services and Markets Act 2000, as amended;
Funding and Mutual Societies Transfers Act	Building Societies (Funding) and Mutual Societies (Transfers) Act 2007;
Further Advance	In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, excluding the amount of any retention in respect of the Initial Advance;
Gainsborough Loans	Those Loans originated or acquired by the Gainsborough Building Society prior to its merger with YBS;
GIC Account	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 be for the time being be in place with the prior consent of the Security Trustee;
GIC Provider	YBS, in its capacity as GIC provider under the Guaranteed Investment Contract together with any successor GIC provider appointed from time to time;
Global Covered Bond	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require;

Global Deed of Amendment	The global deed of amendment between, *inter alios*, the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Asset Monitor, RBS and the Paying Agent dated 23 July 2010;
Group	YBS and its Subsidiaries collectively;
Guaranteed Amounts	Prior to the service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Conditions plus all accrued and unpaid interest and at other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed;
Guaranteed Investment Contract or **GIC**	The guaranteed investment contract between the LLP, the GIC Provider, the Security Trustee and the Cash Manager dated the Initial Programme Date;
Guarantee Priority of Payments	The meaning given in "*Cashflows*" on page 126;
Halifax Index	The index of increases or decreases in house prices issued by Halifax, a division of Bank of Scotland plc, in relation to residential properties in the United Kingdom;
Halifax Price Indexed Valuation	In relation to any Property at any date up to and including 30 June 2016 means the Latest Valuation of that Property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Latest Valuation;
HMRC	HM Revenue & Customs;
Holdings	YBS Covered Bonds (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5943456);
IAI Investment Letter	The meaning given in Condition 2(e) in "*Terms and Conditions of the Covered Bonds*" on page 105;
ICSD	The International Central Securities Depository;
Indexed Valuation	At any date in relation to any Loan secured over any Property: (a) where the Latest Valuation of that Property is

equal to or greater than (i) up to and including 29 November 2016 the average of the Halifax Price Indexed Valuation and the Nationwide Price Indexed Valuation as at that date, the average of the Halifax Price Indexed Valuation and the Nationwide Price Indexed Valuation and (ii) from and including 30 November 2016, the UK House Price Indexed Valuation as at that date, the UK House Price Indexed Valuation; or

(b) where the Latest Valuation of that Property is less than (i) up to and including 29 November 2016, the average of the Halifax Price Indexed Valuation and the Nationwide Price Indexed Valuation as at that date, the Latest Valuation plus 85% of the difference between the Latest Valuation and the average of the Halifax Price Indexed Valuation and the Nationwide Price Indexed Valuation and (ii) from and including 30 November 2016, the UK House Price Indexed Valuation, the Latest Valuation plus 85 per cent. Of the difference between the Latest Valuation and the UK House Price Indexed Valuation;

Indirect Participants The meaning given in "*Book-Entry Clearance Systems*" on page 213;

Initial Advance In respect of any Loan, the original principal amount advanced by the relevant originator to the relevant Borrower;

Initial Portfolio The meaning given in "*The Portfolio*" on page 209;

Initial Programme Date 1 November 2006;

Insolvency Act Insolvency Act 1986, as amended;

Insolvency Event In respect of the Seller, the Servicer or the Cash Manager:

(a) an order is made or an effective resolution passed for the winding-up of the relevant entity; or

(b) the relevant entity stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or

(c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part of the undertaking, property and assets of the relevant entity or a distress, diligence or execution is levied or enforced upon or sued out

against the whole or any material part of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or

(d) the relevant entity is unable to pay its debts as they fall due,

other than where the Seller, Servicer or the Cash Manager is YBS and any of the events set out in paragraphs (a) to (c) occurs in connection with a substitution pursuant to Condition 14;

Insolvency (Northern Ireland) Order — The Insolvency (Northern Ireland) Order 1989, as amended by the Insolvency (Northern Ireland) Order 2005;

Insurance Policies — Each of:

(a) the Block Insurance Policy; and

(b) the Buildings Insurance Policies;

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

Intercompany Loan Agreement — The term loan agreement dated the Initial Programme Date between the Issuer, the LLP and the Security Trustee;

Interest Accumulation Ledger — The ledger maintained on the GIC Account or the Stand-by GIC Account, as the case may be, which shall record the LLP Monthly Interest Amounts accumulated on each LLP Payment Date in respect of a relevant Accumulation Series of Covered Bonds in accordance with the relevant Priority of Payments, such amounts to be applied, together with Available Revenue Receipts in accordance with the Priorities of Payments (i) prior to the service of a Notice to pay in payment of interest on the relevant Term Advance and (ii) following service of a Notice to Pay, Schedule Interest that is Due for Payment in respect of such Accumulation Series of Covered Bonds;

Interest Amount — The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period;

Interest Commencement Date — The meaning given on page 108;

Interest Payment Date — In relation to any Series of Covered Bonds, the Specified Interest Payment Date or the meaning given in the applicable Final Terms (as the case may be);

Interest Period — The period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;

Interest Rate Swap	The interest rate swap transaction entered into between the LLP, YBS (in its capacity as Interest Rate Swap Provider) and the Security Trustee dated the Initial Programme Date;
Interest Rate Swap Agreement	The agreement between the LLP, the Interest Rate Swap Provider and the Security Trustee dated the Initial Programme Date as amended and restated on 25 April 2008 and as amended on 23 July 2010 (and as further amended and/or supplemented and/or restated from time to time) governing the Interest Rate Swap in the form of an ISDA Master Agreement, including a schedule and confirmation thereto;
Interest Rate Swap Early Termination Event	The meaning given in "*Summary of the Principal Documents*" on page 186;
Interest Rate Swap Provider	YBS, in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider;
Investor Report	The quarterly report made available to the Covered Bondholders, the Security Trustee, the Bond Trustee and the Rating Agencies detailing *inter alia* compliance with the Asset Coverage Test. Investor Reports shall be posted on the YBS website at www.ybs.com;
ISDA	International Swaps and Derivatives Association, Inc.;
ISDA Definitions	2006 ISDA Definitions, as published by ISDA;
ISDA Master Agreement	The 1992 ISDA Master Agreement (Multicurrency Cross Border), as published by ISDA;
ISDA Rate	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 111;
Issue Date	Each date on which the Issuer issues Covered Bonds to the Covered Bondholders;
Issuer	Yorkshire Building Society, a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office is Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ;
Issuer Acceleration Notice	The meaning given in Condition 9(a) in "*Terms and Conditions of the Covered Bonds*" on page 130;
Issuer Event of Default	The meaning given in Condition 9(a) in "*Terms and Conditions of the Covered Bonds*" on page 130;
Latest Valuation	In relation to any Property, the value given to that Property by the most recent valuation addressed to the relevant

	originator or the Seller;
Ledger	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Coupon Payment Ledger, the Swap Collateral Ledger, the Intercompany Loan Ledger, the Issuer Accumulation Ledger and the Capital Account Ledger;
Legended Covered Bonds	The meaning given in Condition 2 in "*Terms and Conditions of the Covered Bonds*" on page 107;
Lending Criteria	The lending criteria of the relevant originator or the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender;
LIBOR	London inter-bank offered rate;
Liquidation Member	YBS Covered Bonds Finance Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 5943479);
LLP	Yorkshire Building Society Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (partnership no. OC322580), whose first members are YBS and the Liquidation Member;
LLPA 2000	Limited Liability Partnerships Act 2000;
LLP Acceleration Notice	A notice in writing given by the Bond Trustee to the Issuer and the LLP, that each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against it following an Issuer Event of Default) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in and in accordance with the Trust Deed and thereafter the Security shall become enforceable if any of the LLP Events of Default shall occur and be continuing;
LLP Accounts	The GIC Account, the Transaction Account and any additional or replacement accounts opened in the name of the LLP, including the Stand-by GIC Account, to the extent maintained, the Stand-by Transaction Account and each Swap Collateral Account;
LLP Deed	The limited liability partnership deed entered into on the Initial Programme Date as supplemented on 25 April 2008, 26 June 2009 and as amended on 23 July 2010 and as further supplemented on 23 August 2010 between the LLP, YBS, the Liquidation Member, the Bond Trustee and the Security Trustee;
LLP Event of Default	The meaning given in Condition 9(b) in "*Terms and*

Conditions of the Covered Bonds" on page 133;

LLP Management Committee

The Management Committee which will act on behalf of the LLP and to which (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding-up of the LLP, which requires a unanimous decision of the Members) the Members delegate all matters;

LLP Monthly Interest Amount

On any relevant LLP Payment Date in respect of each Accumulation Series of Covered Bonds:

(a) which are linked to SONIA, an amount equal to the interest actually accrued on the relevant Accumulation Series of Covered Bonds up to (but excluding) such LLP Payment Date and not yet paid to the relevant Interest Accumulation Ledger since the previous Interest Payment Date; or

(b) which are not linked to SONIA, an amount equal to:

(A/B) + C

Where:

A is the interest due on the relevant Accumulation Series of Covered Bonds on the immediately following Interest Payment Date, or where an Interest Payment Date falls on the LLP Payment Date on that Interest Payment Date;

B is the number of calendar months that fall between Interest Payment Dates in respect of the relevant Accumulation Series of Covered Bonds; and

C is an amount equal to the aggregate of all LLP Monthly Interest Amounts not paid to the relevant Interest Accumulation Ledger in respect of an Accumulation Series of Covered Bonds since the previous Interest Payment Date;

LLP Payment Date

The 19th day of each month or if not a Business Day the next following Business Day;

LLP Payment Period

The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date;

LLP Standard Variable Rate

The LLP standard variable rate applicable to the Loans in the Portfolio, as set, other than in limited circumstances, by the Servicer in accordance with the Servicing

	Agreement;
Loan	Any mortgage loan (including, for the avoidance of doubt, any Scottish Loan and any Northern Irish Loan) which is sold and assigned by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement and referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all Additional Loan Advances) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding, or, as the context may require, the Borrower's obligations in respect of the same but excluding any mortgage loan which is repurchased by the Seller or otherwise sold by the LLP and no longer beneficially owned by it;
Loan Account	As the context requires, either (a) all Loans secured on the same Property or (b) an account maintained by the Servicer in respect of a particular Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof;
Loan Files	The file or files relating to each Loan (including files kept in microfiche format or similar electronic data retrieval system or the substance of which is transcribed and held on an electronic data retrieval system) containing *inter alia* correspondence between the Borrower and the relevant originator or the Seller and including the mortgage documentation applicable to the Loan, each letter of offer for that Loan, the Valuation Report (if applicable) and, to the extent available, the solicitor's or licensed conveyancer's, or (in Scotland) qualified conveyancer's, Certificate of Title;
Loan Interest Payment Date	In respect of any Term Advance, each Interest Payment Date in respect of the corresponding Series or Tranche of Covered Bonds that funded such Term Advance;
Loan Without Independent Valuation	A Loan where an updated Valuation Report was not obtained in relation to an Additional Loan Advance;
London Business Day	A day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in London;
London Stock Exchange	London Stock Exchange plc;
Long Maturity Covered Bond	A Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest

	Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond;
Losses	All realised losses on the Loans;
Master Definitions and Construction Agreement	The master definitions and construction agreement made between the parties to the Transaction Documents on the Initial Programme Date as amended and restated on 25 April 2008 and 26 June 2009 as amended pursuant to the Global Deed of Amendment on 23 July 2010 and as amended and restated on 15 March 2012, 17 May 2013, 30 May 2014 and 21 June 2017;
MCOB	Mortgages and Home Finance: Conduct of Business Sourcebook, implemented by the FSA on 31 October 2004 as amended, revised or supplemented from time to time;
Member	Each member of the LLP;
MH/CP Documentation	An affidavit, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the Property secured thereby;
Modified Following Business Day Convention	The meaning given in Condition 4 in "*Terms and Conditions of the Covered Bonds*" on page 110;
Monthly Payment Date	In relation to a Loan, the date in each month on which the relevant Borrower is required to make a payment of interest and, if applicable, principal for that Loan, as required by the applicable Mortgage Conditions;
Moody's	Moody's Investors Service Limited;
Mortgage	In respect of any Loan each first charge by way of legal mortgage (in relation to an English Loan), each first legal charge or mortgage (in relation to a Northern Irish Loan) and each first ranking standard security (in relation to a Scottish Loan), sold by the Seller to the LLP pursuant to the Mortgage Sale Agreement, in each case which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it;
Mortgage Code	The Mortgage Code issued by the CML or any other comparable or successor instructions, code and/or guidelines;
Mortgage Conditions	All the terms and conditions applicable to a Loan, including without limitation those set out in the Seller's relevant mortgage conditions booklet and the Seller's relevant general conditions (or, in each case, the equivalent for Gainsborough Loans and the Chelsea Loans), each as

	varied from time to time by the relevant Loan Agreement and the relevant Mortgage Deed;
Mortgage Deed	In respect of any Mortgage, the deed creating that Mortgage;
Mortgage Sale Agreement	The mortgage sale agreement entered into on the Initial Programme Date as amended and restated on 25 April 2008 and 26 June 2009 and as amended on 23 July 2010 (and as further amended, amended and restated and/or supplemented and/or restated from time to time) between the Seller, the LLP and the Security Trustee;
Nationwide Index	The index of increases or decreases in house prices issued by Nationwide Building Society in relation to residential properties in the United Kingdom;
Nationwide Price Indexed Valuation	In relation to any Property at any date up to and including 30 June 2016 means the Latest Valuation of that Property increased or decreased as appropriate by the increase or decrease in the Nationwide Index since the date of that Latest Valuation;
Negative Carry Factor	The meaning given on page 178;
New Loan	Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to the LLP after the First Transfer Date pursuant to the Mortgage Sale Agreement;
New Loan Type	A new type of mortgage loan originated or acquired by the Seller, which the Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, cash-backs and/or rate guarantees;
New Member	Any new member admitted to the LLP after the Programme Date;
New Portfolio	The meaning given in "*The Portfolio*" on page 209;
New Portfolio Notice	A notice in the form set out in Schedule 11 to the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement;
New Seller	Any member of the Group (other than YBS) that is a **connected person** as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction

	Documents and sells Loans and their Related Security to the LLP in the future;
NGCB	The meaning given on page 107;
NIPs	Non-Investment Products Code;
Northern Irish Loans	Loans secured by Northern Irish Mortgages;
Northern Irish Mortgage	A Mortgage over a Property located in Northern Ireland;
Notice to Pay	The meaning given in Condition 9(a) in "*Terms and Conditions of the Covered Bonds*" on page 132;
Office for National Statistics	The national statistical institute which produces the UK House Price Index in the United Kingdom;
Official List	Official list of the FCA;
OFT	Office of Fair Trading, which from 1 April 2014 ceased to exist;
Ombudsman	Financial Ombudsman Service under the FSMA;
Order	The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), as amended;
Original Due for Payment Date	The meaning given in paragraph (a) of the definition of **Due for Payment**;
Overpayment	A payment by a Borrower in an amount greater than the amount due on a Monthly Payment Date which (a) is permitted by the terms of such Loan or by agreement with the Borrower and (b) reduces the True Balance of such Loan;
Partial Portfolio	Part of any portfolio of Selected Loans;
Paying Agents	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 101;
Payment Day	The meaning given in Condition 5 in "*Terms and Conditions of the Covered Bonds*" on page 121;
Permanent Global Covered Bond	The meaning given in "*Form of the Covered Bonds*" on page 87;
Portfolio	The Initial Portfolio and each New Portfolio acquired by the LLP;
Post-Enforcement Priority of Payments	The meaning given in "*Cashflows*" on page 206;
Potential Issuer Event of Default	The meaning given in Condition 14 in "*Terms and Conditions of the Covered Bonds*" on page 144;

Potential LLP Event of Default	The meaning given in Condition 14 in "*Terms and Conditions of the Covered Bonds*" on page 144;
PPI Contract	non-investment insurance contract which has elements of a general insurance contract and the benefits of which are described as enabling a policyholder to protect his ability to continue to make payments due to third parties, or can reasonably be expected to be used in this way;
PRA	Prudential Regulation Authority
Pre-Acceleration Principal Priority of Payments	The meaning given in "*Cashflows*" on page 200;
Pre-Acceleration Revenue Priority of Payments	The meaning given in "*Cashflows*" on page 197;
Pre-action Protocol	The meaning given in "Pre-action Protocol for mortgage possession cases" on page 63;
Preceding Business Day Convention	The meaning given in Condition 4(b) in "*Terms and Conditions of the Covered Bonds*" on page 110;
Principal Amount Outstanding	In respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof;
Principal Ledger	The ledger on the LLP Accounts of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed;
Principal Paying Agent	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 101;
Principal Receipts	(a) principal repayments under the Loans (including payments of arrears, Capitalised Interest, Capitalised Expenses and Capitalised Arrears); (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property); (c) any payment pursuant to any insurance policy in respect of a Property in connection with a Loan in the Portfolio; (d) the proceeds of the repurchase of any Loan by the Seller from the LLP pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant

repurchase date); and

(e) any deemed Principal Receipts;

Principal Subsidiary The meaning given on page 116;

Priorities of Payments The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts in different circumstances;

Product Switch A variation to the financial terms or conditions included in the Mortgage Conditions applicable to a Loan other than:

(a) any variation agreed with a Borrower to control or manage arrears on a Loan;

(b) any variation in the maturity date of a Loan;

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

(d) any variation to the interest rate as a result of the Borrowers switching to a different rate by operation of the Loan;

(e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan;

(f) any change in the repayment method of the Loan;

Programme €7.5 billion covered bond programme;

Programme Agreement The meaning given in "*Subscription and Sale and Transfer and Selling Restrictions*" on page 219;

Programme Date 1 November 2006;

Programme Resolution Any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 or to direct the Bond Trustee or the Security Trustee to take any enforcement action;

Property A freehold, leasehold or commonhold property (or in Scotland a heritable property or a property held under a long lease) which is subject to a Mortgage;

Prospectus Directive The meaning given on page 1;

Purchaser Any third party or the Seller to whom the LLP offers to sell Selected Loans;

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

Rating Agencies	Moody's and Fitch, each a **Rating Agency**. Each Rating Agency is established in the European Union and is registered under Regulation EU No. 1060/2009 (the **CRA Regulations**). As such date each of Moody's and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation;
Rating Agency Confirmation	A confirmation (or, in the case of Moody's, affirmation) in writing by Fitch and/or Moody's (as applicable) that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter, provided that if: (a) a confirmation or affirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and (b) a written request for such confirmation, affirmation or response is delivered to that Rating Agency by any of the LLP, the Issuer, the Bond Trustee and/or the Security Trustee, as applicable (each a **Requesting Party**) and the relevant Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances, the Requesting Party shall be entitled to assume that the then current ratings of the Covered Bonds in issue will not be downgraded or withdrawn by such Rating Agency as a result of such action or step. However, nothing herein shall in any way affect the right of a Rating Agency to downgrade or withdraw the then current ratings of the Covered Bonds in a manner as it sees fit;
Rating Condition	The condition that will be satisfied in respect of an event or matter if: (a) Fitch has been notified of such event or matter; and (b) the LLP, the Issuer, the Bond Trustee and/or the Security Trustee (as applicable), has received a Rating Agency Confirmation from Moody's in respect of such event or matter;
RCB Regulations	The Regulated Covered Bonds Regulations 2008 (SI 2008/346), as amended by the Regulated Covered Bonds (Amendments) Regulations 2008 (SI 2008/1714), the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) and the Regulated Covered Bonds (Amendment) Regulations 2012 (SI 2012/2977) and as further amended from time to time;
RCB Sourcebook	The Regulated Covered Bond Sourcebook;
Reasonable, Prudent Mortgage Lender	The Seller and/or the Servicer, as applicable, acting in accordance with the standards of a reasonably prudent

	residential mortgage lender lending to borrowers in England, Wales, Scotland and/or Northern Ireland who generally satisfy the lending criteria of traditional sources of residential mortgage capital;
Record Date	The meaning given in Condition 5 in "*Terms and Conditions of the Covered Bonds*" on page 120;
Redeemed Covered Bonds	The meaning given in Condition 6 in "*Terms and Conditions of the Covered Bonds*" on page 126;
Reference Banks	In the case of a determination of Sterling LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Cash Manager;
Register	The register of holders of the Registered Covered Bonds maintained by the Registrar;
Registered Covered Bonds	Covered Bonds in registered form;
Registered Definitive Covered Bond	A Registered Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being in the form or substantially in the form set out in Part 8 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon;
Registered Global Covered Bonds	The Rule 144A Global Covered Bonds together with the Regulation S Global Covered Bonds;
Registers of Northern Ireland	The Land Registry of Northern Ireland and/or the Registry of Deeds in Belfast;
Registers of Scotland	The Land Register of Scotland and/or the General Register of Sasines;

Registrar	HSBC Bank plc, 8 Canada Square, London E14 5HQ in its capacity as registrar (and any additional or successor registrar);
Regulated Mortgage Contract	The meaning given in "*Certain Regulatory Considerations*" on page 68;
Regulation S	Regulation S under the Securities Act;
Regulation S Covered Bonds	The meaning given in "*Subscription and Sale and Transfer and Selling Restrictions*" on page 223;
Regulation S Global Covered Bond	The meaning given in "*Form of Covered Bonds*" on page 89;
Related Security	In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio;
Relevant Date	The meaning given in Condition 7 in "*Terms and Conditions of the Covered Bonds*" on page 129;
Relevant LLP Payment Period	The meaning given on page 171;
Representations and Warranties	The representations and warranties set out in Schedule 1 (*Representations and Warranties*) to the Mortgage Sale Agreement;
Repurchase Notice	A notice from the Cash Manager to the Seller identifying a Loan or its Related Security in the Portfolio which does not, as at the relevant Transfer Date or relevant Calculation Date (in the case of an Additional Loan Advance), materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement;
Required Coupon Amount	An aggregate amount equal to the Sterling Equivalent of (i) (in the case of each Term Advance where a Covered Bond Swap is not in place other than in respect of an Accumulation Series of Covered Bonds), interest due from the LLP on a relevant Term Advance for the relevant Loan Interest Payment Date, (ii) (in the case of each Term Advance where a Covered Bond Swap is in place) an amount equal to the net amount due from the LLP under a Covered Bond Swap Agreement on a relevant Party B payment date (other than those amounts due in respect of an Interim Exchange Date or Final Exchange Date) (as each of those terms in defined in the relevant Covered Bond Swap Agreement) under the relevant Covered Bond Swap Agreement and (iii) (in the case of a Term Advance relating to an Accumulation Series of Covered Bond), the LLP Monthly Payment Amount payable by the LLP on that relevant Term Advance for the relevant LLP Payment Date;

Required Redemption Amount

The meaning given in "*Summary of the Principal Documents*" on page 168;

Required True Balance Amount

The meaning given in "*Summary of the Principal Documents*" on page 181;

Reserve Fund

The reserve fund that the LLP will be required to establish in the GIC Account which will be credited with part of a Term Advance (in the LLP's discretion) and the proceeds of Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount;

Reserve Fund Required Amount

If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's, nil or such other amount as YBS shall direct the LLP from time to time and otherwise an aggregate amount equal to the higher of (A) and (B) where:

(A) is an amount equal to the sterling equivalent of:

(i) in relation to each Series of Covered Bonds where YBS is the Covered Bond Swap Provider, the aggregate of amounts due to each Covered Bond Swap Provider in the immediately following three months; and/or

(ii) in relation to each Series of Covered Bonds where YBS is the Covered Bond Swap Provider or a Covered Bond Swap is not in place, the aggregate amount of interest due on each Series of Covered Bonds in the immediately following three months;

plus or minus an amount equal to one quarter of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (b) and, if applicable, (c) of the Pre-Acceleration Revenue Priority of Payments, plus £600,000; and

(B) is an amount equal to the Sterling Equivalent of one month's interest due on each Series of Covered Bonds (taking into account any payments to the Covered Bond Swap Providers) together with an amount equal to one-twelfth of the anticipated annual amount payable in respect of the items specified in paragraphs (a) to (b) and, if applicable (d) of the Pre-Acceleration Revenue Priority of Payments plus £600,000;

	provided in each case that in determining the amount of the Reserve Fund Required Amount, where any amount in respect of the Covered Bonds or the Covered Bond Swaps is determined by reference to a floating rate, the rate shall be at the then current floating rate as at the date on which the amount is calculated;
Reserve Ledger	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed;
Reset Date	The meaning given in the ISDA Definitions;
Revenue Ledger	The ledger on the LLP Accounts of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed;
Revenue Receipts	(a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the LLP in respect of the Loans other than the Principal Receipts; (b) recoveries of interest from defaulting Borrowers under Loans being enforced; (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed; and (c) any deemed Revenue Receipts;
Rule 144A	Rule 144A under the Securities Act;
Rule 144A Global Covered Bond	A Global Covered Bond in registered form representing the Registered Covered Bonds of a Tranche sold to QIBs pursuant to Rule 144A;
Rules	The rules, regulations and procedures creating and affecting DTC and its operations;
Sale Proceeds	The cash proceeds realised from the sale of Selected Loans and their Related Security;
Sarbanes-Oxley Act	The U.S. Sarbanes-Oxley Act of 2002;
Scheduled Interest	An amount equal to the amount in respect of interest which would have been due and payable under the Covered

	Bonds on each Interest Payment Date as specified in Condition 4 (but excluding any additional amounts relating to premiums, default interest or interest upon interest (**Excluded Scheduled Interest Amounts**) payable by the Issuer following an Issuer Event of Default but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice) as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date and, if the Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date), less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7;
Scheduled Payment Date	In relation to payments under the Covered Bond Guarantee, each Interest Payment Date or the Final Maturity Date as if the Covered Bonds had not become due and repayable prior to their Final Maturity Date;
Scheduled Principal	An amount equal to the amount in respect of principal which would have been due and repayable under the Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6(a) and Condition 6(d) (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 specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds, as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date;
Scottish Declaration of Trust	Each declaration of trust in relation to Scottish Loans and their Related Security made by 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 Loans	Loans secured by Scottish Mortgages;
Scottish Mortgage	A Mortgage over a Property located in Scotland;
Scottish Sub-Security	Each standard security granted by the LLP in favour of the

	Security Trustee pursuant to Clause 3.3 of the Deed of Charge;
Scottish Supplemental Charge	Each supplemental assignation in security granted by the LLP in favour of the Security Trustee pursuant to Clause 3.4 (*Scottish Trust Security*) of the Deed of Charge;
SEC	U.S. Securities and Exchange Commission;
Secured Creditors	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, 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 Cash Manager, the Swap Providers, the Corporate Services Provider, the Paying Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge;
Securities Act	U.S. Securities Act of 1933, as amended;
Securities and Exchange Law	The Securities and Exchange Law of Japan;
Security	The meaning given in "*Summary of the Principal Documents*" on page 191;
Security Trustee	HSBC Trustee (C.I.) Limited, in its capacity as security trustee under the Trust Deed and the Deed of Charge together with any successor security trustee appointed from time to time;
Selected Loan Offer Notice	A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then True Balance of the Selected Loans and the Adjusted Required Redemption Amount;
Selected Loan Repurchase Notice	A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice;
Selected Loans	Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed having in aggregate the Required True Balance Amount;
Selection Date	The meaning given in Condition 6 in "*Terms and Conditions of the Covered Bonds*" on page 127;
Seller	YBS and any New Seller;
Seller Arranged Policy	Any Buildings Insurance Policy arranged by the relevant originator or the Seller for the purposes of the Borrower insuring the Property for an amount equal to the full rebuilding cost of the Property;

Series

A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;

Series Reserved Matter

In relation to Covered Bonds of a Series:

(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds;

(b) alteration of the currency in which payments under the Covered Bonds and Coupons are to be made;

(c) alteration of the majority required to pass an Extraordinary Resolution;

(d) any amendment to the Covered Bond Guarantee or the Deed of Charge (except in a manner determined by the Bond Trustee not to be materially prejudicial to the interests of the holders of Covered Bonds of any Series);

(e) except in accordance with Condition 6(g) or Condition 14, the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the holders of Covered Bonds to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and

(f) alteration of the proviso to paragraph 5 or paragraph 6 of Schedule 4 to the Trust Deed;

Servicer	YBS in its capacity as servicer under the Servicing Agreement together with any successor servicer appointed from time to time;
Servicer Event of Default	The meaning given in "*Summary of the Principal Documents*" on page 172;
Servicer Termination Event	The meaning given in "*Summary of the Principal Documents*" on page 172;
Servicing Agreement	The servicing agreement entered into on the Initial Programme Date as amended and restated on 25 April 2008, 26 June 2009 and as amended on 23 July 2010 (and as further amended, amended and restated and/or supplemented and/or restated from time to time) between the LLP, the Servicer, the Seller, and the Security Trustee;
Share Trustee	Wilmington Trust SP Services (London) Limited having its registered office at Third Floor, 1 King's Arms Yard, London EC2R 7AF;
Society	YBS;
SONIA	Sterling Overnight Index Average;
Specified Currency	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms;
Specified Denomination	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms;
Specified Interest Payment Date	The meaning given in the applicable Final Terms;
Specified Period	The meaning given in the applicable Final Terms;
Standard Documentation	The standard documentation, annexed to the relevant exhibit of the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;
Standard Variable Rate	The YBS standard variable rate;
Stand-by Account Bank	The meaning given in "*Summary of the Principal Documents*" on page 190;
Stand-by Bank Account Agreement	The meaning given in "*Summary of the Principal Documents*" on page 190;

Stand-by GIC Account	The meaning given in "*Summary of the Principal Documents*" on page 190;
Stand-by GIC Provider	The meaning given in "*Summary of the Principal Documents*" on page 191;
Stand-by Guaranteed Investment Contract	The meaning given in "*Summary of the Principal Documents*" on page 191;
Stand-by Transaction Account	The meaning given on page 190;
Sterling Equivalent	In relation to a Term Advance which is denominated in (i) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance and (ii) Sterling, the applicable amount in Sterling; and in relation to a Covered Bond which is denominated in (i) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Covered Bond and (ii) Sterling, the applicable amount in Sterling;
Subsidiary	Any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act 2006 of Great Britain);
Substitution Assets	Each of: (a) Sterling gilt-edged securities; (b) Sterling demand or time deposits provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated P-1/Aa3 by Moody's and F1+ by Fitch or their equivalents by two other internationally recognized rating agencies; and (c) Sterling denominated government and public securities, as defined from time to time in accordance with the RCB Regulations, provided that such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's and F1+ by Fitch or their equivalents by two other internationally recognised rating agencies,

	provided that such Substitution Assets comply with the requirements of Regulation 2(1A) of the RCB Regulations;
Sub-unit	With respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01;
Successor in Business	The meaning given in Condition 14 of the "*Terms and Conditions of the Covered Bonds*" on page119;
Swap Agreements	The Covered Bond Swap Agreements together with the Interest Swap Agreement, and each a **Swap Agreement**;
Swap Collateral	At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral 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 Account	Any account in the name of the LLP held with the Account Bank or the Stand-by Account Bank, as applicable, into which Swap Collateral in respect of the Interest Rate Swap or a Covered Bond Swap may be deposited in accordance with the terms of any applicable Swap Agreement;
Swap Collateral Ledger	The ledger (including any sub-ledgers) maintained by the Cash Manager pursuant to the Cash Management Agreement on the Swap Collateral Account, to record the crediting of any Swap Collateral and any debiting of the same;
Swap Collateral Excluded Amounts	At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the LLP, including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement;
Swap Provider Default	The occurrence of an Event of Default or Termination Event (each as defined in each of the Swap Agreements) where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in relevant Swap Agreement), as applicable, other than a Swap Provider Downgrade Event;
Swap Provider Downgrade Event	The occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Swap Agreement) following a failure by the Swap Provider to

	comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement;
Swap Providers	Covered Bond Swap Provider and the Interest Swap Providers, and each a **Swap Provider**;
Swaps	The Covered Bond Swaps together with the Interest Rate Swap;
Talons	The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 101;
TARGET2 System	Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was connected on 19 November 2007, or any successor thereto;
TEFRA	The United States Tax Equity and Fiscal Responsibility Act of 1982;
TEFRA C	U.S. Treasury Regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended);
TEFRA D	U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended);
Temporary Global Covered Bond	The meaning given in "*Form of Covered Bonds*" on page 87;
Term Advance	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;
Third Party Amounts	Each of: (a) payments of insurance premiums, if any, due to the Seller in respect of any Seller Arranged Policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Further Advance which is not purchased by the Seller to reimburse the Seller); (b) amounts under an unpaid direct debit which are repaid by the Seller to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account; (c) payments by the Borrower of any fees (including Early Repayment Fees) and other charges which

are due to the Seller;

(d) any amounts due or arising from any overpayment by any person or arising from any reimbursement by any person of any such overpayment (including, for the avoidance of doubt, where arising from the failure of a direct debit);

(e) (subject to any right to refuse or withhold payment or of set off that has arisen by reason of the Borrower's breach of the terms of the relevant Mortgage or Loan) any amount payable to a Borrower under the terms of the Mortgage or the Loan to which that Borrower is a party (other than a Further Advance); and

(f) any amounts owed to the Seller pursuant to Clause 6 (*Trust of Monies*) of the Mortgage Sale Agreement;

(g) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service (including giving insurance cover) to any of that Borrower or the Seller or the LLP,

which amounts may be paid daily from monies on deposit in the LLP Accounts.

Title Deeds In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents which make up the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage;

Transaction Account The account designated as such in the name of the LLP held with the Account Bank and maintained subject to the terms of the Bank Account Agreement and the Deed of Charge or such other account as may for the time being be in place with the prior consent of the Security Trustee and designated as such;

Transaction Documents

(a) Mortgage Sale Agreement

(b) each Scottish Declaration of Trust

(c) Servicing Agreement

(d) Asset Monitor Agreement

(e) Intercompany Loan Agreement

(f) LLP Deed

(g) Cash Management Agreement

(h) Interest Rate Swap Agreement

(i) each Covered Bond Swap Agreement

(j) Guaranteed Investment Contract

(k) Stand-by Guaranteed Investment Contract

(l) Bank Account Agreement

(m) Stand-by Bank Account Agreement

(n) any Back-Up Cash Management Agreement

(o) any Back-up Servicing Agreement

(p) Corporate Services Agreement

(q) 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)

(r) Trust Deed

(s) Agency Agreement

(t) Programme Agreement

(u) each set of Final Terms (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;

Transfer Agent The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 101;

Transfer Certificate The meaning given in Condition 2. (e) in "*Terms and Conditions of the Covered Bonds*" on page 105;

Transfer Date Each of the First Transfer Date and the date of transfer of any New Portfolio to the LLP in accordance with the Mortgage Sale Agreement;

True Balance For any Loan as at any given date, the aggregate (but avoiding double counting) of:

(a) the original principal amount advanced to the relevant Borrower and any further amount advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and

(b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by that Mortgage; and

(c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by that Mortgage, as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Additional Loan Advances committed to be made but not made by the end of the Business Day immediately preceding that given date;

Trust Deed — The meaning given in "*Terms and Conditions of the Covered Bonds*" on page 101;

UCITS Directive — The meaning given on page 210;

UK House Price Index — The index of increases or decreases in house prices in relation to residential properties in the United Kingdom, published by the Office for National Statistics;

UK House Price Indexed Valuation — in relation to any Property at any date from and including 30 June 2016 means (i) where the Latest Valuation of the Property was made prior to 30 June 2016, the average of the Halifax Price Indexed Valuation and the Nationwide Price Indexed Valuation of such Property as at 30 June 2016 increased or decreased as appropriate by the increase or decrease in the UK House Price Index since 30 June 2016; or (ii) where the Latest Valuation of the Property was made on or following 1 July 2016, the Latest Valuation of that Property increased or decreased as appropriate by the increase or decrease in the UK House Price Index since the date of that Latest Valuation;

Unfair Practices Directive	The meaning given on page 80;
UTCCR	Unfair Terms in Consumer Contracts Regulations 1999 as amended and the Unfair Terms in Consumer Contracts Regulations 1994;
Valuation Report	The valuation report or reports for mortgage purposes, in the form of one of the pro forma contained in the Standard Documentation, obtained by the relevant originator or the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller;
Valuer	An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant time a member of a firm which was on the list of Valuers approved by or on behalf of the relevant originator or the Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the relevant originator or the Seller acting for the relevant originator or the Seller in respect of the valuation of a Property;
YBS	Yorkshire Building Society, a building society incorporated in England and Wales under the Building Societies Act 1986 (as amended), whose principal office is Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ;
Yield Shortfall Test	The test as to whether the aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement to be received by the LLP during the Relevant LLP Payment Period would give a yield on the Loans of at least LIBOR plus 0.15%; and
Zero Coupon Covered Bonds	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

ISSUER

Yorkshire Building Society
Yorkshire House
Yorkshire Drive
Bradford West Yorkshire BD5 8LJ

THE LLP

Yorkshire Building Society Covered Bonds LLP
Yorkshire House
Yorkshire Drive
Bradford West Yorkshire BD5 8LJ

SECURITY TRUSTEE AND BOND TRUSTEE

HSBC Trustee (C.I.) Limited
HSBC House
Esplanade
St. Helier
Jersey JE1 1GT
Channel Islands

PRINCIPAL PAYING AGENT, REGISTRAR, EXCHANGE AGENT, CUSTODIAN AND STAND-BY ACCOUNT BANK

HSBC Bank plc
8 Canada Square
London E14 5HQ

PAYING AGENT

Banque Internationale à Luxembourg
69 route d'Esch
L-2953 Luxembourg

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To the Issuer, the LLP and the Seller as to Northern Irish Law

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34 Upper Queen Street
Belfast BT1 6FD

To the Security Trustee and the Bond Trustee as to English law and the Arrangers as to English and United States law

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