The co-operative banking group

Covered Bond

Investor Presentation

October 2011

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Agenda

Co-operative Bank

Co-operative Bank - Europe's most Sustainable Bank[1]

- Member owned, customer led, ethically guided, financially robust
- Uniquely diversified amongst UK Mutuals
- Consistent performance throughout crisis
- A- / F2 Fitch, A3 / P-2 Moodys

Co-operative Bank Covered Bonds

- Newly UK Regulated Covered Bond Programme
- Traditional UK Covered Bond structure:
  - Asset coverage test to assess if LLP assets are sufficient to repay bonds under AAA stress scenario
  - Asset percentage of 77.5%[2], corresponding to a minimum over-collateralisation of 29.0%[2]
- AAA / Aaa (Fitch / Moody's) ratings & soft bullet maturities
- High quality collateral pool of UK prime, residential mortgages:
  - Pool Notional: £1.75bn[3]
  - Low WA Indexed LTV: 62.1%[3]
  - WA Seasoning: 51 months[3]
  - No buy-to-let or self-certified mortgages
  - Mortgages entirely originated by the Co-op under the Britannia or the Co-op brands only

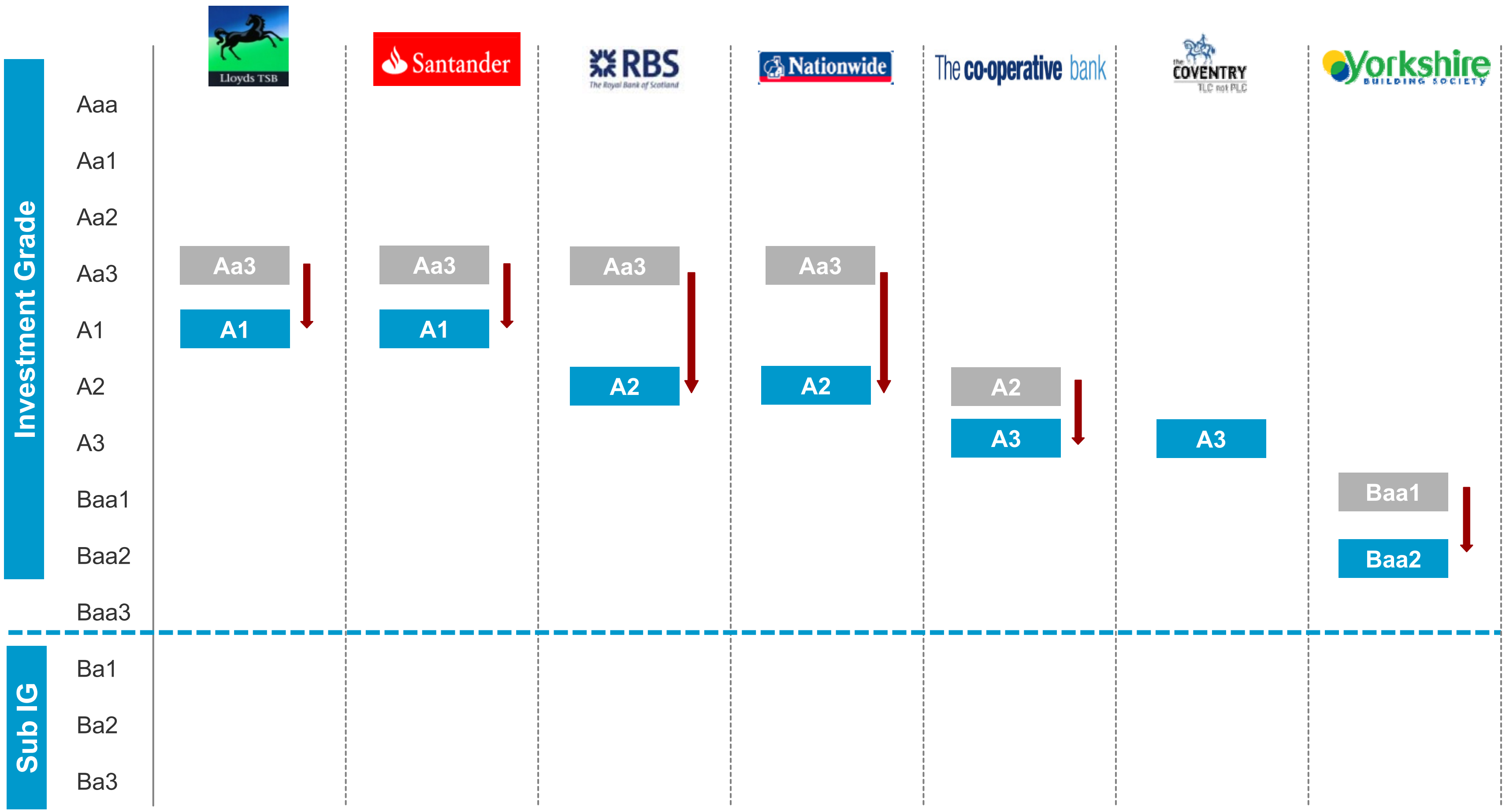
Source: the Co-operative Bank plc
Notes: 1) FT Sustainable Finance Awards 2011; 2) As of Oct 2011; 3) As of 31/08/2011 Halifax House Price Index Quarterly Non SA

New Rating Scale for UK Issuers

Moody's Investors Service

7th October 2011

" Moody's Investors Service has today downgraded the senior debt and deposit ratings of 12 UK financial institutions and confirmed the ratings of 1 institution. This concludes its review of systemic support assumptions from the UK government for these institutions initiated on 24 May 2011. The downgrades have been caused by Moody's reassessment of the support environment in the UK which has resulted in the removal of systemic support for 7 smaller institutions and the reduction of systemic support by one to three notches for 5 larger, more systemically important financial institutions. According to Moody's, announcements made, as well as actions already taken by UK authorities have significantly reduced the predictability of support over the medium to long-term. Moody's believes that the government is likely to continue to provide some level of support to systemically important financial institutions, which continue to incorporate up to three notches of uplift. However, it is more likely now to allow smaller institutions to fail if they become financially troubled. The downgrades do not reflect a deterioration in the financial strength of the banking system or that of the government. In addition, the rating agency has assigned a negative outlook to the senior debt and deposit ratings of the banks that still incorporate two or more notches of systemic support, to reflect the likelihood of a further reduction in the availability of systemic support over the medium to long term."



Co-operative Group Structure

Group Highlights:

- Family of diversified businesses
- Strong UK brand awareness
- Branding based on trust & ethics
- 6.5m members

Banking Group Highlights:

- Regulatory ring-fenced business
- Servicing over 8 million customers

Co-operative Bank:

- £46bn balance sheet
- Strong presence in UK mortgages & savings
- Covered Bond Issuer

The co-operative

food pharmacy funeralcare travel other businesses

The co-operative banking group

The co-operative bank insurance investments

.co .uk

Britannia part of The co-operative bank

platform

Source: Co-op Bank 2011 half year results

Bank Financial Performance

- Operating result up 37%
- Income up 8%
- Continued control of costs
- Impairment charge remains contained at £46m
- Profit includes provision of £90m relating to PPI

Bank - 6 months to June	**2011 £m**	2010 £m	Change %
Income	**435**	403	8%
Operating costs - steady state	**(269)**	(266)	(1%)
Operating costs - strategic initiatives	**(11)**	(15)	26%
Impairment losses	**(46)**	(43)	(7%)
Operating result	**109**	79	37%
Significant items	**(28)**	(18)	(51%)
PPI provision	**(90)**	-	-
FSCS	**(6)**	(3)	(79%)
Other	**0**	0	(25%)
(Loss)/profit before tax, distributions & fair value amortisation	**(15)**	58	(125%)
Fair value amortisation	**17**	(23)	174%
Profit before taxation & distributions	**2**	36	(94%)

Source: Co-op Bank 2011 half year results

Bank Balance Sheet

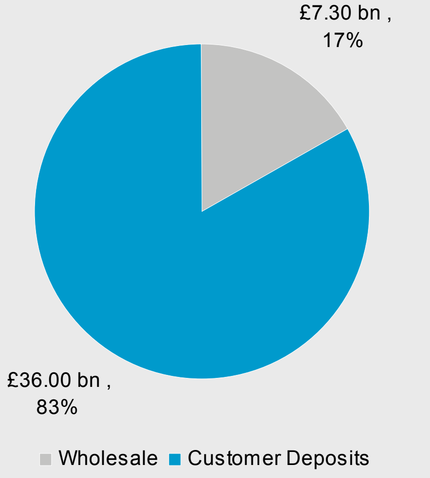
- Loan to deposit ratio of 96%, improved from 102% at end 2010
  - Current accounts up
  - Term deposits up
  - Controlled lending
- Customer funding ratio* improved to 113% (107% end 2010). Strong funding retention - 92% ISAs are renewed with Co-op every fiscal year
- Liquidity strengthened

	HY **2011** £m	YE 2010 £m	Change %
Loans and advances to customers	34,607	35,145	-2%
Investments	10,533	9,033	17%
Other assets	1,291	1,403	-8%
Total assets	**46,431**	**45,581**	2%
Amounts owed to customers	36,005	34,303	5%
Wholesale liabilities	2,711	2,939	-8%
Debt securities in issue	3,385	4,212	-20%
Other liabilities	986	1,079	-9%
Minority interest	33	32	3%
Other borrowed funds	1,178	975	21%
Equity	2,133	2,041	5%
Total liabilities & equity	**46,431**	**45,581**	2%

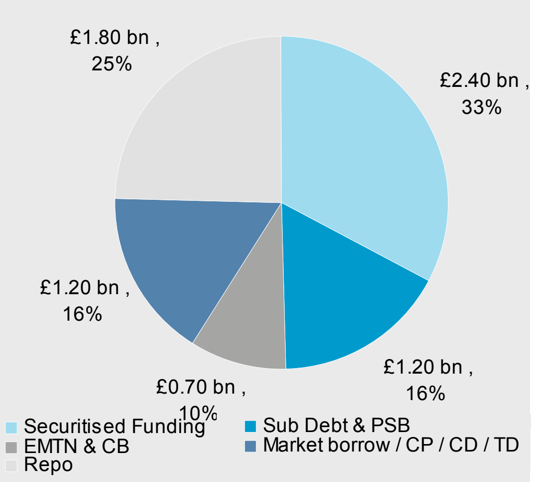
* Customer deposits / (customer assets - externally issued securitisations)
Source: Co-op Bank 2011 half year results

Funding & Liquidity

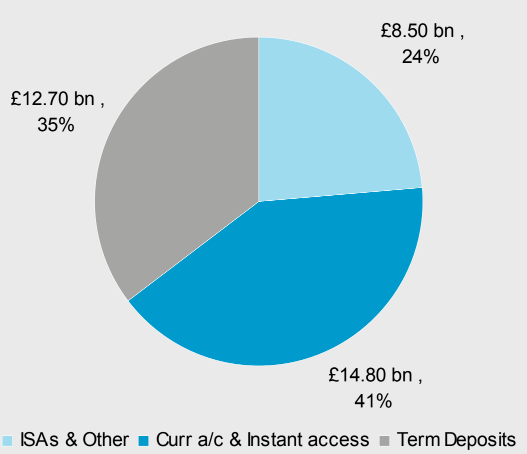
Funding Mix



Wholesale Funding



Customer Deposits



- Wholesale funding
  - Successful completion of Silk Road 2 securitisation
  - £0.7bn of long term funding

- High quality liquid assets
  - Liquid asset ratio* of 11.5% at June 2011
  - Total liquid assets of £6.0bn (2010: £4.4bn)
- External funding maturity

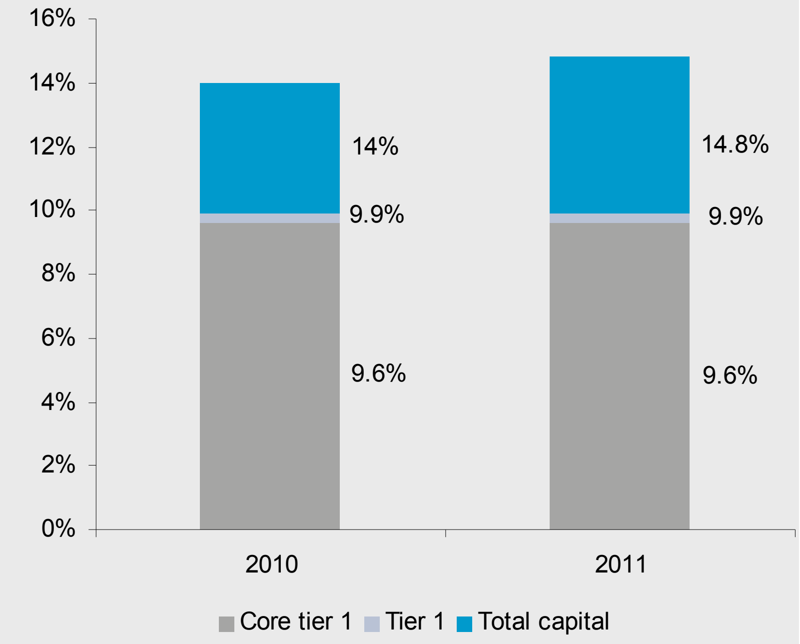
	2012	2013	2014	2015	2016	> 2017
MTN		0.1				0.4
Securitised funding			0.7	1.1	0.6	1.4
Sub Debt			0.2		0.2	0.6
TOTAL			**0.9**	**1.1**	**0.7**	**2.4**

Excluding perpetual debt, short term money market

* Measured as cash & Gilts as a proportion of total Bank liabilities
Source: Co-op Bank 2011 half year results

Capital

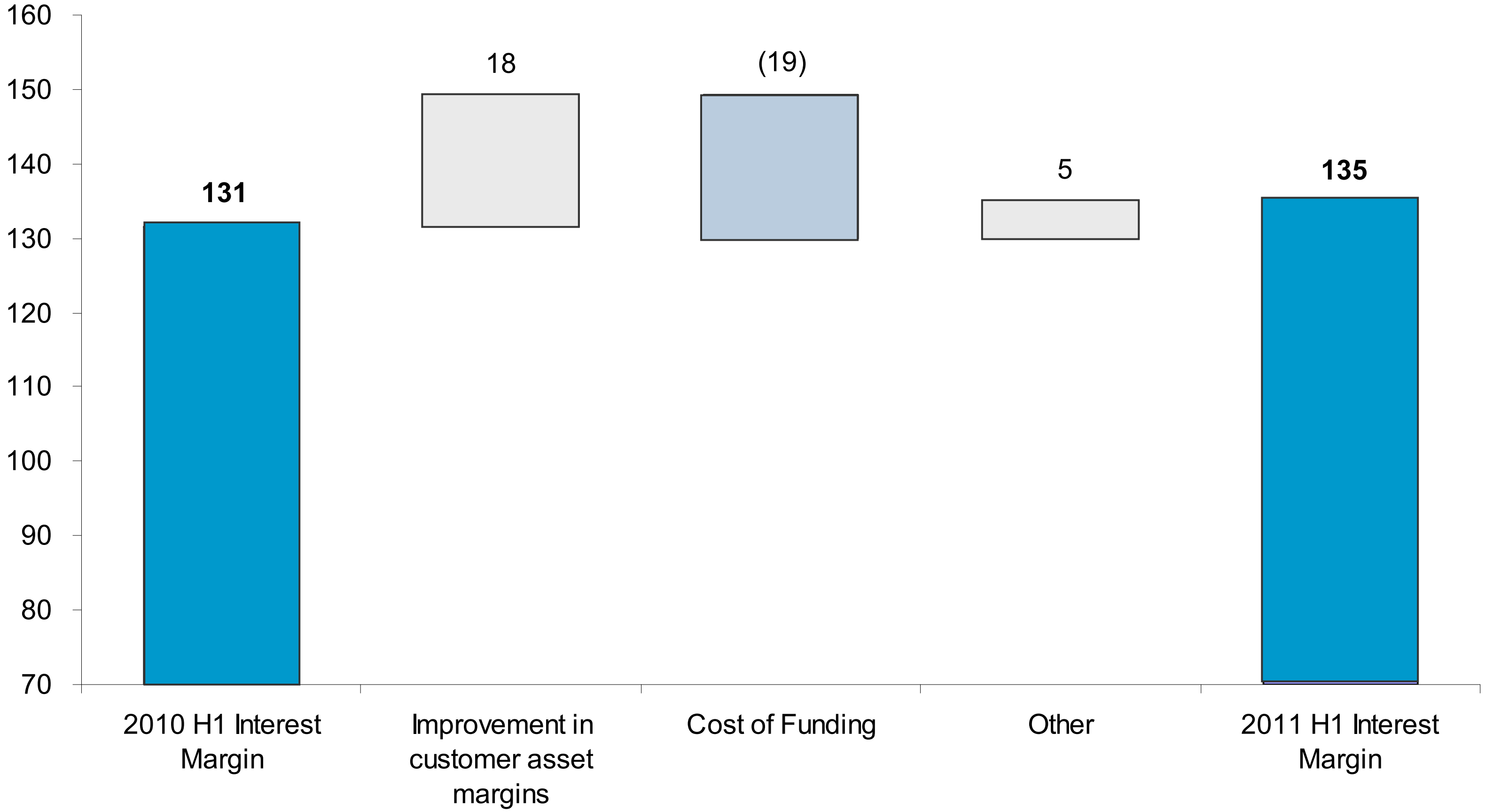
- Capital position remains resilient
  - Bank core tier 1 ratio of 9.6% maintained
  - Bank total capital ratio improved to 14.8%
- Capital stable despite PPI impact
  - Capital injected from surplus held within CBG
- Rigorous stress testing undertaken



£bn	2010	**2011**
Risk weighted assets	19.5	**20.4**
Core tier 1 capital	2.0	**2.1**
Total capital	2.7	**3.0**

Source: Co-op Bank 2011 half year results

Net Interest Margin

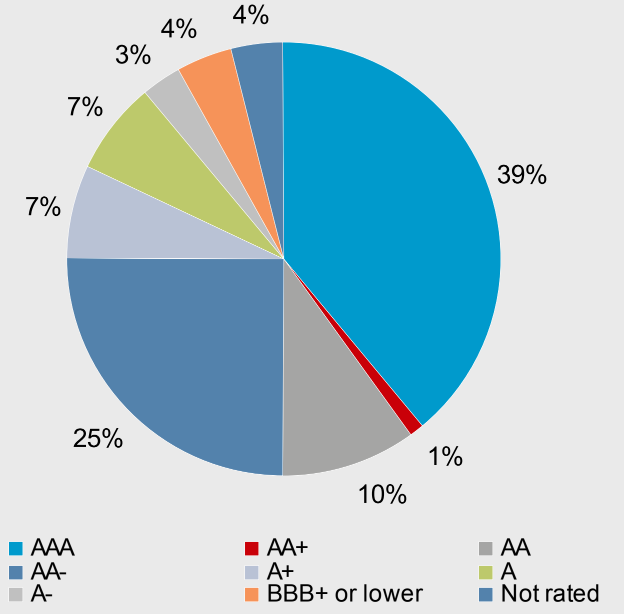


Source: Co-op Bank 2011 half year results

Treasury Portfolio

- Total Treasury portfolio exposure £7.6bn*
- 92% of exposure is rated A- or higher
  - Investment portfolio assets (incl. ABS/MBS) c. £4.5bn, 88% of which are rated A- or higher
- Total liquid assets of £6.0bn (2010: £4.4bn)

External Rating of Treasury Exposure



* Total treasury assets as valued for credit risk purposes
Source: Co-op Bank 2011 half year results

European Counterparty Exposure

- Bank exposure to European counterparties;
  - £1.3bn matures within 30 days
  - Additional £0.6bn matures within a year
- No retail exposure outside the UK
- Underlying term assets in run-off. No new term exposure
- No sovereign exposure to Portugal, Ireland, Italy, Greece or Spain. No exposure to Greece
- Treasury exposure to peripheral European banks:
  - 57% (c.£0.7bn) short term money market lending, with majority maturing in < 1m
  - 40% (c.£0.5bn) senior debt securities (94% mature in < 1yr, all mature by mid 2012)

Country	Total exposure £m 30 June 2011
Austria	40
Belgium	212
Denmark	-
Finland	25
France	576
Germany	279
Greece	-
Ireland	106
Italy	237
Luxembourg	-
Netherlands	69
Norway	-
Portugal	36
Spain	555
Switzerland	146
	2,281

Source: Co-op Bank 2011 half year results

Prime Residential Mortgage Portfolio

- Residential lending and savings brands:

- The Covered Bond Programme will be secured on prime mortgages originated under either the Britannia or the Co-op Bank brands

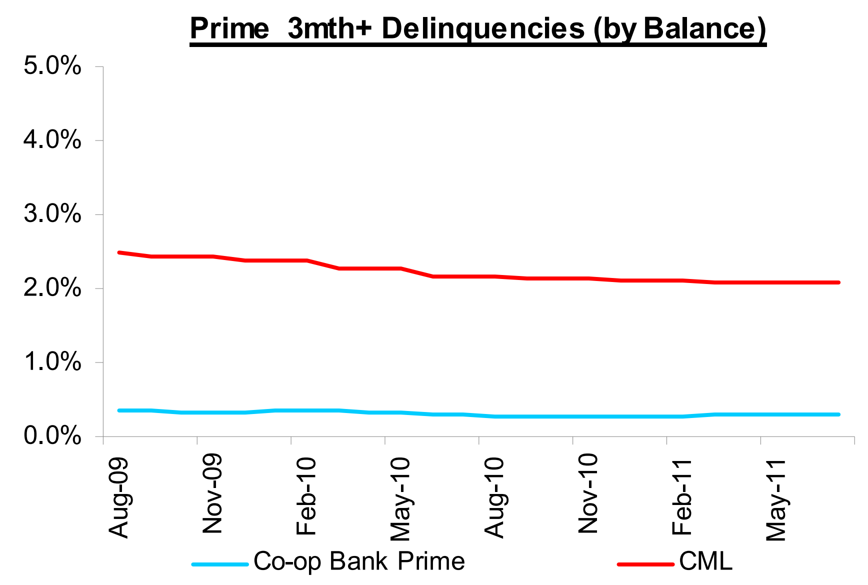
- Prime Residential Mortgage Book:
  - £16.6bn
  - WA current indexed LTV: 43%[1]
  - 79% Repayment based

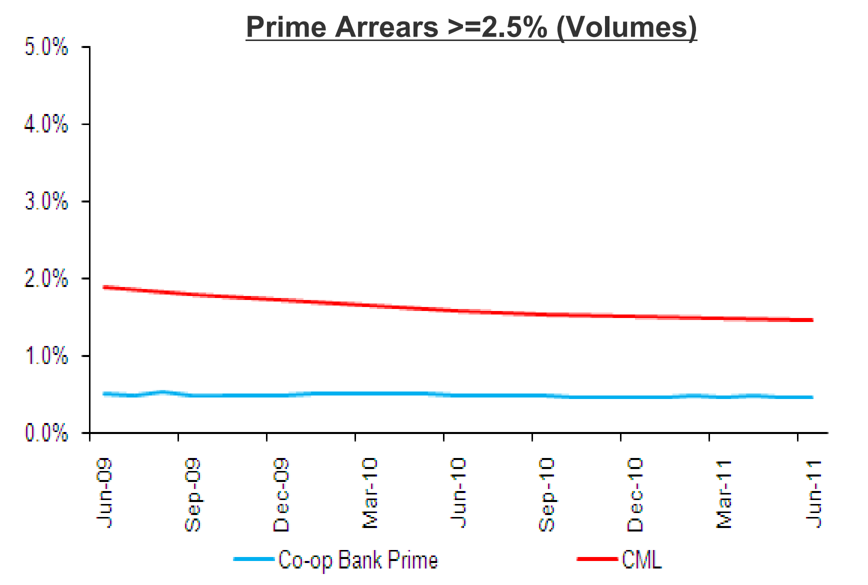
Source: Co-op Bank 2011 half year results; Note: 1) Halifax House Price Index

Reducing Arrears

- Well managed arrears, with ongoing actions
- ≥ 2.5% arrears fallen 18% since December 2010
- Stable, consistently low delinquency trend
- Prime re-possession stock less than 0.1% (by number)

		Jun-2011	
	Book (No.)	**≥ 2.5% arrears**	***Change (Dec-10)***
Prime	193,236	0.45%	*-4%*
BTL	23,820	0.30%	*-22%*
Self Cert	15,239	2.53%	*-18%*
Non Conforming	27,663	8.41%	*-23%*
Total	**259,958**	**1.41%**	***-18%***





Source: Co-op Bank 2011 half year results

Product Range

- Current Standard Variable Rate ("SVR"): 4.24%
- Current product offering:

Variable	▪ Interest Rates go up or down as the SVR varies, as determined by the Bank ▪ Usually responds to changes in Bank of England Base Rate ("BoE")
Fixed	▪ Rates generally fixed for set period of time (2, 3, 5 and 10 year products typically offered) ▪ Typically revert to SVR after expiry of fixed period
Tracker	▪ Rate linked to the BoE Base Rate for a specified term ▪ BoE Base Rate changes passed on by the 1st of the following month, or the month subsequent (if BoE decision is after 10th of a particular month) ▪ Typically revert to a rate linked to the BoE Base Rate
Discounted	▪ Payments are based on a discounted rate set at a certain level below the SVR for a specific period of time (typically 2-3 years) ▪ Generally revert to a variable rate at end of the product term
Capped / Cap and Collar	▪ Cap restricts the amount rate can rise to an upper limit for a set period of time ▪ Cap and collar also limit the amount the rate can rise or fall to for a set period of time

Loan Purpose	▪ Purchase; Remortgage; Additional Lending
Overpayments	▪ Generally allowed subject to a maximum 10% of original loan balance per annum without Early Redemption Charges ("ERCs")
Payment Holidays	▪ Only allowed on certain mortgage types and subject to certain conditions (requires prior overpayments; minimum 6 months payments made on loan)

Mortgage Origination Process

Stage 1: Point of Sale

- Application made via sales channel (Branch, Direct Sales, Internet)
- If the application passes credit score, policy & affordability checks then valuation is instructed and references requested. Application transferred electronically to New Lending Dept to continue processing
- If the application does not pass these checks, the application can be referred for a full Underwriting assessment

Stage 2: Underwriting

- Application form, valuation report, references and supporting docs returned to New Lending Dept where the application is underwritten by the appropriate mandate holder. If any aspect of the application is found not to meet lending policy it is referred for assessment by an Underwriter

Stage 3: Offer/ Approval

- Usually within 21 days of application
- Providing all docs are satisfactory, the application is approved and the offer of advance issued

Stage 4: Completion

- Usually between 1 to 3 months from application, although the customer has up to 4 months to complete from application date
- The solicitor returns the Certificate of Title to the completions team in the New Lending Dept to request the completion funds on a specific date

Referral Process

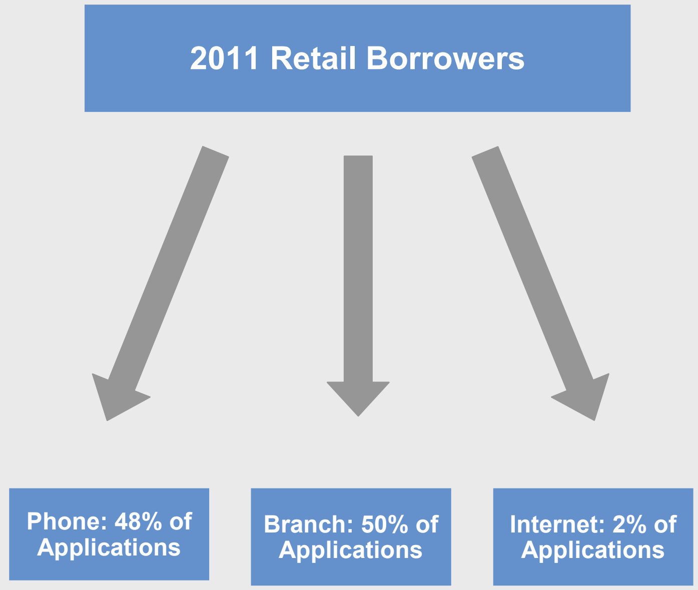
- Any application which does not meet lending policy can be referred to the Underwriting Team within the Quality & Risk area of New Lending for consideration

Origination

- Large branch network gives a broad UK geographic coverage with a wide range of prime mortgage product types available
- The Co-operative Bank has traditionally only offered conforming loans and has limited BTL exposure
- Income checking
  - No Self-Certified lending
  - Income proof always obtained
  - Self Employed borrowers are accepted provided at least 3 years of accounts are evidenced
  - Retired borrowers are accepted provided evidence of income is supplied and the borrower is not over 75 at the loan maturity
- Regardless of source, all applications must go through a credit score and affordability assessment

The co-operative bank

Britannia
part of The co-operative bank



Source: Co-op Bank 30/06/2011

Prime Underwriting Criteria

Key lending guidelines for mortgages:

Borrower

- All residential products are granted on the basis of a combination of affordability and income
- Borrower must be 18 years of age or older, in receipt of suitable income and with a permanent right to reside in the UK
- The customer must be less than 75 at the maturity of the mortgage and be able to evidence affordability into retirement
- Ongoing financial commitments are annualised and deducted from income before application of affordability calculations
- Credit searches are conducted for all known addresses
- No unsatisfied CCJs. No discharged or un-discharged prior bankruptcies accepted

Collateral

- Located in England, Wales, Scotland and Northern Ireland
- Secured by first legal charge and fully insured to the valuers recommended level
- Unacceptable property types include: mobile homes/ houseboats/ freehold flats/ non residential usage properties
- At least one mandatory valuation by approved valuation method
- Full physical or AVM (subject to criteria) valuations only

Loan

- Original term of 5 - 40 years
- Maximum LTV of 90% (including fees)
- Repayment, Interest Only or a combination of both
- All loans over £250k assessed by manual underwriting only

Affordability

- The affordability index is calculated for every loan application. It calculates the percentage of take-home pay absorbed by monthly commitments

Monthly Commitments incl Household Bills

- Utilities and Council Tax costs*
- Other credit commitments (on credit file)
- Mortgage payment based on a repayment basis using product rate if fixed product maturity >= 3 yrs or else current SVR + 1%

*Data from various sources incl. Office of National Statistics

Net Monthly Income

- After tax and NI
- Only 50% of regular overtime, bonuses, allowances or commission is considered

Index required varies depending upon # of Occupants	1-2 Occupants	3+ Occupants
Decline	Above 100%	
Refer	Above 90%	Above 80%
Accept	90% or less	80% or less

Valuation Criteria

- A valuation is required on all property used as security
- Subject to certain qualifying criteria, the Co-op has two valuation options: either a full external physical valuation (FRICS, ARICS, MRICS or TECH RICS registered) or an automated valuation (AVM) currently provided by Hometrack

Physical Report:

- Standard format
- Completed by an authorised panel valuer
- Addressed to the Co-operative Bank
- Valid for 6 months from the date of inspection

AVM Criteria:

- Residential re-mortgages only
- Max LTV: 60%, Standard construction
- Estimated valuation: > £50k and <= £500k
- Flats no more than 4 storeys high
- No new builds (built within last 24 months)
- No ex local authority flats / flats above commercial premises
- Minimum confidence level of 5 if over 50% LTV, otherwise confidence level of 2
- Valid for 6 months

Prime Underwriting

- Approximately 8% of applications are declined immediately
- Average completion rate on Prime applications is c.80%
- Various Lending Mandate levels from loan approval up to £250k at Underwriter level, to loan approval over £2m at Executive level
- Mandate authorisation is dependent upon experience and capability
- An underwriter typically has at least 5 years industry experience. The average experience of the underwriting team is 8 years
- Underwriter compensation is salary based and managed under an accreditation scheme with measures on quality, mandate level and productivity
- The Underwriting Team form part of the Quality & Risk area of the Operations Support department in Customer Processing Services

Arrears Management

- Team of 55 collections staff (incl. managers, coaches and business support) in Leek of which 18 collection staff work on arrears cases
- Multiple site arrears administration (Leek, Staffordshire and Plymouth, Devon)
- Experienced staff with up to 20 years experience
- For new collectors an 8 week induction is followed by an 18 month accreditation scheme where performance is monitored routinely to ensure compliance with policies and procedures
- Credit bureau information is proactively used to determine collection strategy & the appropriateness of forbearance strategies
- Active arrears management focuses attention on higher risk cases & has helped to improve arrears levels
- Litigation, debt counselling & asset managers to handle the sale of properties in possession are currently outsourced

Arrears Possession & Sale Timeline

Stage 1: Accounts => 1 month subscriptions transferred to Arrears Management System at month end

Action : An initial letter followed by subsequent telephone/letter to the customer to assess circumstances and find a solution

Stage 2: Borrower missed second payment

Action A letter is generated followed by telephone/letter. If no contact the account is reviewed for possible debt counsellor referral

Stage 3: Borrower does not make payment

Action: A letter is generated followed by telephone/letter. Account reviewed and formal notice issued if appropriate

Stage 4 : Commence litigation

Action: Decision made to commence litigation. Instructions sent to solicitors

Stage 5: Possession Claim

Action: Court order obtained, account monitored and default results in possession of property

Stage 6: Sale completed and shortfall recovery

Action: Possession and subsequent sale of property. Any shortfall transferred to a Loss Recovery Unit to recover outstanding debt

1 day | **1 month** | **2 months** | **3 months** | **4 months** | **12 months plus**

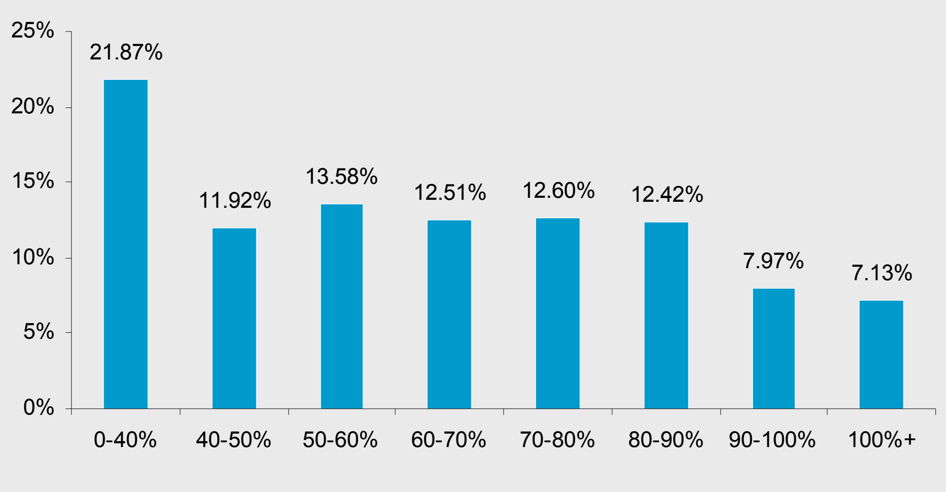
Programme Overview

ISSUER/ SELLER	The Co-operative Bank Plc
GUARANTOR	Moorland Covered Bonds LLP
REGULATION	FSA RCB approved - October 2011
SIZE	£3 billion
RATINGS	AAA | Aaa (Fitch | Moody's)
MATURITY TYPE	Soft Bullet | Extendable
CURRENCY	GBP | EUR | Other
LISTING	London Stock Exchange
COLLATERAL	UK Residential Mortgages (Excluding: non-conforming, Buy to Let or commercial)
GOVERNING LAW	English

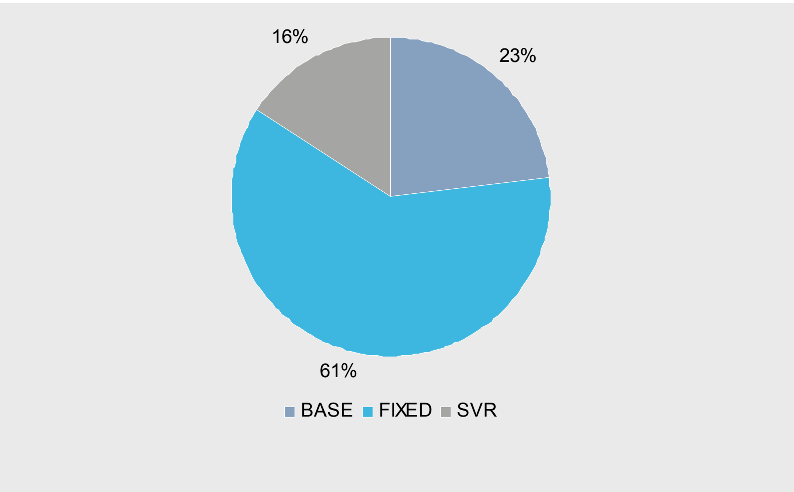
Collateral Pool Overview (August 2011)

COLLATERAL POOL	£1.75bn
NUMBER OF LOANS	18,815
WA CURRENT LTV	56.9%
WA INDEXED LTV[1]	62.1%
SEASONING (Months)	51
MAX LOAN SIZE	£1m

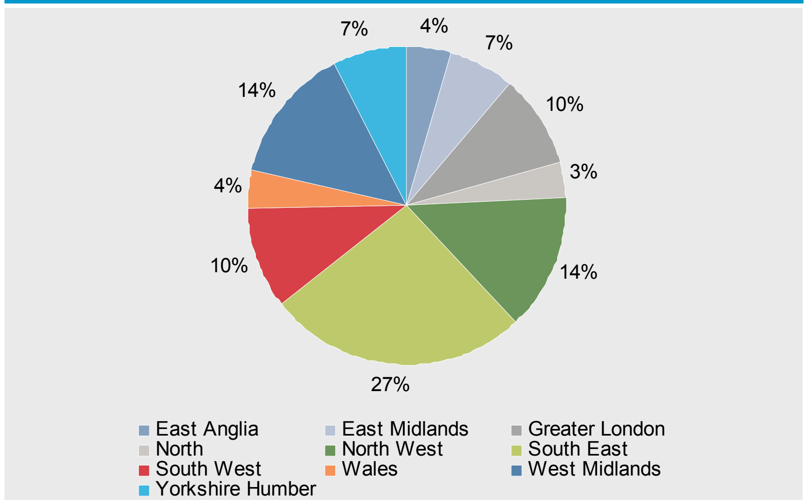
Indexed LTV



Interest Rate Type



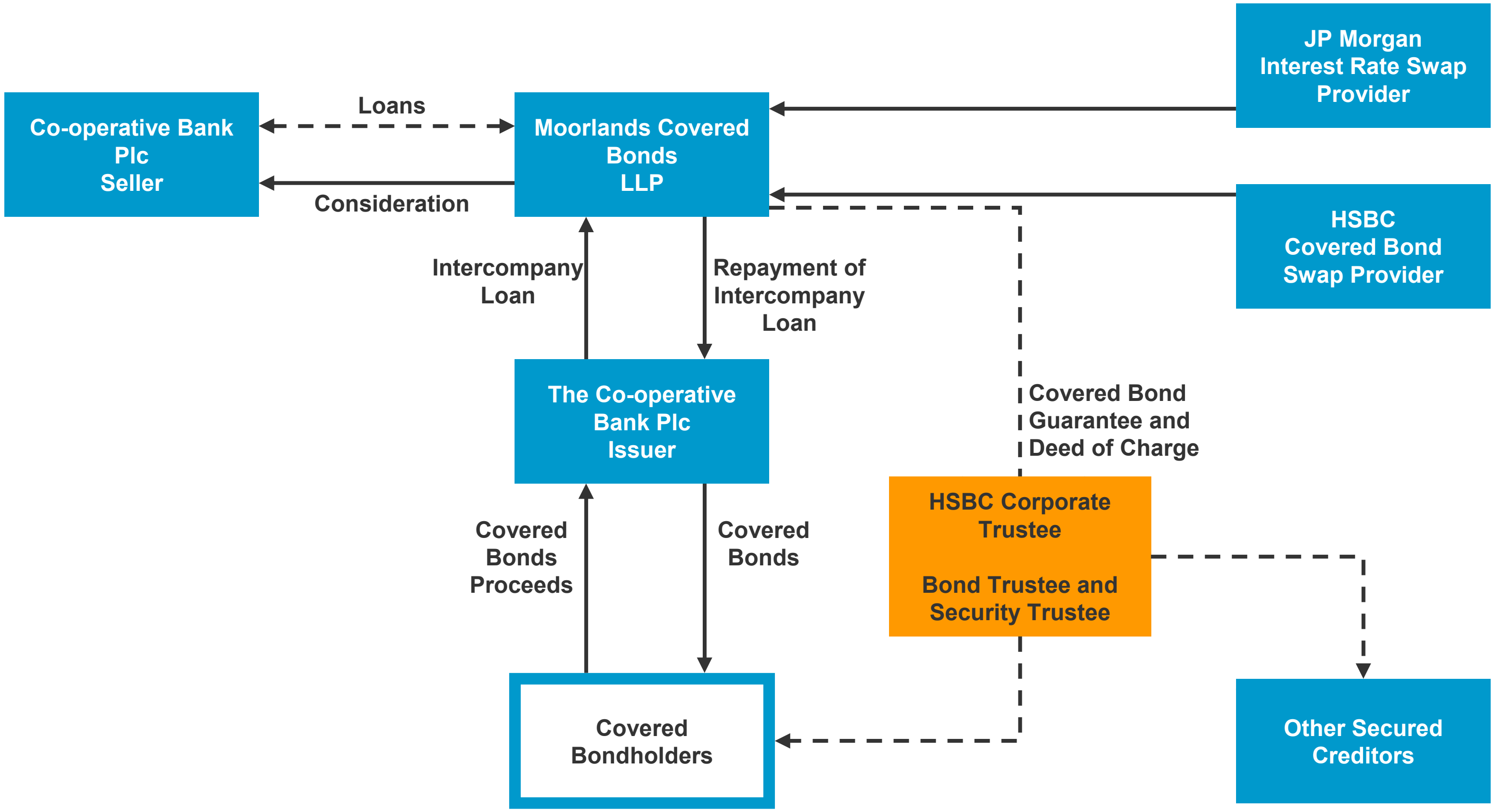
Region



Source: Programme investor report 31/08/2011; Note: 1) Halifax House Price Index Quarterly Non SA

Programme Structure

- Full recourse to The Co-operative Bank plc
- Covered Bonds are backed by collateral pool through the Covered Bond Guarantee
- AAA level over-collateralisation
- Swap Provider mandate to be decided at each new issuance



Structural Highlights

PRIME ORIGINATOR	▪ Co-operative Bank is an established player in prime UK retail mortgage market
STRUCTURE	▪ Full recourse to the Co-operative Bank & security over prime UK residential mortgages
SECURITY	▪ Sale by equitable assignment of residential mortgages to the Moorland Covered Bonds LLP
OVER-COLLATERALISATION	▪ Pool sized to meet monthly Asset Coverage Test (ACT) requirements
ASSET MONITOR	▪ The Asset Monitor (PWC) confirms compliance with ACT on an annual basis
AMORTISATION TEST	▪ Designed to confirm asset pool is sufficient to meet LLP obligations following an Issuer Event of Default scenario and the service of an LLP Notice to Pay
PRE-MATURITY TEST	▪ Programme capable of issuing 'hard bullet' and extendible format notes. In case of hard bullet notes, this test ensures the ability to pay at maturity

Structural Enhancements

INTEREST RATE HEDGING	▪ Fixed to floating swap to convert fixed rate receivables into Libor based flows ▪ Interest rate risks associated with Bank Base Rate and SVR linked mortgage receivables will be mitigated through overcollateralisation ▪ JPMorgan is the initial interest rate swap provider. It will post collateral or be replaced if short term ratings fall below F-1/ P-1
LIABILITY HEDGING	▪ Hedges the sterling interest paid by the mortgages or the interest rate swap provider into the rate of the Covered Bonds ▪ HSBC Bank plc is the initial liability swap provider. It will post collateral or be replaced if short term ratings fall below F-1/ P-1
BANK ACCOUNTS	▪ BNP Paribas provides accounts. If ratings fall below F-1/ P-1, the account provider will be transferred
RESERVE FUND	▪ Sized to ensure sufficient funds are available to cover 3 months senior costs & interest coupons on the Covered Bonds
SERVICING AND CASH MANAGEMENT	▪ Co-op will service the portfolio on behalf of the LLP ▪ Structured Finance Management (SFM) as Back-up Cash Manager Facilitator & Back-up Servicer Facilitator will on Co-op's loss of BBB-/ Baa3 (F/M) use reasonable endeavours to appoint a Back-up Servicer and/or Cash Manager

Performance Reporting

- Detailed investor reporting will be available monthly at: www.britannia.co.uk/bts

Britannia
part of The co-operative bank

Capital Market Transactions

Covered Bonds Programme
- Transaction Documentation
- Investor Reports
- Latest Notices

Other services
- Leek Programme
- Dovedale Finance 1
- Silk Road 1
- Silk Road 2

Home > Capital Market Transactions > Covered Bonds Programme　　Monday 12 September

Covered Bonds Programme

In April 2009, Britannia launched a £3billion equivalent Covered Bond Programme (The Covered Bonds Programme). There has been one issuance from the Covered Bond programme to date, with the issuance of bonds to the value of £1.4billion (sterling).

Features of the Covered Bond programme include:-

- Credit strength of the issuing institution
- High 'de-linkage' factor, reducing the risk of timely payment disruption following an Issuer event of default
- The strong credit quality of the Cover pool
- Conservative structural features

All outstanding issues under the Covered Bond programme have been rated by Fitch, and Moody's.

Please see the mortgage section on our website for details on our residential mortgage loans.

What will you need?
Our investor reports are in 'PDF' so you'll need to have Adobe Acrobat 4.0 or above to read them. If you haven't got it, you can download it for free from adobe.

Contact Us

If you have any questions regarding the Covered Bonds Programme, please email us or contact Angela Bailey on **+44(0)1538 393 829**.

Comparable UK Regulated Programmes

	The Co-operative	Nationwide	Yorkshire	Coventry	Santander UK (Abbey)	RBS
Programme Size	£3 bn	€35 bn	€7.5 bn	€7 bn	€12 bn	€15 bn
Ratings (F/ M / S&P)	AAA / Aaa / -	AAA / Aaa / AAA	AAA / Aa2 / -	AAA / Aaa / -	AAA / Aaa / AAA	AAA / Aaa / -
Collateral	UK residential mortgages	UK residential mortgages	UK residential mortgages	UK residential mortgages	UK residential mortgages	UK residential mortgages
Maximum LTV	75%	75%	75%	75%	75%	75%
Maximum Asset Percentage	93.5%	93%	93.5%	90%	91%	90%
Current OC*	[xx]%	23.80%	37.84%	22.76%	29.02%**	36.11%
Treatment of defaulted loans (in arrears for 3 months or more)	40% of the indexed valuation where the total LTV ratio of such loans is <= 75%; 25% of the indexed valuation where the total LTV ratio of such loans is >75%; or buy back through seller	40% of the indexed valuation where the total LTV ratio of such loans is <= 75%; 25% of the indexed valuation where the total LTV ratio of such loans is >75%; or buy back through seller	40% of the indexed valuation where the total LTV ratio of such loans is <= 75%; 25% of the indexed valuation where the total LTV ratio of such loans is >75%; or buy back through seller	40% of the indexed valuation where the total LTV ratio of such loans is <= 75%; 25% of the indexed valuation where the total LTV ratio of such loans is >75%; or buy back through seller	40% of the indexed valuation where the total LTV ratio of such loans is <= 75%; 25% of the indexed valuation where the total LTV ratio of such loans is >75%; or buy back through seller	40% of the indexed valuation where the total LTV ratio of such loans is <= 75%; 25% of the indexed valuation where the total LTV ratio of such loans is >75%; or buy back through seller
Repayment Structure	Hard Bullet or Soft bullet, 12 month extendable maturity	Soft bullet, 12 month extendable maturity	Soft bullet, 12 month extendable maturity	Soft bullet, 12 month extendable maturity	Soft bullet, 12 month extendable maturity	Soft or Hard bullets
Pre-Maturity Test	Yes	No	No	No	No	Yes
Interest Rate Swap Provider	J.P. Morgan	Nationwide BS	Yorkshire BS	Coventry BS	Abbey National	RBS
Covered Bonds Swap Provider	HSBC or other eligible third party	Barclays, BNP, DB, Merrill Lynch, Nwide, SocGen, RBS , UBS	Barclays, HSBC, SocGen	HSBC	Abbey, Barclays, BNP, Citi, DB, RBS	The Royal Bank of Scotland plc
Liquidity Support	Three month's interest due on the covered bonds and senior expenses, plus a further £600,000	One month's interest due on the covered bonds and senior expenses, plus a further £600,000	One month's interest due on the covered bonds and senior expenses, plus a further £600,000	Three month's interest due on the covered bonds and senior expenses, plus a further £600,000	One month's interest due on the covered bonds and senior expenses, plus a further £600,000	One month's interest due on the covered bonds and senior expenses, plus a further £600,000
	WHEN: On or before the Issue Date	WHEN: upon loss of F-1+ / P-1 / A-1 short-term ratings	WHEN: upon loss of F-1+ / P-1 / A-1 short-term ratings	WHEN: upon loss of F-1+ / P-1 short-term ratings	WHEN: upon loss of F-1+ / P-1 / A-1 short-term ratings	WHEN: upon loss of F-1+ / P-1 / A-1 short-term ratings

* Calculated as (adjusted assets - outstanding covered bonds) / outstanding covered bonds
Source: Offering documents and Investor Reports (August 2011); ** as per July 2011 Investor Report

Asset Coverage Test (ACT)

- Before an Issuer Event of Default
- Monthly test to ensure the arrears adjusted assets are at least equal to the outstanding covered bonds

Adjusted Aggregate Loan Amount

=

(A) Lower Of:

(i) Aggregate Adjusted True Balance for each loan, which is the lower of:	(ii) Aggregate Arrears Adjusted True Balance, which is the lower of:
1) True Balance 2) Indexed Valuation multiplied by: a) 0.75 (loans < 3 months in arrears); or b) 0.4 (loans ≥ 3 months in arrears & loan to indexed val ≤75%); or c) 0.25 (loans ≥ 3 months & loan to indexed val > 75%)	1) True Balance 2) Indexed Valuation multiplied by: a) 1 (loans < 3 months in arrears): or b) 0.4 (loans ≥ 3 months in arrears & loan to indexed val ≤ 75%): or c) 0.25 (loans ≥ 3 months & loan to indexed val > 75%)
LESS loans in breach of rep & warranty	LESS loans in breach of rep & warranty MULTIPLIED BY Asset Percentage

+

(B) Principal Receipts
+
(C) Capital Contributions
+
(D) Substitution Assets
+
(E) Sale Proceeds

-

(X)	(Y)	(Z)
3x 8% of Flexible Redraw Capacity	Deposit Set-off Amounts	WARM Covered Bonds x GBP Equiv Covered Bonds x Negative Carry Factor

≥

GBP equiv. Outstanding Covered Bonds

Programme Terms: Issuer Events of Default

IED TRIGGERS

- Non-payment of Covered Bonds interest or principal
- Breach of contractual obligations by the Issuer under the Transaction Documents except ACT
- The Issuer ceases to be an authorised person under Part IV of the FSMA
- An Insolvency Event in respect of the Issuer or a Principal Subsidiary
- ACT Breach Notice is not revoked on or before the third Calculation Date after service of such Notice
- No cure to the breach of Pre-Maturity Test happening less than 11 months prior to the final maturity date of that series of hard-bullet covered bonds

COVERED BOND G.TEE

- Bond Trustee to serve Issuer Acceleration Notice to the Issuer and Notice To Pay to the LLP
- Covered Bonds do not accelerate automatically upon IED
- Cashflows:
  - Scheduled interest & principal are paid by the LLP under the Covered Bond Guarantee
  - All cash received from LLP assets is collected and retained in the LLP bank account
- Amortisation Test ensures the cover pool is at least equal to outstanding Covered Bonds
- In the case of extendible, soft bullet maturities, to the extent that the Covered Bond Guarantor has insufficient funds to repay the Covered Bonds in full on the final maturity date, the unpaid amount is deferred of up to 12 months depending on availability of funds

Programme Terms: LLP Events of Default

TRIGGERS

- Non-payment of Guaranteed Amounts
- Breach of contractual obligations by the LLP under the Transaction Documents
- An Insolvency Event in respect of the LLP
- Failure to satisfy the Amortisation Test
- the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect

ENFORCEMENT

- Covered Bonds become immediately due and payable against the LLP
- Investors (via Security Trustee) enforce their security against LLP:
    - LLP assets are liquidated by the Security Trustee for the benefit of Investors
    - Proceeds from the liquidation of the LLPs assets are disbursed to investors on a pro-rata basis with all Covered Bonds ranking pari-passu
    - Investors maintain an unsecured claim against the Issuer for any unpaid amounts under the Covered Bonds

Amortisation Test

- After an issuer Event of Default and Notice to Pay served to the LLP
- Monthly test of funds availability to meet all obligations under the Covered Bond Guarantee
- Failure to satisfy the Amortisation Test is an LLP Event of Default

Amortisation Test = **Amortisation Test Aggregate Amount** ≥ **GBP equiv. Outstanding Covered Bonds**

- Where the Amortisation Test Aggregate Loan Amount will be calculated as: A + B + C - Z

(A) Amortisation Test True Balance Lower Of:	
True Balance of relevant loan MULTIPLIED by M	(100% Indexed Valuation MULTIPLIED by M
Loans < 3 mths in arrears: M = 1 Loans ≥ 3 mths in arrears: M = 0.7	

\+

(B) Principal receipts & Cash Capital Contributions
+
(C) Substitution Assets

\-

(Z) WARM of Covered Bonds
x
GBP Equivalent of Covered Bond
x
Negative Carry Factor

UK Covered Bond Regulation

- UK Covered Bond legislation implemented in March 2008 and updated in July 2008
- Regulated Covered Bonds (RCB) Programmes approved by FSA

- Assessment includes rigorous Issuer & Programme review related to: Asset quality, Governance, Systems & Controls and Legal structures

- RCB approved issuers continue to be monitored by FSA RCB team & FSA Risk Specialists[1]:

  - Stress test on a quarterly basis and upon each new issuance
  - Annual on-site review of each RCB
  - FSA approval required for any structural changes

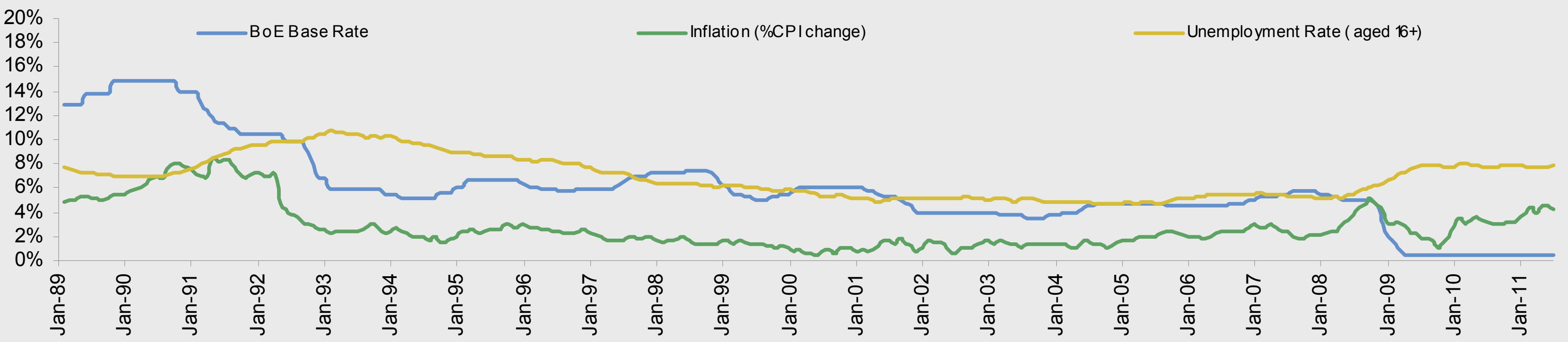
- Benefits:

  - Higher prudential investment limits under UCITS
  - Higher investment thresholds for Insurers
  - Lower risk weights under the Banking Consolidation Directive

Source: http://www.fsa.gov.uk/pubs/international/cbi_factsheet_ukcbf_230611.pdf

UK Economy – 1990s vs 2011

Economic Data



	Early 1990s	2011
Interest Rate	■ Bank Base Rate rose to a peak of 14.0% at the end of 1989 from 5.0% in 1977	■ Bank Base Rate of 0.50%, a historic low
Inflation	■ Rapid economic growth induced inflation levels of up to 8.5% CPI/ 9.5% RPI	■ Moderate inflationary pressure with 4.5% CPI / 5.2% RPI for August 2011
Housing Supply	■ New housing construction remained high	■ Low levels of new house builds, contributing to the shortage of housing supply
Unemployment	■ Rising unemployment levels to approx. 3 million until mid-1990's	■ UK unemployment at 2.49m for April to June 2011, proportionally skewed towards youth population, who are not typical homeowners

Source: Bank of England, Office of National Statistics, August 2011; Council of Mortgage Lenders, August 2011

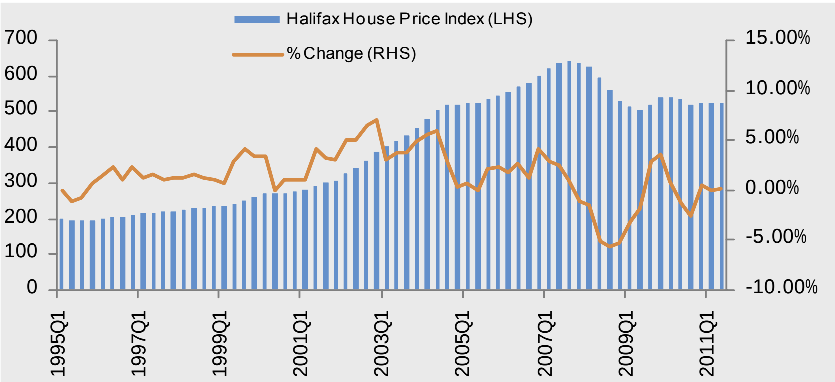
Overview of UK Housing & Mortgage Markets

Housing market[1]

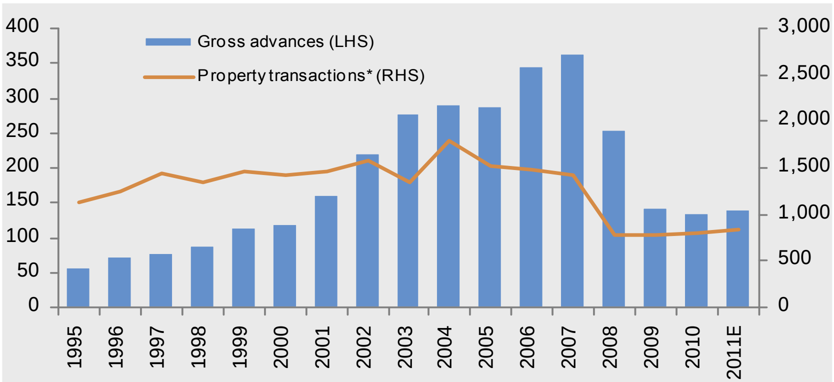
- Regulation of UK mortgages by the FSA was introduced at the start of November 2004
- Gross mortgage advances totalled £143.70 billion in 2009 and £136.1 billion in 2010
- There were £136bn of gross advances in 2010 and the CML expect this to be £140bn in 2011
- CML expects the number of transactions to dip to 840,000 this year, before climbing modestly in 2012. Their forecast is consistent with mortgage-financed sales returning to about 50,000 per month in 2012

Source: CML, Department of Communities and Local Government, Halifax House Price Index

UK Halifax House Price Index[2]



UK Gross advances (£bn) & Property transactions ('000)[3]



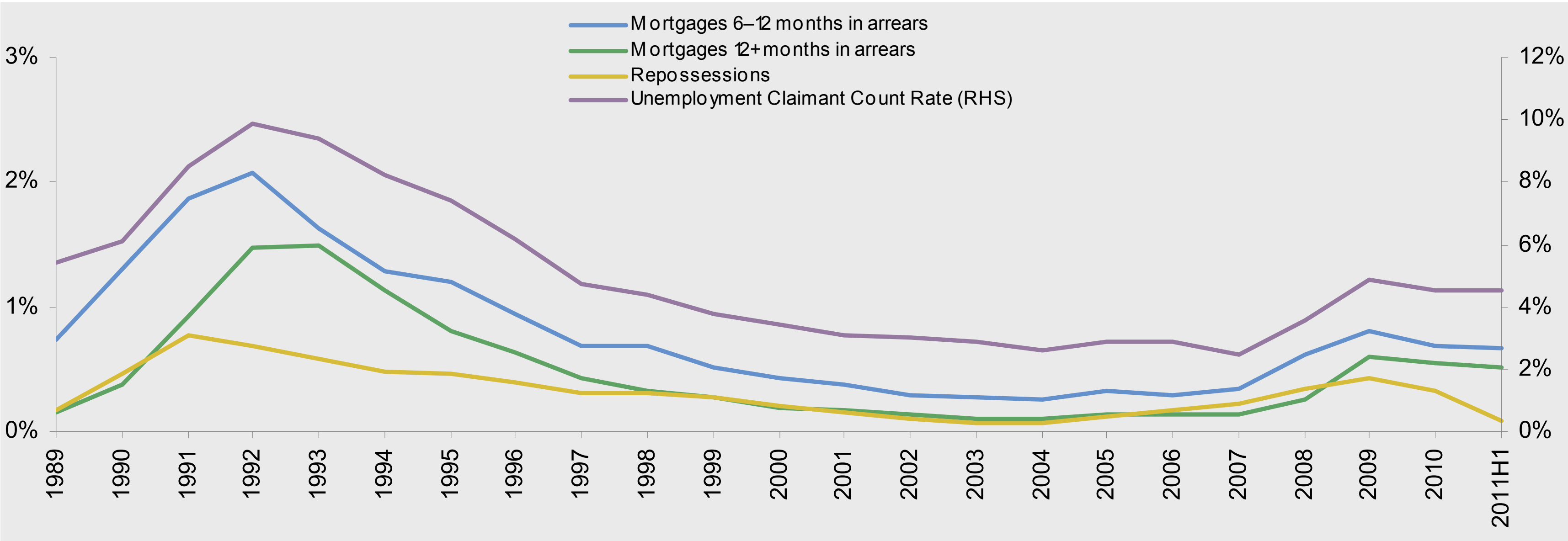
[1] Source: CML, Department of Communities and Local Government, Halifax Price Index
[2] Source: Halifax Price Index, 2011 Q2
[3] Source: CML (2011 Q2), England and Wales only. From 2006 onwards, only transactions exceeding £40,000 are included

UK Mortgage Market - Arrears and Loss Levels

Arrears and possessions in line with 2010[1]

- There was little change in the level of mortgage payment difficulties in the first half of 2011, compared to 2010, when arrears and possessions levels benefited from the low interest rate environment and lender forbearance
- Out of the 11.3 million outstanding first-charge mortgages in the UK at the end of 2011 H1, 18,100 properties were taken into possession in this period
- CML's current forecasts of 40,000 repossessions and 180,000 arrears cases (of 2.5% or more of balance) at year-end

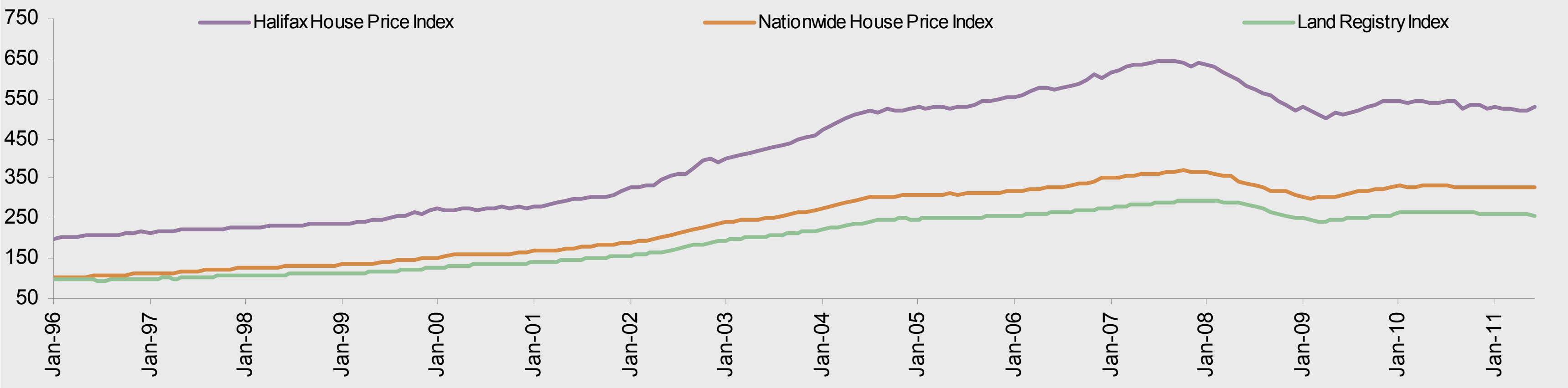
UK Arrears and repossessions[1]



[1] Source: CML, March 2011

UK Housing Price Changes

House prices Indices



- The UK average house price showed a 2.6% year-on-year decrease as at August 2011, according to the Halifax House Price Index
- The Nationwide House Price Index showed a 0.4% year-on-year decrease as at August 2011
- The Land Registry Index showed a 2.1% year-on-year decrease as at July 2011

Source: Seasonally adjusted monthly data for Halifax House Price Index , Nationwide House Price Index as of August 2011; Land registry House Price Index as of July 2011