

EXECUTION COPY

INTERCOMPANY LOAN AGREEMENT

1 APRIL 2010

**RBS COVERED BONDS LIMITED LIABILITY PARTNERSHIP
as LLP**

and

**THE ROYAL BANK OF SCOTLAND PLC
as Issuer and Cash Manager**

and

**CITICORP TRUSTEE COMPANY LIMITED
as Security Trustee**

ALLEN & OVERY

Allen & Overy LLP

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THIS AGREEMENT is dated 1 April 2010

BETWEEN:

- (1) **THE ROYAL BANK OF SCOTLAND PLC**, a public limited company incorporated under the laws of Scotland with registered number SC090312, whose registered office is at 36 St Andrew Square, Edinburgh, EH2 2YB, acting in its capacities as **Issuer** and as **Cash Manager**;
- (2) **RBS COVERED BONDS LIMITED LIABILITY PARTNERSHIP** (registered number OC349504), a limited liability partnership incorporated under the laws of England and Wales whose registered office is at 1 Princes Street, London EC2R 8BP (referred to herein as the **LLP**); and
- (3) **CITICORP TRUSTEE COMPANY LIMITED**, incorporated under the laws of England and Wales with registered number 00235914 whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, acting in its capacity as the **Security Trustee**.

WHEREAS:

- (A) From time to time the Issuer will issue Covered Bonds pursuant to the Programme.
- (B) The Issuer has agreed that it will lend the proceeds of any issue of Covered Bonds to the LLP.
- (C) This Agreement sets out the agreement between the Issuer and the LLP in relation to the lending of the proceeds of the issue of Covered Bonds to the LLP.

IT IS AGREED as follows:

1. INTERPRETATION

The master definitions and construction agreement made between the parties to the Transaction Documents on 1 April 2010 (as the same may be amended, restated, varied and/or supplemented from time to time with the consent of the parties thereto) (the **Master Definitions and Construction Agreement**) is expressly and specifically incorporated into this Agreement and, accordingly, the expressions defined in the Master Definitions and Construction Agreement shall, except where the context otherwise requires and save where otherwise defined herein, have the same meanings in this Agreement, including the recitals hereto and this Agreement shall be construed in accordance with the interpretation provisions set out in Clause 2 (Interpretation and Construction) of the Master Definitions and Construction Agreement.

2. THE FACILITY

Subject to the terms of this Agreement, the Issuer agrees to make available to the LLP a multi-currency facility in an aggregate Sterling Equivalent amount equal to the Total Credit Commitment (the **Facility**). Prior to each Issue Date, the Issuer shall offer Term Advances to the LLP under the Facility that corresponds to each Series or, as applicable, Tranche of Covered Bonds to be issued by the Issuer on the following Issue Date. Each Term Advance shall be in the relevant Specified Currency of the corresponding Series or Tranche in an amount equal to the Principal Amount Outstanding at the Issue Date of the related Covered Bonds. Subject to the terms of this Agreement, on each Issue Date, the LLP shall accept that offer.

3. PURPOSE

3.1 Application of Term Advances by LLP

The LLP must use the proceeds of any Term Advance (if not denominated in Sterling, upon exchange into Sterling under the applicable Covered Bond Swap) as consideration in part for the acquisition of Loans and their Related Security from the Sellers pursuant to the terms of the Mortgage Sale Agreements and/or Substitution Assets (in an amount up to but not exceeding the prescribed limit) so far as necessary for the purpose of complying with arrangements made pursuant to Regulations 23 and 24(1) of the RCB Regulations and the Asset Coverage Test, and thereafter the proceeds of any Term Advance may be used by the LLP:

- (a) (if not denominated in Sterling, upon exchange into Sterling under the applicable Covered Bond Swap) as consideration in part for the acquisition of Loans and their Related Security from the Sellers pursuant to the terms of the Mortgage Sale Agreements; and/or
- (b) (if not denominated in Sterling, upon exchange into Sterling under the applicable Covered Bond Swap) to invest in Substitution Assets (in an amount up to but not exceeding the prescribed limit); and/or
- (c) (if not denominated in Sterling, upon exchange into Sterling under the applicable Covered Bond Swap) *subject to written confirmation from the LLP (or the Cash Manager on its behalf) that on the relevant Issue Date it has not been served with an Asset Coverage Test Breach Notice which remains outstanding, to make a Capital Distribution to a Seller (in its capacity as Member) by way of distribution of the applicable Member's equity in the LLP in an amount equal to the Sterling Equivalent of the Term Advance or any part thereof, which shall be paid to the relevant Member on the relevant Issue Date by telegraphic transfer or as otherwise directed by the relevant 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 Covered Bonds to which the Term Advance relates, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced (after exchange into the currency of the Term Advance(s) being repaid, if necessary); and/or
- (e) (if not denominated in Sterling, upon exchange into Sterling under the applicable Covered Bond Swap) to make a deposit in the Deposit Account (including, without limitation, to fund the Reserve Fund in an amount not exceeding the Reserve Fund Required Amount).

3.2 No obligation to monitor

Without prejudice to the obligations of the LLP under this Clause 3 (Purpose), neither the Security Trustee nor any of the Secured Creditors shall be obliged to concern themselves as to the application of amounts drawn by the LLP under this Agreement.

4. CONDITIONS PRECEDENT

4.1 Conditions precedent

Save as the Issuer and the Security Trustee may otherwise agree, each Term Advance will not be available for utilisation on an Issue Date unless:

- (a) the Security Trustee has received a solvency certificate from the LLP, dated the Issue Date, substantially in the form of Schedule 1 (Form of Solvency Certificate) attached hereto;

- (b) the related Series or, as applicable, Tranche of Covered Bonds has been issued by the Issuer on the relevant Issue Date and the subscription proceeds thereof have been received by or on behalf of the Issuer;
- (c) not later than 2.00 p.m. (London time) on the relevant Issue Date (or such later time as may be agreed in writing by the LLP, the Issuer and the Security Trustee), the Issuer and the Security Trustee have received a Request from the LLP;
- (d) Rating Agency Confirmation has been received by the Security Trustee that there will not, as a result of the Issuer issuing any Covered Bonds, be any adverse effect on the then current ratings by the Rating Agencies of any existing Covered Bonds;
- (e) no Asset Coverage Test Breach Notice is outstanding;
- (f) each of the Issuer and the LLP has confirmed in writing to the Security Trustee that no Potential Issuer Event of Default, Issuer Event of Default, Potential LLP Event of Default or LLP Event of Default has occurred and is continuing or is unwaived at the relevant Issue Date, or would result from the making of any Term Advance; and
- (g) the aggregate of the Sterling Equivalents of the principal amounts of the Term Advance to be made and any Term Advances outstanding on the relevant Issue Date does not exceed the Total Credit Commitment.

5. ADVANCE OF TERM ADVANCES

5.1 Notice to LLP

On the Business Day prior to each Issue Date, the Issuer shall give to the LLP (copied to the Security Trustee) a Term Advance Notice in the form set out in Schedule 2 (Term Advance Notice) hereto, setting out *inter alia*:

- (a) the amount and currency or currencies of the proposed issue on the next Business Day of each Series or, as applicable, Tranche of Covered Bonds under the Programme;
- (b) the principal amount and corresponding currency of each Term Advance available for drawing under the Facility on the next Business Day; and
- (c) the interest rate and Loan Interest Periods applicable to the relevant Term Advance.

5.2 Term Advances correspond to Series and Tranches of Covered Bonds

- (a) Each Term Advance shall be identified by reference to the relevant Series and Tranche of Covered Bonds that is used to fund it, as set out in each Term Advance Notice. For instance, the Series 1 Tranche 1 Covered Bonds shall fund the Series 1 Tranche 1 Term Advance.
- (b) A Term Advance which is funded by the issue of a Tranche of Covered Bonds on an Issue Date shall be consolidated with the Term Advance corresponding to the Series of Covered Bonds with which that Tranche will be consolidated, with effect from the LLP Payment Date falling immediately after the relevant Issue Date.
- (c) Where a Series, or, as applicable, Tranche of Covered Bonds is issued at a discount, the principal amount of the corresponding Term Advance shall be an amount equal the Principal Amount Outstanding on the Issue Date of such Series or, as applicable, Tranche, of Covered Bonds.

5.3 Giving of Requests

Not later than 2.00 p.m. (London time) on each Issue Date (or such later time as may be agreed in writing between the LLP, the Issuer and the Security Trustee), the LLP shall give to the Issuer (copied to the Security Trustee) a duly completed Request for the Term Advances in a principal amount and currency which corresponds to the principal amount and currency notified to the LLP in the Term Advance Notice of the previous Business Day. Each Request is irrevocable and (subject to the terms of this Agreement) obliges the LLP to borrow the whole amount specified in the Request on the relevant Drawdown Date upon the terms and subject to the conditions of this Agreement.

5.4 Advance of Term Advances

On receipt of a Request from the LLP, and if the conditions set out in Clause 4 (Conditions Precedent) have been met, the Issuer shall make the Term Advances available to the LLP on the Issue Date.

5.5 Single drawing of the Term Advances

Each Term Advance shall, subject to satisfaction of the matters specified in Clause 4 (Conditions Precedent), only be available for drawing in one amount by the LLP on the relevant Issue Date.

6. INTEREST

6.1 Interest Periods

- (a) Each Loan Interest Period shall match the Interest Periods applicable to the corresponding Tranche or Series of Covered Bonds that funds such Term Advance. In the event of any lengthening or shortening of an Interest Period in respect of any Series or Tranche of Covered Bonds, the Loan Interest Periods will be subject to a corresponding lengthening or shortening. The Issuer shall notify (or shall procure notification to) the LLP of the Loan Interest Payment Dates and the Loan Interest Periods (including any amendment thereto).
- (b) Whenever it is necessary to compute an amount of interest in respect of a Term Advance for any period (including any Loan Interest Period), such interest shall be calculated on the same basis as interest is computed in respect of the corresponding Tranche or Series of Covered Bonds that funded such Term Advance.
- (c) Subject to Clause 20.3 (Subordination) of the Deed of Charge interest payable in respect of a Term Advance shall be payable on each Loan Interest Payment Date following the Drawdown Date of that Term Advance.
- (d) If the payment of interest in respect of a Term Advance is deferred as a result of the service of an Asset Coverage Test Breach Notice pursuant to Clause 15 (Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts following Service of an Asset Coverage Test Breach Notice) of the LLP Deed, then: (i) if such Asset Coverage Test Breach Notice is subsequently revoked, such payment of interest will be made on the next LLP Payment Date after the relevant Asset Coverage Test Breach Notice has been revoked or (ii) in all other cases, such payment of interest will be made in accordance with the relevant Priorities of Payments.

6.2 Interest Amount

- (a) Subject to Clause 20.3 (Subordination) of the Deed of Charge, the amount of interest payable in respect of each Term Advance for each Loan Interest Period in respect of that

Term Advance shall match the amount of which is payable in respect of the corresponding Interest Period in relation to the Tranche or Series of Covered Bonds that funded such Term Advance.

- (b) The Issuer shall, as soon as practicable after receiving notification under the Conditions of the Rate of Interest and Interest Amount (each as defined in the Conditions) applicable to an Interest Period in respect of any Series or Tranche of Covered Bonds, notify (or procure notification to) the LLP of the amount of interest applicable to the corresponding Loan Interest Period in respect of the corresponding Term Advance.
- (c) All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Clause 6 (Interest), shall (in the absence of negligence, wilful default, bad faith or proven error) be binding on the LLP, the Cash Manager and the Security Trustee and (in such absence as aforesaid) no liability to the LLP shall attach to the Security Trustee, the Cash Manager or the Issuer in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

6.3 Deferred interest

To the extent that there are insufficient funds available to the LLP to pay interest on the Term Advances on any LLP Payment Date, the shortfall in the interest amount payable will not then fall due but will instead be added to the principal amount outstanding of the Term Advances, and interest will be payable on such increased balance of the Term Advances in the same amounts as would be payable in respect of the corresponding Tranche or Series of Covered Bonds.

6.4 Coupon Payment Ledger

The Issuer, the Cash Manager, the LLP and the Security Trustee acknowledge that, to the extent that amounts have been paid from the Coupon Payment Ledger to the account specified by the Principal Paying Agent in accordance with Clause 8.10(a) of the LLP Deed, the obligation of the LLP under this Clause 6 to make payments of interest on Term Advances corresponding to the relevant Tranche or Series of Covered Bonds that funded such Term Advance on the Loan Interest Payment Date to which the Required Coupon Amount relates, will be deemed to be discharged pro tanto in an amount equal to the amount debited from the Coupon Payment Ledger in respect thereof.

7. REPAYMENT

7.1 Final Repayment

Subject to Clause 20.3 (Subordination) of the Deed of Charge, unless previously repaid in full, each Term Advance shall be due for repayment on the date that matches the Final Maturity Date (or, as applicable, Extended Due for Payment Date) of the corresponding Tranche or Series of Covered Bonds that funded such Term Advance in an amount equal to the amount required to be redeemed in respect of such Tranche or Series of Covered Bonds. The LLP shall not be obliged to sell any Loans and their Related Security in order to pay or repay any amounts due to the Issuer under this Agreement.

7.2 Mandatory Repayment

Subject to Clause 20.3 (Subordination) of the Deed of Charge, each Term Advance shall be repaid on the dates and in the amounts corresponding to the redemption and/or repayment dates and amounts applicable to the corresponding Tranche or Series of Covered Bonds that funded it.

7.3 Discharge of the LLP's obligations under this Agreement

- (a) To the extent that the LLP purchases or otherwise acquires any Covered Bonds, the proceeds of which were originally applied by the Issuer to make a Term Advance to the LLP (for the purposes of this provision, the **Relevant Covered Bonds**) and the Relevant Covered Bonds are cancelled in accordance with Condition 6(i) (Redemption and Purchase - Purchases) and Condition 6(j) (Redemption and Purchase - Cancellation), the Issuer will on such payment or repurchase being made become indebted to the LLP for an amount equal to the Principal Amount Outstanding of the repurchased Relevant Covered Bonds.
- (b) To the extent that the LLP makes, or there is made on its behalf, a payment under the Covered Bond Guarantee, the Issuer will on such payment being made become indebted to the LLP for an amount equal to such payment.
- (c) Any amounts owing by the Issuer to the LLP in respect of amounts paid by the LLP under the Covered Bond Guarantee or the repurchase of Relevant Covered Bonds, as applicable, shall be set-off automatically (and without any action being required by the LLP, the Issuer or the Security Trustee) against any amounts repayable by the LLP under the terms of this Agreement. The amount set-off shall be the amount of the relevant payment made by the LLP under the Covered Bond Guarantee or the Principal Amount Outstanding of any Relevant Covered Bonds purchased and cancelled by the LLP in accordance with Condition 6(i) (Redemption and Purchase - Purchases) and Condition 6(j) (Redemption and Purchase - Cancellation) of the Programme Conditions and/or, in the case of an N Covered Bond, the equivalent Conditions in the N Covered Bond Conditions, as applicable, which amount shall be applied to reduce amounts repayable under the Intercompany Loan in the following order of priority:
 - (i) *first*, to reduce and discharge interest (including accrued interest) due and unpaid on the outstanding principal balance of the relevant Term Advance;
 - (ii) *second*, to reduce and discharge the outstanding principal balance of the relevant Term Advance; and
 - (iii) *third*, to reduce and discharge any other amounts due and payable by the LLP to the Issuer under this Agreement in respect of the relevant Term Advance.
- (d) If the payment of any amount of interest or principal in respect of a Term Advance is deferred as a result of the service of an Asset Coverage Test Breach Notice pursuant to Clause 16 (Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice which remains outstanding) of the LLP Deed, then if such Asset Coverage Test Breach Notice is subsequently revoked, such payment of interest and/or principal will become due and be made on the next LLP Payment Date after the relevant Asset Coverage Test Breach Notice has been revoked unless such payments have been made directly to the Principal Paying Agent in accordance with Clause 12 (Payments) in which case such payments shall reduce *pro tanto* the LLP's obligations hereunder in accordance with the terms of Clause 12.

8. TAXES

8.1 No gross up

All payments by the LLP under this Agreement shall be made without any deduction or withholding for or on account of and free and clear of, any Taxes, except to the extent that the LLP (or any Member) is required by law to make payment subject to any Taxes.

8.2 Tax receipts

All Taxes required by law to be deducted or withheld by the LLP (or any Member) from any amounts paid or payable under this Agreement shall be paid, to the relevant taxation authority, by the LLP (or any Member) when due and the LLP shall, within 90 days of the payment being made, deliver to the Issuer evidence satisfactory to the Issuer (including all relevant Tax receipts) that the payment has been duly remitted to the appropriate taxation authority. The LLP shall have no obligation to make payment of any equivalent sum to the Issuer.

9. ILLEGALITY

If, at any time, it is unlawful for the Issuer to make, fund or allow to remain outstanding a Term Advance made or to be made by it under this 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, then the Issuer shall, promptly after becoming aware of the same, deliver to the LLP, the Security Trustee and (for information only and on the basis that they may not rely thereon) the Rating Agencies a legal opinion to that effect from reputable counsel and the Issuer may require the LLP to prepay, on any LLP Payment Date, having given not more than 60 days' and not less than 30 days' notice (or such shorter period as may be required by any relevant law) prior written notice to the LLP and the Security Trustee, and while the relevant circumstances continue, the applicable Term Advance(s) without penalty or premium but subject to Clause 20 (Exercise of Certain Rights) of the Deed of Charge and Clause 10 (Mitigation) of this Agreement.

10. MITIGATION

If circumstances arise in respect of the Issuer which would, or would upon the giving of notice, result in the prepayment of the Term Advances pursuant to Clause 9 (Illegality), then, without in any way limiting, reducing or otherwise qualifying the obligations of the LLP under this Agreement, the Issuer shall:

- (a) promptly upon becoming aware of the circumstances, notify the Security Trustee, the LLP and the Rating Agencies; and
- (b) upon written request from the LLP, take such steps as may be practical to mitigate the effects of those circumstances including (without limitation) the assignment of all its rights under this Agreement to, and assumption of all its obligations under this Agreement by, another company satisfactory to the Security Trustee, which is willing to participate in the relevant Term Advances in its place and which is not subject to any illegality as referred to in Clause 9 (Illegality), provided that no such transfer or assignment and transfer may be permitted unless the Rating Agencies confirm in writing to the Issuer and the Security Trustee that there will be no downgrading of the then current rating of any Covered Bonds as a result and the LLP indemnifies (subject to Clause 20 (Exercise of Certain Rights) of the Deed of Charge) each of the Issuer and the Security Trustee for any reasonable costs and expenses properly incurred by them as a result of such transfer or assignment.

11. INTERCOMPANY LOAN EVENT OF DEFAULT

- 11.1 An Intercompany Loan Event of Default will occur if and only if the LLP does not pay on the due date or for a period of 90 Business Days after such due date any amount payable by it under this Agreement at the place and in the currency in which it is expressed to be payable in circumstances where the LLP has the funds available (subject to Clause 20.3 (Subordination) of the Deed of Charge) to make the relevant payment. There are no other Intercompany Loan Events of Default.

- 11.2 The LLP (or the Cash Manager on its behalf) shall notify the Issuer and the Security Trustee of any Intercompany Loan Event of Default promptly upon the LLP (or the Cash Manager, as the case may be) becoming aware of such event.

12. PAYMENTS

12.1 Payment

Subject to Clause 20.3 (Subordination) of the Deed of Charge and Clauses 14.4 and 14.7 (Allocation and Distribution of Available Revenue Receipts prior to the Service on the LLP of an Asset Coverage Test Breach Notice which remains outstanding, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or the realisation of Security) of the LLP Deed, and while any amounts remain outstanding under the Covered Bonds, the Issuer directs that all amounts to be paid to the Issuer under this Agreement in relation to a Term Advance shall be paid on the due date thereof in the currency of that Term Advance for value by the LLP to such account of the Principal Paying Agent as is notified to the LLP in writing by the Principal Paying Agent pursuant to Clause 8.13 of the Agency Agreement. For the avoidance of doubt, the Issuer agrees that:

- (a) any payment made in accordance with the above direction of the Issuer shall discharge pro tanto the relevant obligation of the LLP under this Agreement as if the payment had been made directly to the Issuer; and
- (b) any payment made by a Covered Bond Swap Provider to the Principal Paying Agent in accordance with Clause 15 (Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts Following Service of an Asset Coverage Test Breach Notice) of the LLP Deed shall discharge pro tanto the obligation of the LLP to make the payment of an amount equal to such amount under this Agreement as if the payment had been made directly to the Issuer.

12.2 Alternative payment arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change in law, exchange control regulations or any similar event) for the LLP to make any payments under this Agreement in the manner specified in Clause 12.1 (Payment), then the LLP shall make such alternative arrangements for the payment of amounts due under this Agreement as are acceptable to the Issuer and the Security Trustee (acting reasonably).

13. FURTHER PROVISIONS

13.1 No set-off

The Issuer agrees that it will advance the Term Advances to the LLP on each Issue Date (subject to the terms of this Agreement, including without limitation, Clause 4 (Conditions Precedent)) without set-off (including, without limitation, in respect of any amounts owed to it under any other Term Advance or in its capacity as a Member in the LLP) or counterclaim.

13.2 Evidence of indebtedness

In any proceeding, action or claim relating to this Agreement a statement as to any amount due to the Issuer under this Agreement which is certified as being correct by two Authorised Signatories of the Issuer shall, unless otherwise provided in this Agreement, be prima facie evidence that such amount is in fact due and payable.

13.3 Rights cumulative, waivers

The respective rights of the LLP, the Issuer and the Security Trustee under this Agreement:

- (a) may be exercised as often as necessary;
- (b) are cumulative and not exclusive of its rights under the general law; and
- (c) may be waived only in writing and specifically.

Delay in exercising or non-exercise of any such right is not a waiver of that right.

13.4 Severability

If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

- (a) the validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (b) the validity or enforceability in other jurisdictions of that or any other provision of this Agreement.

13.5 Notices

Any notices to be given pursuant to this Agreement to any of the parties hereto shall be in writing and shall be sufficiently served if sent by prepaid first class post, by hand or facsimile transmission and shall be deemed to be given (in the case of facsimile transmission) when despatched, (where delivered by hand) on the day of delivery if delivered before 5.00 p.m. (London time) on a Business Day or on the next Business Day if delivered thereafter or on a day which is not a Business Day or (in the case of first class post) when it would be received in the ordinary course of post and shall be sent:

- (a) in the case of the LLP, to RBS Covered Bonds Limited Liability Partnership, 1 Princes Street, London EC2R 8BP (facsimile number: +44 (0) 20 7714 4473; telephone number: +44 (0) 20 7714 4461) for the attention of the LLP Members with a copy to RBS Group Treasury – Head of Secured Funding/LLP Management Committee, 280 Bishopsgate, London EC2M 4RB (facsimile number: +44 (0) 20 7293 9966; telephone number: +44 (0) 20 7085 9643) for the attention of the Stephen Hynes / Nick Bourne and RBS Group Secretariat, 1 Princes Street, London EC2R 8BP (facsimile number: +44 (0) 20 7714 4473; telephone number: +44 (0) 20 7714 4461) for the attention of Stephanie Lynch and Peter Roy;
- (b) in the case of the Issuer, to The Royal Bank of Scotland plc, 36 St Andrews Square, Edinburgh EH2 2YB (facsimile number: +44 (0) 131 626 3081; telephone number: +44 (0) 131 556 8555) for the attention of Stephanie Lynch and Peter Roy with a copy to RBS Group Treasury – Head of Secured Funding, 280 Bishopsgate, London EC2M 4RB (facsimile number: +44 (0) 20 7293 9966; telephone number: +44 (0) 20 7085 9643) for the attention of the Stephen Hynes / Nick Bourne;
- (c) in the case of the Cash Manager, to RBS Group Treasury Middle Office, Level 4, 250 Bishopsgate, London EC2M 4AA (telephone number: +44 020 7085 5950; email: GTSPVMO@rbs.com) for the attention of John Knight/Nikkita Morjaria; and

- (d) in the case of the Security Trustee, to Citicorp Trustee Company Limited at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (facsimile number: +44 0207 500 5877) for the attention of Agency and Trust,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 13.5.

13.6 Assignment

None of the Issuer, the LLP nor the Cash Manager may assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Security Trustee except as provided for in the Transaction Documents.

13.7 Amendments and Variation

Subject to the terms of the Deed of Charge, any amendments, modifications and/or waivers to this Agreement will be made only with the prior written consent of each party to this Agreement. No waiver of this Agreement shall be effective unless it is in writing and signed by (or by some person duly authorised by) each of the parties. No single or partial exercise of, or failure or delay in exercising, any right under this Agreement shall constitute a waiver or preclude any other or further exercise of that or any other right.

13.8 Change of Security Trustee

In the event that there is any change in the identity of the Security Trustee or an additional Security Trustee is appointed in accordance with the Deed of Charge, as the case may be, the parties hereto shall execute such documents and take such actions as such new Security Trustee may reasonably require for the purposes of vesting in such new Security Trustee the rights or powers of the Security Trustee under this Agreement and under the Deed of Charge and releasing the retiring Security Trustee from further obligations thereunder.

13.9 Security Trustee Liability

It is hereby acknowledged and agreed that by its execution of this Agreement the Security Trustee shall not assume or have any obligations or liabilities to the LLP, the Cash Manager or the Issuer under this Agreement notwithstanding any provision of this Agreement and that the Security Trustee has agreed to become a party to this Agreement for the purpose only of taking the benefit of this Agreement and agreeing to amendments to this Agreement pursuant to Clause 13.7 (Amendments and Variation). For the avoidance of doubt, the parties to this Agreement acknowledge that the rights powers and duties of and any determination by the Security Trustee are governed by the Deed of Charge. Any liberty or right which may be exercised or determination which may be made under this Agreement by the Security Trustee may be exercised or made in the Security Trustee's absolute discretion or as directed by the Bond Trustee pursuant to the Deed of Charge without any obligation to give reasons therefor and the Security Trustee shall not be responsible for any liability occasioned by so acting but subject always to the provisions of the Deed of Charge.

13.10 Counterparts

This Agreement may be executed in any number of counterparts (manually or by facsimile) each of which, when executed and delivered, shall constitute an original, but all the counterparts shall together constitute but one and the same instrument provided, however, that this Agreement shall have no force or effect until it is executed by the last party to execute the same and shall be deemed to have been executed and delivered in the place where such last party executed this Agreement.

13.11 Third Party Rights

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

14. REDENOMINATION

Each obligation under this Agreement which has been denominated in Sterling shall be redenominated in Euro in accordance with European Economic and Monetary Union legislation upon such redenomination of the Covered Bonds.

15. NON-PETITION AND LIMITED RECOURSE

Each party to this Agreement agrees and confirms that it shall be bound by Clauses 19.1 (No Enforcement by Secured Creditors) and 19.2 (Limited Recourse) of the Deed of Charge as if they were set out in full herein, *mutatis mutandis*.

16. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with this Agreement is governed by and shall be construed in accordance with English law.

17. SUBMISSION TO JURISDICTION

Each party to this Agreement hereby irrevocably submits to the exclusive jurisdiction of the English courts in any action or proceeding arising out of or relating to this Agreement (including a dispute relating to any non-contractual obligations arising out of or in connection with this Agreement), and hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined by such courts. Each party to this Agreement hereby irrevocably waives, to the fullest extent it may possibly do so, any defence or claim that the English courts are an inconvenient forum for the maintenance or hearing of such action or proceeding.

SCHEDULE 1

FORM OF SOLVENCY CERTIFICATE

RBS COVERED BONDS LIMITED LIABILITY PARTNERSHIP

1 Princes Street
London EC2R 8BP

[Date]

Expressions defined in the Master Definitions and Construction Agreement dated 1 April 2010 by, among others, RBS Covered Bonds Limited Liability Partnership and Citicorp Trustee Company Limited, as Security Trustee and Bond Trustee, shall, unless the context otherwise requires, have the same meaning in this Certificate.

I, _____ being a duly authorised signatory of RBS Covered Bonds Limited Liability Partnership (the **LLP**) hereby certify that as at the date of this Certificate:

1. all appropriate searches, enquiries and investigations (including, without limitation, of the LLP's books and records, the LLP's management accounts and the LLP's accounts required by law) to ascertain the true position in relation to everything stated below have been undertaken;
2. the officers of the LLP have duly considered the provisions of the insolvency laws of England and Wales (including, without limitation, the provisions of sections 123 and 238 to 243 (inclusive) and 423 of the Insolvency Act 1986) in relation to this Certificate and as they apply in relation to the LLP and the LLP's entry into and its ability to perform its obligations in respect of the Programme (the **Transaction**);
3. the LLP is not unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 and would not become unable to do so in consequence of entering into the Transaction and performing its obligations under the Transaction Documents;
4. the LLP's assets currently exceed its liabilities (taking into account its actual, contingent and prospective liabilities) and will continue to do so notwithstanding the entry into by it of the Transaction;
5. no execution, diligence or other process issued on a judgment, decree or order of any court in favour of a creditor of the LLP remains unsatisfied in whole or in part;
6. to the best of the knowledge of the officers of the LLP and belief no action has been taken or is pending, and no other steps have been taken by any person (including, without limitation, the LLP, the officers or Members of the LLP, any creditors of the LLP or any floating charge holder) and no legal proceedings have been commenced or are threatened or are pending for or in respect of:
 - (a) the winding-up (voluntary or otherwise), liquidation, dissolution, administration or reorganisation of the LLP; or
 - (b) the LLP to enter into any composition or arrangement with its creditors generally; or
 - (c) the appointment of a receiver, administrator, administrative receiver, trustee or similar officer in respect of the LLP or any of its property, undertaking or assets,

and no event equivalent to any of the foregoing has occurred in or under the laws of any relevant jurisdiction;

7. the entry by the LLP into the Transaction and the performance of its obligations under the Transaction Documents would not be a transaction at an undervalue within the meaning of section 238 of the Insolvency Act 1986, since the value (in money or money's worth) of any consideration received by the LLP as a result of such Transaction and the entry by it into the Transaction Documents would not be significantly less than the value (in money or money's worth) of any consideration provided by the LLP under the Transaction;
8. the entry by the LLP into the Transaction and the Transaction Documents is in good faith and for the purpose of carrying on its business, and there are reasonable grounds for believing that the Transaction would benefit the LLP;
9. in entering into the Transaction and the Transaction Documents:
 - (a) the LLP has no desire or intention to give and has taken no action which would have the effect of conferring a preference to any person as contemplated by section 239 of the Insolvency Act 1986; and
 - (b) is it not the purpose of the LLP to put assets beyond the reach of a person who is making, or may at some time make, a claim against the LLP or of otherwise prejudicing the interests of such a person in relation to the claim which he is making or may make;
10. the entry into the Transaction will constitute reciprocal obligations of the LLP with the other parties thereto for the purposes of section 243 of the Insolvency Act 1986 (and equivalent provisions of the common law of Scotland) and the entry into of the Transaction is not, nor will be, collusive with the purpose of prejudicing the general body of creditors of the LLP; and
11. the centre of main interests, as such term is defined in Article 3(1) of the European Union Council Regulation (EC) No. 1346 of 2000, of the LLP is and remains in England and all meetings of the Management Committee are held at the LLP's registered office.

.....
Authorised Signatory

For and on behalf of RBS Covered Bonds Limited Liability Partnership

MEMORANDUM ON SOLVENCY

RBS COVERED BOND LLP

Unless otherwise defined in this Memorandum or the context requires otherwise, words and expressions used in this Memorandum have the meanings and constructions ascribed to them in the Master Definitions and Construction Agreement dated on or about 1 April 2010 (as the same may be amended and/or amended and restated and/or supplemented from time to time) and signed for the purpose of identification by each of the Transaction Parties.

Pursuant to the Limited Liability Partnerships Regulations 2001 (SI 2001/1090) (the **Regulations**) and the Limited Liability Partnerships (Amendment) Regulations 2005 (the **Amendment Regulations**), the Insolvency Act 1986 applies to limited liability partnerships subject to various modifications and amendments. Except where the context otherwise requires, a reference in this Memorandum to the **Insolvency Act** means the Insolvency Act 1986 as amended and as modified by, amongst other things, the Regulations and the Amendment Regulations.

1. SECTION 123 OF THE INSOLVENCY ACT - ABILITY TO PAY DEBTS WHEN DUE

The test as to whether the LLP is able to pay its debts within the meaning of section 123 of the Insolvency Act is divided into four parts each of which must be satisfied on its own merits:

(a) The Written Demand

To satisfy this test the LLP must be certain that no creditor to whom more than £750 is due has served on the LLP by leaving at the LLP's principal office a written demand in the prescribed form requiring the LLP to pay the sum so due and the LLP has neglected to pay such sum for three weeks or has neglected to secure or compound such sum to the reasonable satisfaction of the creditor save where such demand is the subject of a bona fide dispute by the LLP.

(b) The Issue of Process

To satisfy this test the LLP must be certain that no execution or other process (e.g. writs to seize or distrain the LLP's property) issued on a judgement, decree or order of any court in favour of a creditor of the LLP has been unsatisfied in whole or in part.

(c) The Cashflow Test

To satisfy this test the LLP must be reasonably satisfied that the LLP can prove to the satisfaction of the court that the LLP is able, on the date of completion of each Transaction (the **Relevant Date**), and will continue to be able to do so after the Relevant Date, to pay its debts as they fall due and will continue to be able to do so after completion of each Transaction and throughout the period of at least one year immediately following the Relevant Date (the **Relevant Period**) having regard to the directors' intentions with respect to the management of THE LLP's business during that year and the amount and character of financial resources that will in their view be available to the LLP during the Relevant Period.

There are a number of points to be made in relation to this test:

- (i) only debts are to be considered and, for this purpose, unliquidated claims for damages under tort or contract can be ignored;

- (ii) existing obligations which will, or may with a reasonable degree of certainty, at a future date or on the happening of a future event make the LLP subject to a quantifiable liability should be regarded as a debt for this purpose (for example, an obligation to repay a sum of money during the Relevant Period should be regarded as a debt and the LLP should be in a position to show how it will repay it at the time it falls due during the Relevant Period);
- (iii) the cashflow test is concerned with a realistic assessment of cashflows, and does not, in every case, require the LLP to show that it has an irrevocably committed facility to cover every potential liability falling due;
- (iv) default in payment is sufficient evidence of inability to pay even though there may be evidence of a substantial surplus of assets over liabilities. Thus, the court may be satisfied that failure to pay an undisputed debt after demand for payment of the same has been made is sufficient evidence that the LLP is unable to pay its debts as they fall due, and if the LLP persists in its failure to pay, it will be regarded as being unable to pay its debts even if in fact it appears to be solvent;
- (v) for the purposes of the cashflow test, if there is a bona fide dispute as to the debt, such a debt should be ignored to the extent disputed if the LLP has bona fide and reasonable grounds for the dispute; and
- (vi) for the purposes of the cashflow test it is irrelevant that the LLP's assets exceed its liabilities if the LLP cannot pay its way in the conduct of its business.

(d) The Balance Sheet Test

To satisfy this test the LLP must be reasonably satisfied that the value of its assets is not less than the amount of its liabilities, taking into account its contingent and prospective liabilities and that this will continue to be the case immediately after entry into the programme documents and completion of the sale of mortgage loans to the LLP, as at the Relevant Date and throughout the Relevant Period having regard to their intentions with respect to the LLP's business during the Relevant Period and the amount and character of financial resources that will, in the LLP's view, be available to the LLP during the Relevant Period.

There are a number of points to be made in relation to this test:

(i) Meaning of Liabilities

This is a much broader term than "debts". It includes all forms of liability, whether liquidated or unliquidated and whether arising in contract or in tort or by way of restitution or for damages for breach of statutory duty. Difficulties will be encountered in estimating some categories of liabilities such as unquantified existing liabilities. Such liabilities may be incapable of any reliable or precise estimation, but the giving of a Solvency Certificate requires an attempt to be made. Liabilities also include contingent and prospective liabilities.

Contingent Liabilities

These are liabilities which arise out of existing legal commitments or obligations but which are dependent on the happening of an event which may or may not occur. The valuation of contingent liabilities may be difficult but an estimate must nevertheless be made in each case. To the extent that a contingent liability is unlikely to arise at all then that would be a factor which could be taken into account

in reducing the value to be given to the contingent liability. However, every effort must be made to place a value on each contingent liability unless, in a given case, there is absolutely no prospect of the contingency actually occurring.

Prospective Liabilities

These are unmatured liabilities which will inevitably ripen into debts with the passage of time but which are not presently payable. Again, it may be appropriate given any particular time frame over which the liability will ripen to discount on a present value basis the liability in order to include it in the calculation.

(ii) Meaning of Assets

This term will include current and prospective assets (for example, future benefits under future contracts) where there is a real contractual right, rather than a mere hope, to the asset being acquired.

(iii) Meaning of Value

The determination of the "value" of the assets of the LLP must be made at the Relevant Date and not at a later date. The valuation of the LLP's assets for accounting purposes, even if there are perfectly legitimate and reasonable methods of valuing the assets differently, may be good evidence but not conclusive evidence of their value for the purposes of a court valuing such assets.

Whether assets should be valued on a break-up basis or a going concern basis depends on the circumstances. In principle, this should turn on whether, as seen at the Relevant Date, the LLP's business will be continued as a going concern. If so, the LLP's assets should be valued on a going concern basis. In the case of assets that are debts owed by third parties, the extent to which the LLP will be able to obtain repayment will need to be allowed for in calculating the value of such assets.

(iv) Meaning of taking into account

The correct approach is that the value of the LLP's assets should be determined and the amount of its present liabilities calculated. The difference is determined and then the value of contingent and prospective liabilities is taken into account in the sense of being borne in mind or weighed against the difference.

2. TRANSACTIONS AT AN UNDERVALUE (ENGLAND AND WALES)

2.1 For the purposes of section 238 of the Act, the LLP will enter into a transaction with a third party at an undervalue if:

- (a) it makes a gift to the third party or otherwise enters into a transaction with the third party on terms that provide for the LLP to receive no consideration; or
- (b) it enters into a transaction with the third party for a consideration the value of which, in money or money's worth, is significantly less than the value, in money or money's worth, of the consideration provided by the third party.

2.2 Even if either of these states of affairs can be established, a liquidator or administrator of the LLP will also have to establish:

- (a) that the LLP was, at the time of the transaction, unable to pay its debts within the meaning of section 123 of the Insolvency Act or became so as a result of the transaction (which will be presumed if the Issuer is entering into the transaction with a connected person); and
- (b) that the LLP entered into administration or liquidation within the relevant time of the transaction taking place.

2.3 The time at which the LLP enters into a transaction is a relevant time if it is in the period of two years ending with the "onset of insolvency" of the LLP. For these purposes, "onset of insolvency" means:

- (a) in the case of an administrator being appointed pursuant to an administration order, the date on which the administration application is made;
- (b) in the case of an administrator being appointed following a qualifying floating charge holder, the LLP or the Directors of the LLP filing with the court a copy of a notice of intention to appoint an administrator, the date on which the copy of the notice is filed;
- (c) in the case of an administrator being appointed otherwise than pursuant to (a) or (b), the date on which the appointment takes effect;
- (d) in the case of a liquidation which follows from the conversion of an administration or from when the appointment of the administrator ceases to have effect, the date on which:
 - (i) the LLP entered into administration; or
 - (ii) the application for the administration order was made (in the case of an administrator appointed pursuant to (a) above); or
 - (iii) the copy of the notice of intention to appoint was filed (in the case of an administrator appointed pursuant to (b) above); and
- (e) in the case of the liquidation of the LLP where no previous administration order was made, the date of the commencement of the winding-up.

The time at which the LLP enters into a transaction is also a "relevant time" if it is between:

- (i) the making of an administration application and the making of an order on that application; or
- (ii) the filing with the court of a copy of notice of intention to appoint an administrator and the making of such an appointment.

2.4 However, even if all of the above conditions are satisfied no order would be made by a court in relation to a transaction at an undervalue if it is satisfied:

- (a) that the LLP entered into the transaction in good faith and for the purposes of carrying on its business; and
- (b) that at the time it did so there were reasonable grounds for believing that the transaction would benefit the LLP.

3. GOOD FAITH TRANSACTIONS FOR THE BENEFIT OF THE LLP

To satisfy this test it will be necessary for the LLP to determine that as a commercial matter it entered into the Transaction in good faith and for the purpose of carrying on its business. The LLP must also have reasonable grounds for believing that the Transaction as a whole taking into account the financial consequences of the Transaction as a whole would benefit the LLP.

4. PREFERENCES (ENGLAND AND WALES)

4.1 For the purposes of section 239 of the Insolvency Act 1986, the LLP gives a preference to a third party if:

- (a) the third party is one of the LLP's creditors or its surety or guarantor for any of the LLP's debts or other liabilities; and
- (b) the LLP does anything or suffers anything to be done which (in either case) has the effect of putting the third party into a position which, in the event of the LLP going into insolvent liquidation, will be better than the position it would have been in had that not been done.

If this state of affairs can be established a liquidator or administrator also has to establish:

- (c) that the LLP was at the time of the transaction unable to pay its debts within the meaning of section 123 of the Insolvency Act, or became so as a result of the transaction (which will be presumed if the LLP is entering into the transaction with a connected person); and
- (d) that the LLP entered administration or liquidation within the "relevant time" of the alleged preference taking place.

Where the parties are not connected, the "relevant time" is six months ending with the "onset of insolvency" (as defined in section 1.2 above). Where, however, that transaction was entered into with a connected person the "relevant time" is extended to two years prior to the "onset of insolvency".

The time at which the LLP enters into a transaction is also a "relevant time" if it is between:

- (a) the making of an administration application and the making of an order on that application; or
- (b) the filing with the court of a copy of notice of intention to appoint an administrator and the making of such an appointment.

4.2 Even if the above conditions can be satisfied, a court may not make an order with respect to the preference unless it can be proved that the LLP was influenced in deciding to give the preference by a desire to produce the effect set out in paragraph (b) above. However, where the preference was given to a person connected to the LLP, there is a rebuttable presumption that a company, which has given the preference, was influenced in deciding to give it by such a desire. The third party will not be a person connected to the LLP for this purpose.

5. TRANSACTIONS DEFRAUDING CREDITORS (ENGLAND AND WALES)

The court may, on the application of the liquidator or administrator of the LLP (or, with the leave of the court, on the application of a victim of the transaction even if the LLP is not in liquidation or administration) set aside a transaction entered into by the LLP at an undervalue if the LLP entered into the transaction for the purpose of putting assets beyond the reach of a person who is making, or

may at some time make, a claim against it or of otherwise prejudicing the interests of such a person in relation to the claim which he is making or may make. It is not a condition of the making of such an order that the LLP was insolvent at the time of the transaction. A transaction at an undervalue is defined under section 423 of the Insolvency Act in substantially the same terms as under section 238 of the Insolvency Act.

SCHEDULE 2

TERM ADVANCE NOTICE

From: The Royal Bank of Scotland plc (the **Issuer**)

To: RBS Covered Bonds Limited Liability Partnership (**LLP**)

Copy: Citicorp Trustee Company Limited (the **Security Trustee**)

Date:

Dear Sirs,

We refer to the agreement between, *inter alios*, ourselves, the LLP and the Security Trustee (as from time to time amended, varied, novated and/or supplemented (the **Intercompany Loan Agreement**)) dated 1 April 2010 whereby a Facility was made available to the LLP. Terms defined in the Intercompany Loan Agreement shall have the same meaning in this Term Advance Notice.

We hereby give you notice that, pursuant to the Intercompany Loan Agreement and upon the terms and subject to the conditions contained therein, we wish to make the following Term Advances available to the LLP on *[Drawdown Date]*:

Series [●] Tranche [●] Term Advance in a principal amount and currency of [●] to be funded by the Series [●] Tranche [●] Covered Bonds on the Issue Date *[List all Term Advances]*

The aggregate amount available to be drawn under the Facility is [●] *[List amounts for each currency in which Term Advances are available]*.

The Loan Interest Periods applicable to the Term Advance are: [●] *[Set out relevant Interest Periods]*

The interest rate[s] applicable to the Term Advance is/are: [●] *[Set out relevant interest rate[s]]*

A copy of the Final Terms for the corresponding *[Tranche/Series]* of Covered Bonds that will fund such Term Advance is attached to this Term Advance Notice.

We hereby confirm that no Potential Issuer Event of Default, Issuer Event of Default, Potential LLP Event of Default or LLP Event of Default is outstanding that has not been waived or remedied to the satisfaction of the Security Trustee or would result from the making of the Term Advance(s) specified in this Notice.

Yours faithfully,

for and on behalf of
The Royal Bank of Scotland plc

Acknowledged for and on behalf of
RBS Covered Bonds Limited Liability Partnership

SCHEDULE 3

REQUEST

From: RBS Covered Bonds Limited Liability Partnership (LLP)

To: The Royal Bank of Scotland plc (the **Issuer**)

Copy: Citicorp Trustee Company Limited (the **Security Trustee**)

Date:

Dear Sirs,

We refer to the agreement between, *inter alios*, ourselves, the Issuer and the Security Trustee (as from time to time amended, varied, novated or supplemented (the **Intercompany Loan Agreement**)) dated 1 April 2010 whereby an Intercompany Loan was made available to us. Terms defined in the Intercompany Loan Agreement shall have the same meaning in this Request.

We hereby give you notice that, pursuant to the Intercompany Loan Agreement and upon the terms and subject to the conditions contained therein, we wish the following Term Advances to be made available to us as follows:

[List Term Advances]

Aggregate Amount: [specify amount for each currency].

Drawdown Date: [●]

We confirm that following the making of the Term Advance requested, the aggregate of the Sterling Equivalents of the principal amounts outstanding of all Term Advances will not exceed the Sterling Equivalent of the amount of the Total Credit Commitment.

The net proceeds of this drawdown should be credited to our account numbered [●] with [●].

We hereby confirm that no LLP Event of Default is outstanding that has not been waived or remedied to the satisfaction of the Security Trustee or would result from the making of such Term Advance(s).

Yours faithfully,

for and on behalf of
RBS Covered Bonds Limited Liability Partnership

for and on behalf of
RBS Covered Bonds Limited Liability Partnership

IN WITNESS WHEREOF the parties have caused this Agreement to be duly executed on the day and year appearing on Page 1.

SIGNED by
RBS COVERED BONDS LIMITED LIABILITY PARTNERSHIP)
as LLP)
acting by its duly authorised attorney)



SIGNED by
THE ROYAL BANK OF SCOTLAND PLC)
as Issuer and Cash Manager)
acting by its duly authorised attorney)



and)
)
)

SIGNED by)
CITICORP TRUSTEE COMPANY LIMITED)
as Security Trustee)
acting by its attorney or a director)



John ...
...