

## COLLATERAL ANNEX

### 1. APPLICATION

This Annex to the RTGS Account Mandate Terms and Conditions (the ***Terms and Conditions***) applies to an Account Holder unless that Account Holder is a participant in the Sterling Monetary Framework (in which case collateral is provided in accordance with the provisions of the Sterling Monetary Framework Documentation).

### 2. DEFINITIONS

In this Annex unless the context otherwise requires:

- (a) terms defined in the Terms and Conditions and in any other Annex have the same meaning; and
- (b) the following expressions have the following meanings:

***Adjusted Value*** in respect of any securities, means the value of those securities determined in accordance with the following formula:

$$AV = V (100 - H)/100$$

Where:

AV = Adjusted Value

V = the Value of the relevant securities

H = the Haircut;

***Collateral Securities*** means securities that have been transferred to the Bank (by way of collateral) in respect of which Equivalent Collateral Securities have not been transferred by the Bank;

***Default Market Value*** means the value, determined by the Bank, in accordance with paragraph 8.11 of this Annex;

***Eligible Collateral Securities*** means securities of a type that are for the time being specified in the Operating Procedures or otherwise specified by the Bank as being eligible as collateral and which are otherwise acceptable to the Bank;

***Equivalent Collateral Securities*** means securities that are equivalent to Collateral Securities, and for this purposes securities are ***equivalent to*** other securities if they are securities of the same issuer, part of the same issue and of an identical type, nominal value, description and amount as those other securities; provided that securities will be equivalent to other securities notwithstanding that those securities have been redenominated in to a different currency or that the nominal value of those securities has changed in connection with such redenomination. If and to the extent that such securities consist of securities that are partly paid or have been converted, subdivided, consolidated, made the subject of a takeover, rights of pre-emption, rights to receive

securities or a certificate which may at a future date be exchanged for securities, the expression shall include such securities or other assets to which the Bank is entitled following the occurrence of the relevant event, and provided that the Account Holder has paid to the Bank all and any sums due in respect thereof. In the event that any securities have been redeemed, are partly paid, are the subject of a capitalisation issue or are subject to an event similar to any of the foregoing events described in this clause, the expression shall have the following meanings:

- (a) in the case of redemption, a sum of money equivalent to the proceeds of the redemption;
- (b) in the case of a call on partly paid securities, securities equivalent to the relevant partly paid securities, provided that the Account Holder shall have paid the Bank an amount of money equal to the sum due in respect of the call;
- (c) in the case of a capitalisation issue, securities equivalent to the relevant securities together with the securities allotted by way of bonus thereon;
- (d) in the case of any event similar to any of the foregoing events described in this clause, securities equivalent to the original securities together with or replaced by a sum of money or securities or other property equivalent to that received in respect of such securities resulting from such event;

**Haircut** means the “haircut” for the time being prescribed in the Operating Procedures or otherwise prescribed by the Bank (and so that different haircuts may be so specified in respect of securities of different descriptions);

**Income** means, with respect to any Collateral Securities at any time, any interest, dividend or other distribution on such securities (but excluding distributions which are a payment or repayment of all but not part of the capital or principal in respect of such securities);

**Minimum Transfer Amount** means the amount specified as such in the Operating Procedures;

**Operating Procedures** means the procedures published by the Bank relating to the Bank’s Operations under the Sterling Monetary Framework;

**Outstanding Amount** means, following the occurrence of an Event of Default, any amount payable from the Account Holder to the Bank under any Annex or otherwise; and

**Relevant Exposure** has the meaning given in paragraph 3.1.

### **3. MAINTENANCE OF COLLATERAL**

3.1 The Bank may determine its exposure in respect of any facility provided by the Bank under these Terms and Conditions or otherwise, either alone or on a pooled basis with one or more other such facilities, in accordance with the Operating

Procedures and on such other basis as the Bank considers appropriate from time to time, each such exposure being a ***Relevant Exposure***. For the purpose of determining any Relevant Exposure or the Adjusted Value of Collateral Securities:

- (a) any amounts not denominated in sterling shall be converted into sterling at the Spot Rate as determined by the Bank as applying at the relevant time; and
- (b) if any Collateral Securities cease to be Eligible Collateral Securities, the Value of those Collateral Securities shall be zero.

3.2 The Account Holder undertakes to ensure that the Adjusted Value of Collateral Securities in respect of a Relevant Exposure will at all times exceed that Relevant Exposure.

3.3 If at any time the Adjusted Value of Collateral Securities in respect of a Relevant Exposure is less than that Relevant Exposure, the Bank may by notice to the Account Holder require the Account Holder to transfer to it Eligible Collateral Securities with an Adjusted Value at least equal to the greater of the Minimum Transfer Amount and the shortfall.

3.4 If at any time the Adjusted Value of the Collateral Securities in respect of a Relevant Exposure exceeds that Relevant Exposure by more than the Minimum Transfer Amount, the Account Holder may by notice to the Bank request the Bank to transfer Equivalent Collateral Securities to it of an aggregate amount or Value at least equal to the excess.

3.5 The Bank may allocate Collateral Securities to one or more Relevant Exposures at such times and on such basis as the Bank considers appropriate. The Bank may do so even if such allocation would create or increase a Relevant Exposure.

3.6 If at any time before Equivalent Collateral Securities have been transferred, any Collateral Securities are to be redeemed in full but not in part or a repayment or prepayment of all the principal is to be made in respect of any Collateral Securities:

- (a) for the purposes of determining the Adjusted Value of those securities, from the end of the tenth Business Day (or such other Business Day as may be specified in the Operating Procedures) immediately prior to the scheduled payment date (or, if later, the day on which the Bank became aware of the payment date), the Adjusted Value shall be zero;
- (b) if, as a result of such revaluation, the Adjusted Value of Collateral Securities is lower than the amount of the Relevant Exposure, the Account Holder shall, prior to the scheduled payment date, transfer to the Bank Eligible Collateral Securities with an Adjusted Value at least equal to the amount due to be paid by the issuer in respect of such redemption, repayment or prepayment;
- (c) provided that the Adjusted Value of such Collateral Securities exceeds the Relevant Exposure, the Bank shall, if requested by the Account Holder,

transfer to the Account Holder Equivalent Collateral Securities in respect of the Collateral Securities scheduled for redemption, repayment or prepayment; and

- (d) where no prior notice of the date of any such redemption, repayment or prepayment is given by or on behalf of the issuer, provided that, if required to do so by the Bank, the Account Holder has transferred Eligible Collateral Securities in substitution for any amount received by the Bank in respect of such redemption, repayment or prepayment, the Bank shall pay to the Account Holder an amount equal to and denominated in the same currency as the amount received by the Bank in respect of such redemption, repayment or prepayment.

3.7 Notice of any requirement to transfer Eligible Collateral Securities or Equivalent Collateral Securities under this paragraph shall be given, and any such Eligible Collateral Securities or Equivalent Collateral Securities shall be transferred, at the time and in the manner provided by, and generally in accordance with, the Operating Procedures.

3.8 Where the Bank agrees to transfer Equivalent Collateral Securities under paragraph 3.4, the Bank shall, on the date and in the manner specified in the Operating Procedures, transfer Equivalent Collateral Securities in respect of such amounts and kind or kinds of Collateral Securities previously transferred to it by the Account Holder under paragraph 3.3 as the Bank may determine.

3.9 This paragraph applies where:

- (a) the Bank has served notice under paragraph 3.3 requiring the Account Holder to transfer Eligible Collateral Securities and the Account Holder has not transferred Eligible Collateral Securities by the time required by the Operating Procedures; and
- (b) securities are standing to the credit of a securities account, or a sum is standing to the credit of any cash account, or in either case to the credit of any other account or record maintained by the Bank in the name of or otherwise sufficient to identify the Account Holder for the purposes of recording the Account Holder's right, title and interest in and to such securities, or, as the case may be, to such sum (an *Eligible Account*).

Where this paragraph applies, and without prejudice to clause 8 of the Terms and Conditions, the Account Holder irrevocably authorises and instructs the Bank to transfer or pay from an Eligible Account or Eligible Accounts to the Bank in satisfaction of the obligation of the Account Holder referred to in (a) above:

- (i) such securities as the Bank may select with an Adjusted Value up to an amount equal to the amount of the shortfall; or
- (ii) cash up to an amount equal to the shortfall; or

- (iii) a combination of securities and cash.

If the Account Holder subsequently seeks to transfer Eligible Collateral Securities in satisfaction of its original obligation referred to in (a) above, the Bank may accept such transfer and if it does, the Bank shall in respect of any securities transferred or cash paid to the Bank under any of (i), (ii) or (iii) above, respectively transfer to the Account Holder equivalent securities and repay an equivalent amount.

#### **4. DBV TRANSACTIONS**

4.1 Subject to and in accordance with the following provisions of this paragraph and the Operating Procedures, the Account Holder may, if the Bank agrees, transfer Collateral Securities through the “delivery-by-value” facility of CREST (a ***DBV Transaction***).

4.2 The Collateral Securities under a DBV Transaction shall be such securities as shall be selected and transferred by CREST on the apportionment of securities to the relevant transfer in accordance with the rules and procedures of CREST.

4.3 The Bank and the Account Holder may agree to enter into a single term DBV Transaction where the Parties agree the date on which the DBV Transaction is due for termination (such date being the ***Maturity Date***). Such a DBV Transaction is in these Terms and Conditions referred to as a ***Term DBV Transaction***. The Account Holder may enter a Term DBV Transaction into CREST only “free of payment” in accordance with the rules of procedures of CREST, and subject to and in accordance with the Operating Procedures.

4.4 Subject always to paragraph 3.2, the Account Holder may vary the amount and Maturity Date of a Term DBV Transaction, subject to and in accordance with the Operating Procedures.

#### **5. SUBSTITUTION**

5.1 The Parties acknowledge that in addition, for such Term DBV Transactions, automatic substitutions of Collateral Securities may be effected intra-day or overnight through the operation of CREST.

5.2 Subject to and in accordance with clauses 5.3 and 5.4:

- (a) if at any time the Account Holder has provided Collateral Securities other than by way of a Term DBV Transaction, the Parties may agree to replace those Collateral Securities, wholly or as regards such of the Collateral Securities as shall be agreed, by a Term DBV Transaction;
- (b) at any time between the commencement and the Maturity Date of a Term DBV Transaction, the Parties may agree to replace that Term DBV Transaction, wholly or as regards such proportion of that Term DBV

Transaction as shall be agreed, by a transaction other than a Term DBV Transaction.

5.3 Where the Parties agree a replacement such as is referred to in clause 5.2(a):

- (a) the transaction which is to be replaced (the ***Original Transaction***) shall terminate (or, where the Parties have agreed that the Original Transaction is to be replaced with respect to some only of the Collateral Securities, shall terminate in respect of those Collateral Securities) on such date as the Parties agree as the effective date of the replacement (the ***Effective Date***);
- (b) the commencement date of the Term DBV Transaction by which the Original Transaction is wholly or partially replaced (the ***Replacement Term DBV Transaction***) shall be the Effective Date;
- (c) the Maturity Date of the Replacement Term DBV Transaction shall be the date notified to the Account Holder by the Bank;
- (d) where the Parties have agreed that the Original Transaction is to be replaced only as to a specified proportion, the Original Transaction shall from the Effective Date continue in effect as regards the remaining proportion on the same terms in all respects.

5.4 Where the Parties agree a replacement such as is referred to in clause 5.2(b):

- (a) the Term DBV Transaction which is to be replaced (the ***Original Term DBV Transaction***) shall be terminated on such date as the Parties agree as the effective date of the replacement (the ***Effective Date***);
- (b) where the Original Term DBV Transaction is to be replaced by Collateral Securities transferred other than by way of a DBV Transaction, the date of transfer of those Collateral Securities shall be the Effective Date;
- (c) where the Parties have agreed that the Original Term DBV Transaction is to be replaced only as to a specified proportion, the Original Term DBV Transaction shall from the Effective Date continue in effect as regards the remaining proportion on the same terms in all respects.

## **6. INCOME PAYMENTS**

6.1 Where Income is paid in respect of any Collateral Securities, the Bank shall pay to the Account Holder at the time and in the manner provided in the Operating Procedures but normally on the date it receives such Income from the issuer (or would have received such Income if the Bank continued to hold the securities in question), an amount equal to and in the same currency as the net amount received by the Bank (or which would have been received), after any withholding or deduction for or on account of taxes or duties.

## 7. TRANSFER OF SECURITIES

7.1 Save as otherwise provided in these Terms and Conditions, if any securities transferable under this Annex would, but for this paragraph, be payable or transferable on a day which is not a Business Day, then such payment or transfer shall be made on the next following Business Day.

7.2 All rights, title and interest in any securities transferred under this Annex shall pass from one Party to the other on transfer in accordance with the terms of this Annex free from all liens (other than a lien granted to the operator of the clearance system through which the securities are transferred), claims, charges and encumbrances. The Parties shall execute and deliver all documents, give all instructions and do all things necessary to ensure that title passes in accordance with this paragraph.

7.3 The Bank shall create and maintain in its books and records or other systems, such accounts, sub-accounts or other entries (a ***Collateral Account***) in which the Bank shall record Collateral Securities. The Collateral Account and any credits thereto shall be governed by, and construed in accordance with, English law. The Account Holder has no legal or beneficial interest in Collateral Securities or otherwise represented by corresponding credits to the Collateral Account. The Account Holder's right in respect of the Collateral Securities is a contractual right to receive Equivalent Collateral Securities upon the terms and subject to the conditions set out in these Terms and Conditions.

7.4 Notwithstanding the use of expressions such as "substitution" which are used to reflect terminology used in the market in connection with transactions of the kind provided for in this Annex, all right, title and interest in and to securities transferred under this Annex shall pass to the transferee upon transfer, the obligation of the Party receiving such securities being an obligation to transfer equivalent securities.

7.5 The Bank may and, with the prior approval of the Bank, the Account Holder may combine in a single calculation of a net quantity of securities transferable by one Party to the other all securities of the same issue, denomination, currency and series transferable by each Party to the other under any transaction or otherwise under these Terms and Conditions or under any Covered Agreement on the same date and the obligation to transfer the net quantity of securities shall be the only obligation of either Party in respect of the securities so transferable and receivable.

7.6 Where any voting rights become exercisable in relation to any Collateral Securities, the Bank shall have no obligation to arrange for voting rights of that kind to be exercised in accordance with the instructions of the Account Holder in relation to any such securities.

7.7 The Bank and its representatives and agents shall not be liable, save in the case of fraud, for any Loss that may arise in connection the exercise or non-exercise of voting rights by the Bank.

7.8 If at any time after a payment has been made by the Bank to the Account Holder under these Terms and Conditions which relates to a payment to the Bank by an issuer of securities (including a payment by the issuer of Income or of capital), the issuer or any clearance system or depository reclaims or reverses any such payment to the Bank, the Account Holder undertakes immediately to repay the payment received from the Bank and any associated costs incurred by the Bank.

## **8. CLOSE-OUT AND LIQUIDATION OF OBLIGATIONS ON THE OCCURRENCE OF AN EVENT OF DEFAULT**

8.1 If an Event of Default occurs in relation to the Account Holder, the provisions of this paragraph 8 shall apply in respect of Terminated Transactions and Terminated Collateral Securities and any other Outstanding Amount. Transactions which are not Terminated Transactions and Collateral Securities which are not Terminated Collateral Securities shall remain in place subject to the Terms and Conditions. Any failure to terminate a Transaction or to terminate Collateral Securities shall, in accordance with clause 14.3 of the Terms and Conditions, be without prejudice to the Bank's right to terminate such transactions or Collateral Securities at any time in the future.

8.2 At any time following an Event of Default, the Bank may by notice in writing to the Account Holder, specify:

- (a) the IDL Advances, NCS Transactions and any Outstanding Amount to be terminated (the *Terminated Transactions*); and
- (b) one or more Early Termination Dates for any Terminated Transactions. The Bank may specify the same or different Early Termination Dates for each Terminated Transaction and may amend any Early Termination Date so specified at any time prior to that Early Termination Date occurring.

8.3 Upon the Early Termination Date in respect of a Terminated Transaction:

- (a) the Repayment Date (in respect of NCS Transactions and, as the case may be, IDL Advances) shall be deemed to occur;
- (b) any Terminated Transaction which is an Outstanding Amount, including all outstanding sums (including interest accrued) in respect of such Terminated Transactions shall be due and payable; and
- (c) the Bank may, by written notice to the Account Holder, identify Collateral Securities in respect of which the Bank wishes to accelerate its obligation to transfer Equivalent Collateral Securities and such Equivalent Collateral Securities (*Terminated Collateral Securities*) shall be transferable.

8.4 Upon an Early Termination Date in relation to Terminated Transactions or Terminated Collateral Securities, performance of the respective obligations of the Parties with respect to:



- (a) the delivery of securities;
- (b) the payment of any Repayment Amounts; and
- (c) the payment of any deferred sums,

shall be effected only in accordance with the provisions of this paragraph 8.

8.5 The Bank shall establish either prior to or on the Early Termination Date:

- (a) the Default Market Values of the relevant Equivalent Collateral Securities to be transferred;
- (b) the Repayment Amounts to be paid for all IDL Advances and NCS Transactions; and
- (c) all other Outstanding Amounts.

8.6 On the basis of the sums established in accordance with paragraph 8.5, an account shall be taken (as at the relevant Early Termination Date) of what is due from each Party to the other in respect of the relevant Terminated Transactions, Terminated Collateral Securities and Outstanding Amounts including any Income or otherwise under the Terms and Conditions (and on the basis that each Party's claim against the other in respect of the transfer to it of securities equals the Default Market Value thereof), and the sums due from one Party shall be set off against the sums due from the other and only the balance of the account shall be payable (by the Party having the claim valued at the lower amount pursuant to the foregoing).

8.7 The balance determined by carrying out the calculations under paragraph 8.6 shall be due and payable on such date as the Bank shall determine and notify to the Account Holder in writing. The Bank may specify an account into which sums are required to be paid.

8.8 For the purposes of the calculation carried out under paragraph 8.6, all sums not denominated in sterling shall be converted into sterling at the Spot Rate prevailing at such dates and times determined by the Bank.

8.9 Where the Bank has designated some but not all transactions as Terminated Transactions under paragraph 8.2:

- (a) if the balance under paragraph 8.6 is payable by the Bank, the Bank shall have no obligation to pay that balance if and for so long as the Adjusted Value of Collateral Securities in respect of any Relevant Exposure for transactions which are not Terminated Transactions is less than that Relevant Exposure; or
- (b) if the balance under paragraph 8.6 is payable by the Account Holder, for so long as that balance remains unpaid it shall constitute a Relevant Exposure for the purposes of the Terms and Conditions and shall be taken into account in

determining what is due from the Account Holder to the Bank for the purposes of any subsequent close-out under this paragraph 8.

8.10 If the balance under paragraph 8.6 is payable by the Bank, the Bank may in lieu of paying such balance or part thereof, transfer to the Account Holder Equivalent Collateral Securities having a Value at least equal to the amount  $V$  where  $V = B - C$  and where:

B = the amount of such balance or the relevant part thereof; and

C = the settlement or other transfer costs incurred by the Bank,

and such transfer shall discharge the Bank's obligation to make the payment (or the relevant part thereof) under paragraph 8.6.

8.11 When establishing the Default Market Value under paragraph 8.5, the Bank shall have regard to such of the factors set out in this paragraph, and such other factors, as it thinks appropriate (and the order in which the factors are listed is not significant; they are to be taken into account as appropriate in each case) and may have regard to different factors for different securities:

- (a) if the Bank has sold Receivable Securities, the net proceeds of such sale after deducting all reasonable costs, commissions, fees and expenses incurred in connection with such sale;
- (b) observable market prices or such pricing sources (including trading prices) as the Bank considers appropriate;
- (c) offer or bid quotations from market makers or dealers in the market which is the most appropriate market for Receivable Securities of that description, or offer or bid quotations received as part of an auction or sale process for Receivable Securities as determined by the Bank;
- (d) other methods (which may include, without limitation, the Bank's internal modelling methodologies, such as those used by the Bank to determine the Adjusted Value) as the Bank considers appropriate;
- (e) to the extent not included in the determination of the Default Market Value, Income which has accrued but not yet been paid; and
- (f) Transaction Costs.

8.12 For the purposes of paragraph 8.11:

- (i) **Receivable Securities** means Equivalent Collateral Securities to be transferred to the Account Holder; and
- (ii) **Transaction Costs** in relation to any transaction contemplated in paragraph 8.11 means the costs, commissions, fees and expenses

(including any mark-up or mark-down or premium paid for guaranteed delivery) that would be incurred or reasonably anticipated in connection with the sale of Receivable Securities, calculated on the assumption that the aggregate thereof is the least that could reasonably be expected to be paid in order to carry out the transaction.

8.13 The Account Holder shall be liable to the Bank for the amount of all legal and other professional expenses incurred by the Bank in connection with or as a consequence of an Event of Default, (including, without limitation, arranger's fees, broker's fees and any costs incurred in valuing or servicing any securities) together with interest thereon at the Overdraft Rate or such lower rate as the Bank may in its discretion decide.