

NCS PAYMENTS ANNEX

1. APPLICATION

1.1 This Annex to the RTGS Account Mandate Terms and Conditions (the *Terms and Conditions*) relates to the Bank's Note Circulation Scheme (the *NCS*).

1.2 The Account Holder is required to transfer Eligible Collateral Securities to the Bank in respect of certain of its obligations under this Annex. Where the Account Holder is also a participant in the Bank's Sterling Monetary Framework, such Eligible Collateral Securities are provided in accordance with the Sterling Monetary Framework Terms and Conditions. Where this is not the case, Eligible Collateral Securities are provided in accordance with the Collateral Annex.

1.3 This Annex applies to an Account Holder who:

- (a) is a Member of the NCS; or
- (b) acts as a Settlement Agent for a Member of the NCS.

2. DEFINITIONS

In this Annex unless the context otherwise requires:

- (a) terms defined in the Terms and Conditions or any other Annex have the same meaning;
- (b) where the Account Holder is a participant in the Sterling Monetary Framework, terms defined in the Sterling Monetary Framework Terms and Conditions have the same meaning; and
- (c) the following expressions shall have the following meanings:

Close of Business means, in relation to any Operational Day, such time as may be specified in, or in accordance with, the NCS Rules;

Member of the NCS means a person admitted by the Bank as member of the NCS;

NCS Rules means, in relation to a Member of the NCS, all requirements of the NCS arrangements for the time being applicable to that Member of the NCS including, without limitation, the letter or letters sent by the Bank to the Member of the NCS in relation to the participation of the Member of the NCS in the NCS and all the documents referred to or contained in it;

Note Recirculation Facility has the meaning given in the NCS Rules;

NRF Payment Amount means, in relation to any Operational Day, the amount paid by the Bank to the Account Holder for the purchase of bank notes under the Note Recirculation Facility (as determined in accordance with the NCS Rules);

NRF Repayment Amount means, in relation to any Operational Day, an amount equal to the NRF Payment Amount on the previous Operational Day, or where an Event of Default has occurred, the NRF Payment Amount on the Operational Day prior to the occurrence of that Event of Default;

Opening of Business means, in relation to any Operational Day, such time on that Operational Day as may be specified in, or in accordance with, the NCS Rules;

Operational Day has the meaning given in the NCS Rules;

Settlement Account has the meaning given in the CHAPS Annex; and

Settlement Agent has the meaning given in the NCS Rules.

3. ACCOUNT HOLDER'S AUTHORITY TO THE BANK

3.1 Subject to the Terms and Conditions, and in addition to the authorities granted and requests made to the Bank in the Terms and Conditions, the Account Holder authorises and requests the Bank:

- (a) to transfer funds to or from the Settlement Account for the purpose of settlement of bank note transactions (including late bank note transactions) or for the purpose of correcting any errors as may occur from time to time;
- (b) if the Account Holder acts as Settlement Agent for a Member of the NCS, to act upon instructions from that Member of the NCS, signed by authorised officers of the Member of the NCS (as notified by the Account Holder to the Bank), to transfer funds to or from the Account Holder's Settlement Account for the purpose of settlement of bank note transactions (including late bank note transactions) that the Member of the NCS has entered into with the Bank or for the purpose of correcting any errors as may occur from time to time. The arrangements for the settlement of such transactions will be agreed by the Account Holder and the Bank in writing. Such instructions are to be given, and debits and credits shall be effected, in accordance with the RTGS Reference Manual. The Account Holder shall be responsible for such instructions in accordance with arrangements agreed between the Account Holder and the Bank as if the Account Holder had given the instructions itself;
- (c) if the Account Holder acts as Settlement Agent for a Member of the NCS, to act upon instructions from that Member of the NCS, signed by authorised officers of the Member of the NCS (as notified by the Account Holder to the Bank), to request the purchase of bank notes under the Note Recirculation Facility pursuant to clause 5.1 below.

4. POSITION OF THE BANK

4.1 For the purposes of clause 6.1(f) of the Terms and Conditions, Irregular Instructions shall include instructions that were not initiated by the Member of the NCS for which the Account Holder acts as Settlement Agent.

5. NOTE RECIRCULATION FACILITY

5.1 The Account Holder (whether for itself or as Settlement Agent for a Member of the NCS) and/or the Member of the NCS may request that the Bank purchases bank notes under the Note Recirculation Facility at the Close of Business on each Operational Day in accordance with the NCS Rules. The Bank may accept (in whole or in part) or reject any such request.

5.2 The Bank's acceptance of any such request as is referred to in paragraph 5.1 shall be effected by crediting the appropriate account or accounts within the MBG with the NRF Payment Amount. No such request shall be deemed to have been accepted until such credit is made.

5.3 The Bank shall not make any payment to the Account Holder, whether for itself or as Settlement Agent for a Member of the NCS, of any amount in respect of the purchase of bank notes under the Note Recirculation Facility if the Adjusted Value of Collateral Securities held by the Bank is not sufficient to cover the additional Relevant Exposure created in respect to that payment.

6. RELEVANT EXPOSURE

6.1 Notwithstanding clause D.2.1 of the Sterling Monetary Framework Terms and Conditions or clause 3.1 of the Collateral Annex, the Account Holder's Relevant Exposure under or in connection with the NCS shall be determined in accordance with the NCS Rules.

7. COVENANT TO PAY

7.1 This paragraph 7 applies where the Account Holder is a Member of the NCS.

7.2 The Account Holder unconditionally and irrevocably covenants to pay the Bank:

- (a) the NRF Repayment Amount at the Opening of Business on each Operational Day or upon the occurrence of an Event of Default;
- (b) on demand any amount required to be paid in respect of any other Relevant Exposure under or in connection with the NCS.

8. GUARANTEE

8.1 This paragraph 8 applies where the Account Holder acts as Settlement Agent for a Member of the NCS.

8.2 The Account Holder unconditionally and irrevocably, as a continuing obligation, guarantees the payment:

- (a) at the Opening of Business on each Operational Day, or upon the occurrence of an Event of Default, by the Member of the NCS to the Bank of the NRF Repayment Amount;

(b) any amount required to be paid by the Member of the NCS to the Bank in respect of any other Relevant Exposure under or in connection with the NCS, and as principal debtor and not merely as surety, covenants to pay such amount on demand, if the Member of the NCS fails to pay it or any part thereof.

8.3 As a separate, additional and primary obligation, the Account Holder, unconditionally and irrevocably, covenants upon the occurrence of an Event of Default to pay the Bank on demand, the NRF Repayment Amount.

8.4 The Account Holder's liability hereunder shall remain in force notwithstanding any act, omission, neglect, event or matter whatsoever whether or not known to the Account Holder, the Member of the NCS or the Bank and nothing shall impair or discharge the liabilities or obligations of the Account Holder under this paragraph and the foregoing shall apply, without limitation, in relation to:

- (a) anything which would have discharged the Account Holder (wholly or in part) whether as surety, co-obligor or otherwise or which would have afforded the Account Holder any legal or equitable defence;
- (b) the existence, validity, taking or renewal of any other guarantee, security, right of recourse, set-off or combination or other right or interest held or had by the Bank in relation to the operation of the NCS or any demand or enforcement of, neglect to perfect, failure to demand or enforce or the release or waiver of any such guarantee, security, right of recourse, set-off or combination or other right or interest;
- (c) any amendment, variation, assignment, novation or departure (however substantial or material) of, to or from the NCS Rules or any security which shall be binding upon the Account Holder in all circumstances, notwithstanding it may increase or otherwise affect the liability of the Account Holder;
- (d) any release of or granting of time or any other indulgence to the Member of the NCS or any third party;
- (e) any winding up, dissolution, reconstruction or reorganisation, legal limitation, disability, incapacity or lack of corporate power or authority or other circumstances of, or any change in the constitution or corporate identity or loss of corporate identity by, the Member of the NCS or any other person (or any act taken by the Account Holder or the Member of the NCS in relation to such event);
- (f) any other circumstances which might render void or unenforceable the obligations of the Member of the NCS under the NCS Rules or which might affect the Bank's ability to recover amounts from the Member of the NCS; or
- (g) any defence or counterclaim which the Member of the NCS may be able to assert against the Bank.

9. DEFAULT

9.1 In addition to the events specified in clause 8 of the Terms and Conditions and, where applicable, in clause A.11 of the Sterling Monetary Framework Terms and Conditions, each of the following events shall be treated as an Event of Default occurring at the time when the Bank serves written notice on the Account Holder stating that the relevant event is to be treated as an Event of Default:

- (a) the Bank determines that the Account Holder or, where the Account Holder is Settlement Agent for a Member of the NCS, the Member of the NCS is in material breach of any of the NCS Rules; or
- (b) the Account Holder, or any Member of the NCS for which the Account Holder acts as Settlement Agent, ceases to be a Member of the NCS; or
- (c) the Account Holder ceases to be a settlement bank for the purposes of RTGS; or
- (d) where the Account Holder acts as Settlement Agent for a Member of the NCS, any of the events listed in clauses 8.1(f) to 8.1(s) of the Terms and Conditions occurs (or any event analogous to any such event occurs in any jurisdiction) in relation to that Member of the NCS.