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# Fosse Securities No. 1 plc

(incorporated with limited liability in England & Wales - Number 3900287)

## £235,000,000 Class A Mortgage Backed Floating Rate Notes due 2032

Issue Price: 100%

## £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2032

Issue Price: 100%

## £10,000,000 Class C Mortgage Backed Floating Rate Notes due 2032

Issue Price: 100%

The £250,000,000 Mortgage Backed Floating Rate Notes due 2032 of Fosse Securities No. 1 plc (the "Issuer") will comprise £235,000,000 Class A Notes (the "Class A Notes"), £5,000,000 Class B Notes (the "Class B Notes") and £10,000,000 Class C Notes (the "Class C Notes") and, together with the Class A Notes and the Class B Notes, the "Notes". The holders of the Notes are referred to herein as the "Noteholders".

Interest on the Notes will accrue on a day-to-day basis and be payable in arrear in pounds sterling on 14th February, 2001 and thereafter quarterly in arrears on the 14th day of May, August, November and February (or the next succeeding day (other than a Saturday or Sunday or public holiday) on which banks are open for business in London (a "Business Day") if such day is not a Business Day) (each a "Payment Date"). The interest rates applicable to the Notes from time to time will be the London Interbank Offered Rate ("LIBOR") (as determined under "Terms and Conditions of the Notes") for three month sterling deposits (save in the case of the payment due on 14th February, 2001 in respect of which it will be determined by reference to a linear interpolation of three month and four month LIBOR) ("Note LIBOR"), plus in respect of the following Notes the following margins:

- (1) Class A Notes: a margin of 0.24% per annum up to and including the Interest Period ending in November 2007 and thereafter a margin of 0.48% per annum.
- (2) Class B Notes: a margin of 0.48% per annum up to and including the Interest Period ending in November 2007 and thereafter a margin of 0.96% per annum.
- (3) Class C Notes: a margin of 1.35% per annum up to and including the Interest Period ending in November 2007 and thereafter a margin of 2.35% per annum.

All Notes will be secured by the same security, subject to the priority described herein. Notes of each class will rank pari passu without priority over other Notes of the same class. In the event of the security being enforced the Class A Notes will rank in priority to the Class B Notes and the Class C Notes, and the Class B Notes will rank in priority to the Class C Notes.

Prior to redemption on the Payment Date falling in November 2032 (the "Final Payment Date"), the Notes will be subject to mandatory or optional redemption in certain circumstances. See "Terms and Conditions of the Notes - Redemption and Purchase".

As a condition to the issuance of the Notes, the Class A Notes are, on issue, to be assigned an AAA rating by Fitch Ratings Limited ("Fitch"), and an Aaa rating by Moody's Investors Service Limited ("Moody's") and, together with Fitch, the "Rating Agencies", the Class B Notes are, on issue, to be assigned an AA rating by Fitch and an Aa3 rating by Moody's and the Class C Notes are, on issue, to be assigned a BBB rating by Fitch and a Baa2 rating by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services Act 1986 (the "UK Listing Authority") for the Notes to be admitted to the official list maintained by the UK Listing Authority (the "Official List") and to London Stock Exchange plc (the "London Stock Exchange") for the Notes to be admitted to trading by the London Stock Exchange, which together, under the listing rules of the UK Listing Authority, will constitute official listing on the London Stock Exchange. Copies of this Offering Circular, which comprises listing particulars approved by the UK Listing Authority as required by the Financial Services Act 1986 in relation to Notes listed on the Official List and admitted to trading on the London Stock Exchange, have been delivered to the Registrar of Companies in England and Wales as required by Section 149 of that Act.

The Notes will settle in book-entry form through the facilities of Clearstream, Luxembourg and Euroclear (each as defined below) on or about 1st November, 2000 (the "Closing Date") against payments therefor in immediately available funds.

The Notes will be obligations solely of the Issuer and will not be obligations or responsibilities of, or guaranteed by, any other entity.

The Notes of each class will be represented initially by separate temporary global Notes, without coupons (the "Temporary Global Note") to be deposited with a common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about the Closing Date. The Temporary Global Notes will be exchangeable for interests in permanent global notes, without coupons (the "Permanent Global Notes") on or about 10th December, 2000 upon certification of non-U.S. beneficial ownership. Definitive Notes will be issued only in the limited circumstances set out in the Permanent Global Notes.

For a discussion of certain factors which should be considered in connection with an investment in the Notes, see the section in this Offering Circular entitled "Special Considerations".

Lead Manager

**MORGAN STANLEY DEAN WITTER**

Co-Managers

**BARCLAYS CAPITAL**

**HSBC**

**THE ROYAL BANK OF SCOTLAND, FINANCIAL MARKETS**

**SCHRODER SALOMON SMITH BARNEY**

**DEUTSCHE BANK AG**

**J.P. MORGAN SECURITIES LTD.**

**SG INVESTMENT BANKING**

The date of this Offering Circular is 25th October, 2000

## IMPORTANT NOTICE

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), or any state securities laws and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act). See “**Description of the Notes**” and “**Subscription and Sale**”. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by the Issuer, Morgan Stanley & Co. International Limited (the “**Lead Manager**”) or any of Barclays Bank PLC, Deutsche Bank AG London, HSBC Bank plc, J.P. Morgan Securities Ltd., The Royal Bank of Scotland plc, Salomon Brothers International Limited and Société Générale (the “**Co-Managers**”) that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this Offering Circular as listing particulars by the UK Listing Authority and delivery of copies of this Offering Circular to the Registrar of Companies in England and Wales, no action has been taken by the Issuer, the Lead Manager or any of the Co-Managers which would permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Lead Manager and each Co-Manager has represented that all offers and sales by it will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer, the Lead Manager and the Co-Managers to inform themselves about and to observe any such restrictions.

No person is authorised to give any information or to make any representation in connection with the offering or sale of the Notes other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, Alliance & Leicester plc (“**Alliance & Leicester**”), Citicorp Trustee Company Limited (the “**Trustee**”), the Lead Manager or any of the Co-Managers, the Swap Counterparty, the Swap Guarantor, the Paying Agents, the Reference Agent, the Corporate Services Provider, the Transaction GIC Provider, the Reserve GIC Provider or the Liquidity Facility Provider (each as defined herein) or any of their respective affiliates or advisers. All information contained in this document is given as of the date of this Offering Circular. Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the offering of the Notes shall, under any circumstances, create any implication or constitute a representation that there has been no change in the information contained herein since the date hereof.

The information contained in this Offering Circular was obtained from the Issuer and other sources, but no assurance can be given by the Trustee, Lead Manager or any of the Co-Managers or the Swap Counterparty, the Swap Guarantor, the Paying Agents, the Reference Agent, the Corporate Services Provider, the Transaction GIC Provider, the Reserve GIC Provider or the Liquidity Facility Provider as to the accuracy or completeness of such information. None of the Trustee, the Lead Manager or any of the Co-Managers, the Swap Counterparty, the Swap Guarantor, the Paying Agents, the Reference Agent, the Corporate Services Provider, the Transaction GIC Provider, the Reserve GIC Provider or the Liquidity Facility Provider makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Lead Manager or the Co-Managers or any of them to subscribe for or purchase any of the Notes.

Payments of interest and principal in respect of the Notes will be subject to any applicable withholding taxes without the Issuer being obliged to pay additional amounts therefor. In this Offering Circular all references to “**pounds**”, “**sterling**” and “**£**” are references to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland (the “**United Kingdom**”). References in this Offering Circular to “**euro**” or “**Euro**” are to the currency of the member states of the European Union that have adopted a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty on European Union.

**In connection with the issue of the Notes, the Lead Manager may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.**

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## SUMMARY INFORMATION

*The following is a summary of the principal features of the Notes and the Mortgage Portfolio and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular. An index of defined terms is included at the back of this Offering Circular.*

The Issuer: ..... Fosse Securities No. 1 plc will be the Issuer of the Notes. The Issuer's authorised share capital consists of 50,000 ordinary shares of £1 each. The issued share capital of the Issuer consists of 50,000 ordinary shares allotted with £12,501.50 paid up. All of the Issuer's issued share capital is held by or for the benefit of Fosse Holdings Limited ("**Holdings**"), all of whose issued share capital is held by SFM Corporate Services Limited (the "**Share Trustee**"), as trustee under the terms of a trust for the benefit of charitable institutions in respect of capital and income, and for the benefit of Noteholders in respect of the voting rights of such shares.

Mortgage Originator: ..... The Mortgage Loans in the Provisional Mortgage Portfolio were originated by Alliance & Leicester plc ("**Alliance & Leicester**") (in this capacity, the "**Originator**") on or after 1st October, 1994.

For a description of the Mortgage Loans, see "The Mortgages – the Provisional Mortgage Portfolio".

Mortgage Administration and Servicing: . Alliance & Leicester whilst it is the administrator of the Mortgage Loans (the "**Administrator**" (which term shall also refer to any substitute administrator under the Administration Agreement)) will be appointed as agent for the Issuer, *inter alia*, to administer the Mortgage Portfolio and manage all cash transactions and maintain cash management ledgers on behalf of the Issuer under an administration agreement to be entered into on the Closing Date between the Issuer, the Administrator and the Trustee (the "**Administration Agreement**").

The Administrator will be obliged to report on a regular basis to the Trustee and the Issuer on the Mortgage Portfolio, the administration of the Mortgage Loans and other matters relating to its administrative functions.

The appointment of the Administrator may be terminated by the Trustee or the Issuer on the occurrence of certain events of default, including non-performance of its obligations under the Administration Agreement or if insolvency or similar events occur in relation to the Administrator. Upon termination of the Administrator's appointment a substitute administrator shall be appointed by the Issuer and the Trustee (or in the case of failure to agree such appointment, solely by the Trustee) if a substitute administrator can be found. Such substitute administrator must if possible have experience of administering mortgage loans secured on properties in Northern Ireland, Scotland and England & Wales and agree

to enter into an agreement with the Issuer and the Trustee on substantially the same terms as the Administration Agreement.

The Trustee:..... Citicorp Trustee Company Limited will be appointed as Trustee pursuant to the Trust Deed to represent the interests of the Noteholders. The Trustee will hold for the benefit of, *inter alios*, the Noteholders, the security granted by the Issuer under the Deed of Charge referred to under “**Security for the Notes**” below.

The Notes: ..... The £235,000,000 Class A Mortgage Backed Floating Rate Notes due 2032, the £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2032 and the £10,000,000 Class C Mortgage Backed Floating Rate Notes due 2032 will be constituted by the Trust Deed and will share (subject to the priority upon enforcement described below) in the same security.

The Notes of each class will rank *pari passu* with the other Notes of the same class.

In the event of the security being enforced the Class A Notes will rank *pari passu* between themselves, but in priority to the Class B Notes and the Class C Notes; and the Class B Notes will rank *pari passu* between themselves, but in priority to the Class C Notes.

**The Notes will be obligations of the Issuer only. The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations of, or the responsibility of, or guaranteed by, any of Alliance & Leicester, the Lead Manager or any of the Co-Managers, the Trustee, the Swap Counterparty, the Swap Guarantor, the Liquidity Facility Provider, the Transaction GIC Provider, the Reserve GIC Provider, the Corporate Services Provider (each as defined below) or any company in the same group of companies as Alliance & Leicester, the Lead Manager or any of the Co-Managers, the Trustee, the Swap Counterparty, the Swap Guarantor, the Liquidity Facility Provider, the Transaction GIC Provider, the Reserve GIC Provider, or any other party to the Transaction Documents. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of Alliance & Leicester, the Lead Manager or any of the Co-Managers, the Trustee, the Swap Counterparty, the Swap Guarantor, the Liquidity Facility Provider, the Transaction GIC Provider, or the Reserve GIC Provider by any other person other than the Issuer.**

Issue Price:..... The Notes will be issued at 100 per cent. of their principal amount.

Interest Payments: ..... Payments of interest on the Notes shall (subject to the Terms and Conditions of the Notes (the “**Conditions**”)) be made on 14th February, 2001 and thereafter quarterly in arrears in sterling on each Payment Date in respect of the Interest Period ending immediately before that Payment Date. “**Interest Period**” means the period from (and including) each Payment Date (or the Closing Date in relation to the first such period) to (but excluding) the next (or first) Payment Date.



Interest on the Notes shall accrue at an annual rate of Note LIBOR plus the following margins on the following Notes.

- (1) Class A Notes: a margin of 0.24% per annum up to and including the Interest Period ending in November 2007 and thereafter a margin of 0.48% per annum.
- (2) Class B Notes: a margin of 0.48% per annum up to and including the Interest Period ending in November 2007 and thereafter a margin of 0.96% per annum.
- (3) Class C Notes: a margin of 1.35% per annum up to and including the Interest Period ending in November 2007 and thereafter a margin of 2.35% per annum.

**Prior to enforcement of the Security: the Class A Notes will, in respect of interest, rank prior to the Class B Notes and the Class C Notes; and the Class B Notes will, in respect of interest, rank prior to the Class C Notes. Accordingly the holders of the Class B Notes (the “Class B Noteholders”) will not receive any interest otherwise due on any Payment Date unless and until all amounts of interest then due and payable to the holders of the Class A Notes (the “Class A Noteholders”) and all other amounts due on the relevant Payment Date ranking in priority to the interest payment due on the Class B Notes have been paid in full. The holders of the Class C Notes (the “Class C Noteholders”) will not receive any interest otherwise due on any Payment Date unless and until all amounts of interest then due to the Class A Noteholders and the Class B Noteholders and all other amounts due on the relevant Payment Date ranking in priority to the interest payment due on the Class C Notes have been paid in full. In addition, in the circumstances described in the Pre-Enforcement Revenue Priority of Payments (as defined under “Cash Management and Use of Ledgers – Pre-Enforcement Revenue Priority of Payments”): (i) payments of principal on the Class B Notes and Class C Notes will be subordinated to payments of principal on the Class A Notes and interest on the Class B Notes and the Class C Notes may be subordinated to payments of principal on the Class A Notes; and (ii) payments of principal on the Class C Notes will be subordinated to payments of principal on the Class A Notes and the Class B Notes and interest on the Class C Notes may be subordinated to payments of principal on the Class A Notes and the Class B Notes.**

Where interest on the Class B Notes and/or the Class C Notes is not paid in accordance with the above paragraph it will be deferred until such later Payment Date on which it can be paid in accordance with the Pre-Enforcement Revenue Priority of Payments and any amount of interest so deferred will itself accrue interest, but any such deferral will cease on the Final Payment Date (as defined below), when all accrued interest will become due and payable. See Condition 5(g).

Security for the Notes:.....

The security for the Notes will be created pursuant to, and on the terms set out in, the deed of charge and assignment to be entered into on the Closing Date between, *inter alios*, the Issuer, Alliance & Leicester in its capacity as Originator and Administrator and the Trustee (the “**Deed of Charge**”) in favour of the Trustee on trust for, *inter alios*, the Noteholders.

The Notes of each class will be secured by first ranking fixed security interests over all the Issuer's rights, title, interest and benefit, present and future in, to and under:

- (a) the Mortgage Loans and their Related Security (including the relevant Mortgages and the benefit of the Insurance Contracts as defined in the Master Definitions Schedule) and all monies derived therefrom;
- (b) the Mortgage Sale Agreement and a declaration of trust in favour of the Issuer by Alliance & Leicester entered into on the Closing Date in relation to the Scottish Mortgages (as defined below) and their Related Security (the "**Scottish Declaration of Trust**");
- (c) the Administration Agreement;
- (d) the bank agreement (the "**Bank Agreement**") entered into by the Issuer, the Originator and the Administrator and Girobank plc, in relation to the Collection Accounts (as defined below);
- (e) the paying agency agreement (the "**Paying Agency Agreement**") to be entered into on the Closing Date between the Issuer, the Trustee, Alliance & Leicester and Citibank, N.A. as paying agent (the "**Principal Paying Agent**"), which expression shall include its successors in such capacity, together with any other paying agent appointed under the Paying Agency Agreement, the "**Paying Agents**") and as reference agent (the "**Reference Agent**"), which expression shall include its successors as reference agent);
- (f) the corporate services agreement to be entered into on the Closing Date between, *inter alios*, SFM Corporate Services Limited (the "**Corporate Services Provider**"), the Share Trustee and the Issuer (the "**Corporate Services Agreement**") pursuant to which the Corporate Services Provider will agree to provide corporate services to the Issuer, Holdings and the Post-Maturity Call Option Holder;
- (g) all Authorised Investments of the Issuer;
- (h) a guaranteed interest rate bank account in the name of the Issuer with Alliance & Leicester Group Treasury plc ("**ALGT**") (or such other account at such other bank as may become the Transaction GIC Account in accordance with the Transaction Documents), into which all payments received by or on behalf of the Issuer in respect of the Mortgage Loans and their Related Security are to be paid in accordance with the requirements of the Bank Agreement (the "**Transaction GIC Account**");
- (i) a guaranteed reserve bank account in the name of the Issuer with Barclays Bank PLC, (or such other account at such other bank as may become the Reserve GIC Account in accordance with the Transaction Documents, to which the Cash Reserve Fund shall be credited (the "**Reserve GIC Account**");

- (j) the liquidity facility agreement to be entered into on the Closing Date by, *inter alios*, the Issuer, the Liquidity Facility Provider (defined below) and the Trustee (the “**Liquidity Facility Agreement**”) pursuant to which the Liquidity Facility Provider will provide a 364 day renewable liquidity facility to the Issuer;
- (k) the two interest rate swap transactions to be entered into on the Closing Date by the Issuer and the Swap Counterparty pursuant to the swap agreement to be entered into on the Closing Date between the Issuer and the Swap Counterparty (the “**Swap Agreement**”);
- (l) the guarantee given by the Swap Guarantor (as defined below) to the Issuer to be entered into on or about the Closing Date in relation to the Swap Counterparty’s obligations under the Swap Agreement (the “**Swap Guarantee**”);
- (m) the GIC agreement to be entered into on the Closing Date (the “**Transaction GIC Agreement**”) between, *inter alios*, the Issuer, the Trustee and ALGT (the “**Transaction GIC Provider**”) in relation to the Transaction GIC Account;
- (n) the reserve GIC agreement to be entered into on the Closing Date (the “**Reserve GIC Agreement**”) between, *inter alios*, the Issuer, the Trustee and Barclays Bank PLC (the “**Reserve GIC Provider**”) in relation to the Reserve GIC Account;
- (o) a subordinated loan agreement (the “**Subordinated Loan Agreement**”) to be entered into on the Closing Date between, *inter alios*, Alliance & Leicester (in this capacity the “**Subordinated Loan Provider**”), the Trustee and the Issuer;
- (p) trusts in respect of amounts credited from time to time to the Collection Accounts (as defined below); and
- (q) all other contracts, agreements, deeds and documents entered into by the Issuer from time to time (including any hedging facility to track the Bank of England Base Rate which comes into effect after the end of any fixed or discount rate period) (as described below),

And will also be secured by a floating charge (ranking after the fixed security referred to above) over the whole of the undertaking, property, assets and rights of the Issuer which are not subject to the fixed security described above, but extending to all of the Issuer’s Scottish assets and Northern Irish assets including those covered by the fixed security (the assignment by way of security and the fixed and floating charges described above are together the “**Security**” and such assets of the Issuer subject to the Security are together referred to herein as the “**Charged Assets**”).

Certain of the charges described above, while expressed to be fixed charges, may take effect as floating charges.

The Charged Assets will also secure amounts payable by the Issuer to any receiver, the Trustee, the Administrator, the agents appointed under the Paying Agency Agreement, Alliance & Leicester (in its capacity as originator), the Liquidity Facility Provider, the Swap Counterparty, the Transaction GIC Provider, the Reserve GIC Provider, and the Corporate Services Provider (and any successors and assignees of any of them) under the Trust Deed, the Administration Agreement, the Paying Agency Agreement, the Mortgage Sale Agreement, the Liquidity Facility Agreement, the Swap Agreement, the Transaction GIC Agreement, the Reserve GIC Agreement, the Corporate Services Agreement and the Deed of Charge (and any supplements thereto) according to their respective interests.

The Deed of Charge will contain provisions regulating the priority of application of the Charged Assets (and proceeds thereof) among the persons entitled thereto after the security is enforced by the Trustee. Such priorities are described in "Allocation of Receipts Following Enforcement" below.

Certain of the charges described above, while expressed to be fixed charges, may take effect as floating charges.

Relationship between the Noteholders and other Creditors: .....

The Notes of each class will be constituted by the Trust Deed and will be secured by the same security.

The Trust Deed will contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as a single class, but where there is, in the Trustee's opinion, a conflict between such interests, the Trust Deed requires the Trustee to have regard only to the interests of the class of Notes involved in such a conflict of interests, which ranks senior in point of priority to the other class or classes so involved at that time as more particularly described above.

The Trust Deed contains provisions limiting the powers of the Noteholders of a class or classes of Notes which rank junior in priority at the relevant time, to the Notes of another class or classes, *inter alia*, to pass any Extraordinary Resolution (as defined in the Trust Deed) or to request or direct the Trustee to take any action. Except in certain circumstances, the Trust Deed imposes no limitations on the powers of the Noteholders of a class or classes of Notes which rank senior in priority to the Notes of another class or classes, the exercise of which will be binding on the Noteholders of such junior class or classes irrespective of the effect thereof on their interests.

The Trustee has no duties under the Deed of Charge to any other person entitled to the benefit of the Security created by the Deed of Charge save to pay to them any monies held by the Trustee and due to them. The Trustee will not be obliged to take any action to enforce the Security constituted by the Deed of Charge unless indemnified to its satisfaction.

Cash Management and Use of Ledgers: ..  
*Permitted Withdrawals from the  
Transaction GIC Account: .....*

Prior to the enforcement of the Security, the Administrator may make the following payments from the Transaction GIC Account on any date (including any Payment Date), to the extent that such payment does not cause the Transaction GIC Account to become overdrawn:

- (a) to pay to any third party any premia in respect of any insurance policy in relation to any Mortgage Loans and where such third party and Alliance & Leicester have agreed that payment of a commission to Alliance & Leicester should be made by deduction from such insurance premium, to pay such amount less such commission when due to such third party and to pay such commission to Alliance & Leicester and if any amount has been received from a Borrower for the express purpose of payment being made by the Issuer to a third party for the provision of a service (including without limitation giving insurance cover) to either that Borrower or the Issuer to pay such amount when due to such third party;
- (b) to pay to any person (including Alliance & Leicester and the Administrator) any amounts due arising from any overpayment by any person to the Issuer in respect of the Mortgage Loans or arising from any reimbursement by any person of any such overpayment;
- (c) to invest funds in Authorised Investments and to pay all reasonable costs and expenses incurred in connection with the making or realisation of any Authorised Investment;
- (d) to make payments due to the Administrator or any substitute Administrator pursuant to the Administration Agreement;
- (e) to refund any amounts due arising from the rejection of any direct debit payments or payments made by cheque or standing order in respect of a Mortgage Loan;
- (f) any other overpayments made in error by a Borrower and all other amounts not relating to the Mortgage Loans owned by the Issuer or in respect of which the Issuer has no entitlement pursuant to the Mortgage Sale Agreement, or amounts credited to the Transaction GIC Account in error;
- (g) payment to Alliance & Leicester of any amounts received or recovered by the Issuer representing early repayment fees upon early settlement of any Mortgage Loan or its Related Security (the “**Mortgage Early Repayment Charges**”);
- (h) payment to Alliance & Leicester of the purchase price of any ARR Mortgage Loans (as defined below) purchased by the Issuer;
- (i) to purchase Further Advances in an aggregate amount not exceeding the then credit balance of the Prepayments Ledger (each as defined below);

- (j) to pay when due and payable any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Trust Deed and not provided for payment elsewhere in items (a) to (i) above; and
- (k) to refund to Alliance & Leicester any amounts which represent amounts received from Borrowers but which do not form part of the Current Balance or comprise unpaid interest as at the Closing Date and which are amounts owed by such Borrowers in respect of any period prior to the Closing Date as and when identified by the Administrator and if a Borrower fails to pay the full amount that it owes, the Administrator shall be obliged to refund to Alliance & Leicester only such portion of the amount received which relates to any period prior to the Closing Date.

Each of the above payments shall be referred to as “**Permitted Withdrawals**”. The Administrator will determine which portion (if any) of a Permitted Withdrawal relates to principal or interest, and on the date of any Permitted Withdrawal, the Administrator shall debit the Principal Ledger in an amount equal to the portion of the Permitted Withdrawal initially credited to the Principal Ledger (each, a “**Principal Permitted Withdrawal Amount**”) and shall debit the Revenue Ledger in an amount equal to the portion of the Permitted Withdrawal initially credited to the Revenue Ledger (each, a “**Revenue Permitted Withdrawal Amount**”).

For so long as Alliance & Leicester acts as Administrator, it is not expected that amounts itemised in paragraphs (a) and (g) of the definition of Permitted Withdrawals will be deposited in the Transaction GIC Account, but will instead be retained in the Collection Accounts.

*Available Funds:* .....

Available Revenue Receipts and Available Principal Receipts are together referred to in this document as “**Available Funds**”.

As at any Determination Date, “**Available Revenue Receipts**” means an amount equal to the aggregate of:

- (i) Mortgage Revenue Receipts (as defined under “Use of Ledgers” below) received by the Issuer during the period from (and including) the preceding Determination Date (or, in the case of the first Determination Period (as defined below), the Closing Date) to (but excluding) the Determination Date in question (a “**Determination Period**”) (which for the avoidance of doubt in the case of the first Determination Period shall include all sums of interest received from and including the Closing Date in respect of any period prior to the Closing Date);
- (ii) other net income of the Issuer including amounts received, or to be received, by the Issuer under the Swap Agreement, and interest paid or to be paid to the Issuer on the Transaction GIC Account or the Reserve GIC Account and the investment income paid or due

from the Authorised Investments during the period from (but excluding) the preceding Payment Date (or, in the case of the first Payment Date, the Closing Date) to (but including) the immediately following Payment Date;

- (iii) amounts standing to the credit of the Reserve GIC Account; and
- (iv) accrued interest received by the Issuer on repurchased Mortgage Loans during the preceding Determination Period;

Less

- (v) all Revenue Permitted Withdrawal Amounts debited from the Revenue Ledger by the Administrator in the preceding Determination Period.

“**Determination Date**” means the first Business Day of any month which includes a Payment Date.

As at any Determination Date, “**Available Principal Receipts**” means an amount equal to the aggregate of:

- (i) Mortgage Principal Receipts (as defined under “Use of Ledgers” below) received by the Issuer during the preceding Determination Period (which for the avoidance of doubt in the case of the first Determination Period shall include all sums of principal received which were due and payable but not yet paid as at the Closing Date);
- (ii) the amount, if any, transferred in respect of debit balances on the Principal Deficiency Ledger pursuant to items (f), (h) and (j) of the Pre-Enforcement Revenue Priority of Payments; and
- (iii) principal received by the Issuer on repurchased Mortgage Loans;

Less the aggregate of:

- (iv) all Principal Permitted Withdrawal Amounts debited from the Principal Ledger by the Administrator in the preceding Determination Period; and
- (v) the amount (if any) as will be required on the next Payment Date to fund any amount by which the aggregate of the payments and provisions required to be met in priority to item (j) (or, if the debit balance of the C Principal Deficiency Ledger is at the C Note Principal Deficiency Limit, item (h), or, if the debit balance of the B Principal Deficiency Ledger is at the B Note Principal Deficiency Limit, item (f) (but excluding in all cases items (f) and (h))) in the Pre-Enforcement Revenue Priority of Payments exceeds Available Revenue Receipts on the relevant Determination Date.

*Pre-Enforcement Revenue Priority of Payments:*.....

Prior to the enforcement of the Security, the Administrator shall, on the date falling six Business Days after each Determination Date (each a “**Calculation Date**”), determine the extent to which Available Revenue Receipts will be sufficient to make the following payments and provisions and

on each Payment Date the Administrator, on behalf of the Issuer, shall apply the Available Revenue Receipts in making the following payments and provisions in the following order of priority (in each case if and only to the extent that items of a higher priority have been paid or provided for in full) (the “**Pre-Enforcement Revenue Priority of Payments**”):

- (a) first, *pro rata*, the amounts payable by the Issuer to the Trustee, the Share Trustee, the Reference Agent, the Principal Paying Agent and any other agents appointed under the Paying Agency Agreement, the Transaction GIC Provider, the Reserve GIC Provider, the Corporate Services Provider and the Operating Banks pursuant to the Trust Deed, the Share Trust Deed, the Paying Agency Agreement, the Reserve GIC Agreement, the Transaction GIC Agreement, the Corporate Services Agreement and the Bank Agreement;
- (b) second, sums due or expected to become due in the next Interest Period to third parties under obligations incurred in the course of the Issuer’s business without breach by the Issuer of the provisions of the Transaction Documents (other than those referred to later in this priority of payments), including provision for and payment of the Issuer’s liability (if any) to corporation tax (to the extent not payable out of available profits);
- (c) third, the Administration Fee and all expenses and other sums due or overdue to the Administrator or any substitute administrator under the Administration Agreement;
- (d) fourth, in or towards payment of all amounts due or overdue to the Liquidity Facility Provider under the Liquidity Facility Agreement (other than Liquidity Subordinated Amounts);
- (e) fifth, in or towards payment of *pari passu* and *pro rata*
  - (i) (before the occurrence of the Swap Trigger) all amounts due or overdue by the Issuer to the Swap Counterparty and
  - (ii) interest due or overdue on the Class A Notes;
- (f) sixth, to transfer to Available Principal Receipts an amount up to the debit balance on the A Principal Deficiency Ledger;
- (g) seventh, in or towards payment of interest due or overdue on the Class B Notes;
- (h) eighth, to transfer to Available Principal Receipts an amount up to the debit balance on the B Principal Deficiency Ledger;
- (i) ninth, in or towards payment of interest due or overdue on the Class C Notes;
- (j) tenth, to transfer to Available Principal Receipts an amount up to the debit balance on the C Principal Deficiency Ledger;



- (k) eleventh, in replenishment of the Cash Reserve Fund to be credited to the Reserve GIC Account up to the Cash Reserve Scheduled Maximum Amount;
- (l) twelfth, in or towards payment to the Liquidity Facility Provider in respect of the aggregate of (i) any amounts payable by the Issuer to the Liquidity Facility Provider in respect of increased costs and its obligation to gross up any payments made by it under the Liquidity Facility Agreement by reason of any withholding or deduction for or on account of any tax and (ii) the amount of interest accruing at the Additional Percentage (as defined in the Master Definitions Schedule) which exceeds 0.25 per cent. per annum of the principal amount under the Liquidity Facility Agreement (together, the “**Liquidity Subordinated Amounts**”);
- (m) thirteenth, (after the occurrence of the Swap Trigger) all amounts due by the Issuer to the Swap Counterparty;
- (n) fourteenth, to retain in the Transaction GIC Account an amount equal to 0.01 per cent. of the product of the time weighted average Mortgage Rate of the Mortgage Loans then in the Mortgage Portfolio during the preceding Determination Period and the aggregate Notional Outstanding on the Mortgage Loans (the “**Issuer’s Turnover**”) as of the beginning of the preceding Determination Period (the “**Issuer’s Profit**”) divided by four so that in each year 0.01 per cent. of the Issuer’s Turnover for that year comprises the Issuer’s Profit;
- (o) fifteenth, amounts due under the Subordinated Loan Agreement other than principal;
- (p) sixteenth, principal under the Subordinated Loan Agreement;
- (q) seventeenth, deferred consideration under the Mortgage Sale Agreement; and
- (r) eighteenth, the surplus, if any, to the Issuer.

If, on any Payment Date, the amount of Available Revenue Receipts is less than the aggregate of the amounts specified to be paid or provided for in priority to item (j) (or, if the debit balance of the C Principal Deficiency Ledger is at the C Note Principal Deficiency Limit, item (h), or, if the debit balance of the B Principal Deficiency Ledger is at the B Note Principal Deficiency Limit, item (f) (but excluding in all cases items (f) and (h))), then an amount equal to the shortfall shall be debited to the Principal Ledger and the Principal Deficiency Ledger and applied in the payment of the amounts specified.

If, on any Payment Date, funds applied as described above would be insufficient to meet the Issuer’s financial obligations in respect of the Senior Liabilities, then the Issuer may apply funds drawn under the Liquidity Facility Agreement in the payment of the Senior Liabilities in accordance with the Pre-Enforcement Revenue Priority of Payments.

To the extent that funds on the relevant Payment Date are sufficient therefor, such amounts specified in the Pre-Enforcement Revenue Priority of Payments shall be paid to the persons entitled thereto or so applied on such Payment Date and after such payment or application it is not intended that any surplus will be accumulated in the Issuer.

*Allocation of Receipts Following Enforcement:* .....

After the enforcement of the Security, the Trustee shall hold all monies received on trust to be applied in making the following payments in the following order of priority (in each case only to the extent that items of a higher priority have been paid in full) (the “**Post-Enforcement Priority of Payments**”):

- (a) first, *pari passu* and *pro rata*, in or towards satisfaction of (i) the fees or other remuneration then payable from the Issuer to the Trustee, inclusive of any amount in respect of VAT, and any costs, charges, liabilities, expenses and other amounts (together with any amount in respect of VAT thereon) then incurred by the Trustee under or in connection with the Trust Deed, the Notes and the Deed of Charge, together with interest thereon as provided in the Trust Deed and (ii) the fees or other remuneration then payable to any receiver inclusive of any amounts in respect of VAT and any costs, charges, liabilities, expenses and other amounts (together with any amount in respect of VAT thereon) then incurred by such receiver under or in connection with the Deed of Charge together with interest on such amounts as provided for in the Deed of Charge;
- (b) second, *pro rata*, in or towards satisfaction of the fees, expenses and other sums due or overdue to the agents appointed under the Paying Agency Agreement and any other expenses incurred under the Bank Agreement, the Transaction GIC Agreement and the Reserve GIC Agreement;
- (c) third, *pro rata*, in or towards satisfaction of all fees, expenses and other sums due or overdue (i) to the Administrator or any substitute administrator under the Administration Agreement and (ii) to the Corporate Services Provider under the Corporate Services Agreement;
- (d) fourth, in or towards payment of all amounts due or overdue to the Liquidity Facility Provider under the Liquidity Facility Agreement or any replacement therefor (other than Liquidity Subordinated Amounts);
- (e) fifth, *pari passu* and *pro rata*, in or towards satisfaction of (i) (before the occurrence of the Swap Trigger) all amounts (if any) due or overdue to the Swap Counterparty in respect of the Swap Agreement and (ii) all amounts due or overdue in respect of the Class A Notes;

- (f) sixth, *pro rata*, in or towards satisfaction of interest, principal and all other amounts due or overdue in respect of the Class B Notes;
- (g) seventh, *pro rata*, in or towards satisfaction of interest, principal and all other amounts due or overdue in respect of the Class C Notes;
- (h) eighth, in or towards payment to the Liquidity Facility Provider of any Liquidity Subordinated Amounts;
- (i) ninth, (after the occurrence of the Swap Trigger) in or towards satisfaction of all amounts due by the Issuer to the Swap Counterparty;
- (j) tenth, in or towards satisfaction of all unpaid interest (whether overdue or current) in respect of the Subordinated Loan Agreement;
- (k) eleventh, in or towards satisfaction of all amounts of principal and all other amounts due in respect of the Subordinated Loan Agreement;
- (l) twelfth, in or towards satisfaction of all amounts of deferred consideration under the Mortgage Sale Agreement; and
- (m) thirteenth, the surplus (if any) to the Issuer or other persons entitled thereto.

*Use of Ledgers:* ..... The Administrator will be required to record all amounts received from Borrowers in respect of the Mortgage Loans or otherwise paid or recovered in respect of the Mortgage Loans representing monthly repayments of principal, prepayments of principal (when transferred from the Prepayments Ledger), Overpayments (as defined below), redemption proceeds and amounts recovered on enforcement representing principal (but excluding Mortgage Early Repayment Charges), (together, “**Mortgage Principal Receipts**”) in a ledger for that purpose (the “**Principal Ledger**”) and to record all amounts other than Mortgage Early Repayment Charges and Mortgage Principal Receipts, (“**Mortgage Revenue Receipts**”) in a ledger for that purpose (the “**Revenue Ledger**”).

The Administrator will in addition maintain the following ledgers:

- (1) the “**Mortgage Early Repayment Charges Ledger**” to record Mortgage Early Repayment Charges, the benefit of which is retained by Alliance & Leicester which will be recorded in a separate ledger for that purpose;
- (2) the “**Prepayments Ledger**”, recording all prepayments of principal received from Borrowers in respect of the Mortgage Loans, for the purpose of determining amounts available to purchase Further Advances and to purchase ARR Substitute Mortgage Loans during a Determination Period (see “The Mortgage Portfolio – Further Advances, Substitution”); and

- (3) the “**Principal Deficiency Ledger**”, comprising three sub ledgers known as the “**A Principal Deficiency Ledger**”, the “**B Principal Deficiency Ledger**”, and the “**C Principal Deficiency Ledger**”), respectively which will be established in order to allocate any principal deficiency as it occurs in respect of any Mortgage Loan, if any, to the respective classes of the Notes on each Payment Date. Amounts to be debited to the Principal Deficiency Ledger shall be debited first to the C Principal Deficiency Ledger so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of the Class C Notes (the “**C Note Principal Deficiency Limit**”) and thereafter such amounts shall be debited to the B Principal Deficiency Ledger so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of the Class B Notes (the “**B Note Principal Deficiency Limit**”) and thereafter such amounts shall be debited to the A Principal Deficiency Ledger. With respect to any Payment Date, amounts allocated to any Principal Deficiency Ledger shall be reduced to the extent of Available Revenue Receipts available therefore on such Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments,

and such additional ledgers as are herein described.

The amounts standing to the credit, at any time, of the Principal Ledger, the Revenue Ledger, the Prepayments Ledger, (each as described above), and the Cash Reserve Ledger, the Liquidity Ledger (each as described herein – see “Credit Support and Liquidity”) and the Mortgage Early Repayment Charges Ledger (together, the “**Ledgers**”) will, together, represent all sums standing to the credit of the Transaction GIC Account, the Reserve GIC Account and any Liquidity Facility Stand-by Account (defined below) established by the Issuer (together, the “**Bank Accounts**”). The Ledgers and the Principal Deficiency Ledger will be used to monitor the receipt and subsequent utilisation of cash available to the Issuer from time to time and will be credited and debited in the manner described above and in the Pre-Enforcement Revenue Priority of Payments and “Redemption and Post Maturity Call Option – Mandatory Redemption in Part”.

Redemption and Post Maturity Call

Option: .....  
*Optional Redemption in full of Notes:* .....

The Notes will be subject to redemption in full, in an amount equal to their Principal Amount Outstanding (as defined under “Terms and Conditions of the Notes”) plus accrued but unpaid interest relating to that class in each of the following circumstances:

- (a) at the option of the Issuer, if the Issuer or the Principal Paying Agent or any other Paying Agent on its behalf is obliged to make any withholding or deduction on account of tax from payments in respect of the Notes or if there occur certain tax changes affecting payments of interest on the Mortgage Loans (upon giving not more

than 60 nor less than 30 days' notice to the Trustee and the relevant Noteholders in accordance with Condition 15); or

- (b) at the option of the Issuer, on the Payment Date falling in November 2007 (the "**Step-up Date**") or on any Payment Date thereafter (upon giving not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 15); or
- (c) at the option of the Issuer upon giving not more than 60 nor less than 30 days notice to the Trustee and the relevant Noteholders in accordance with Condition 15, if at any time the aggregate Principal Amount Outstanding of the Notes is 10 per cent. or less of the initial aggregate Principal Amount Outstanding of the Notes as at the Closing Date.

*Mandatory Redemption in Part:* .....

Prior to the enforcement of the Security, the Administrator shall, on the Calculation Date, determine the extent to which Available Principal Receipts will be sufficient to make the following payments and on each Payment Date other than any Payment Date on which the Notes are to be redeemed in full the Administrator, on behalf of the Issuer, shall apply the Available Principal Receipts in redeeming the Notes in the following order:

- (i) first, in redeeming, *pro rata*, Class A Notes up to the amount of their then Principal Amount Outstanding;
- (ii) second, in redeeming, *pro rata*, Class B Notes up to the amount of their then Principal Amount Outstanding; and
- (iii) third, in redeeming, *pro rata*, Class C Notes up to the amount of their then Principal Amount Outstanding.

The Administrator is responsible, pursuant to the Administration Agreement, for determining on each Calculation Date the Available Principal Receipts as at the next Payment Date and each determination so made shall (in the absence of wilful default, bad faith or manifest error) be final and binding on the Issuer, the Trustee and all Noteholders and no liability to the Noteholders shall attach to the Issuer, the Trustee, the Reference Agent, the Principal Paying Agent or any other Paying Agent or (except as stated above) to the Administrator in connection therewith.

The principal amount redeemable (the "**Note Principal Payment**") pursuant to Condition 6(a), on any Payment Date shall be the amount of the Available Principal Receipts on the Calculation Date immediately preceding that Payment Date to be applied in redemption of Notes of that class divided by the number of Notes of that class outstanding on the relevant Payment Date which are to be redeemed in part on that date (rounded down to the nearest pound), provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

On each Calculation Date, the Issuer shall determine (or cause the Administrator to determine) (i) the Available Principal Receipts due on the Payment Date next following such Calculation Date, (ii) the amount of any Note Principal Payment due on the Payment Date next following such Calculation Date, (iii) the Principal Amount Outstanding of each Note and (iv) the fraction expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Note (as referred to in (iii) above) and the denominator is £100,000. Each determination by or on behalf of the Issuer of any Available Principal Receipts, Note Principal Payment, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

With respect to the Notes, the Issuer will cause each determination of Available Principal Receipts, a Note Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith, and in any event not later than 1.00 p.m. (London time) on the Calculation Date, to the Trustee, the Principal Paying Agent, any other Paying Agents, the Reference Agent, the Swap Counterparty and (for so long as the Notes are listed on one or more stock exchanges) the relevant stock exchanges, and will immediately cause notice of each determination of the Available Principal Receipts, the Note Principal Payment, the Principal Amount Outstanding and the Pool Factor to be given in accordance with Condition 15 of the Notes by not later than two Business Days prior to the relevant Payment Date. If no Note Principal Payment is due to be made on the Notes on any Payment Date, a notice to this effect will be given to the Noteholders.

If the Issuer does not at any time for any reason determine (or cause the Administrator to determine), with respect to the Notes, a Note Principal Payment, the Available Principal Receipts, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such determination shall be made by the Trustee and shall be deemed to have been made by the Issuer and shall (in the absence of manifest error) be binding upon the Issuer, the Administrator and the Noteholders.

*Final Redemption:* ..... To the extent not otherwise redeemed, each Note will be redeemed on the Final Payment Date in an amount equal to its then Principal Amount Outstanding together with accrued and unpaid interest on the Final Payment Date.

*Post Maturity Call Option:* ..... The Trustee will grant to Fosse Options No. 1 Limited (the “**Post Maturity Call Option Holder**”) an option (the “**Post Maturity Call Option**”) pursuant to an agreement dated the Closing Date between, *inter alios*, the Issuer, the Post Maturity Call Option Holder and the Trustee (the “**Post Maturity Call Option Agreement**”) (under which the Trustee has no personal liability) to acquire all Relevant Notes (as defined in “Terms and Conditions of the Notes – Redemption and Purchase”) for a consideration of £0.01 per Relevant Note outstanding following enforcement of the Security, after

the date on which the Trustee determines that the proceeds of such enforcement are insufficient after payment of all other claims ranking in priority to the Notes to pay any further amounts due in respect of the Notes. By purchasing any Notes, each Noteholder irrevocably agrees to be bound by the terms of the Post Maturity Call Option.

Form of the Notes:.....

The Notes will be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act 1933 as amended and will initially be represented by the Global Notes.

The Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg on the Closing Date. Except in certain limited circumstances, the Notes will not be available in definitive form. Definitive Notes will be issued in bearer form only (see “Terms and Conditions of the Notes – Definitive Notes” and “Description of the Notes”). For so long as the Notes are represented by a Global Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an “**Accountholder**”), will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of Notes other than for the purposes of payment of principal and interest on such Notes, the right to which shall be vested, solely in the bearer of the relevant Global Note in accordance with and subject to the terms of the Trust Deed, and the expression “**Noteholders**”), shall be construed accordingly.

Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note and will be entitled to receive any payment so made in respect of that Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate. See “Description of the Notes – General”.

Average lives of the Notes: .....

The actual average lives of the Notes cannot be stated, as the actual rate of repayment of the Mortgage Loans and redemption of the Mortgages and a number of other relevant factors, some of which are set out in “Special Considerations – Yield and Prepayment Considerations”, are unknown. However, calculations of the possible average lives of the Notes can be made based on certain assumptions including as to the rate at which Mortgage Loans are prepaid and whether the Issuer exercises its option to redeem the Notes as more fully described under “Redemption and Post-Maturity Call Option – Optional Redemption in full of the Notes and Post Maturity Call Option” above. The actual average lives of the Notes are expected to be less or greater than the average lives of the Notes as set out in “Average Lives of the Notes and Modelling Assumptions”.

Ratings: .....	<p>As a condition to the issue of the Notes, the Class A Notes are to be rated AAA by Fitch and Aaa by Moody's, the Class B Notes are to be rated AA by Fitch and Aa3 by Moody's and the Class C Notes are to be rated BBB by Fitch and Baa2 by Moody's.</p> <p><b>A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by either one or both of the Rating Agencies.</b></p>
Listing: .....	<p>Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading.</p>
Purchase: .....	<p>Notes may not be purchased by the Issuer.</p>
Reserve Fund: .....	<p>A Cash Reserve Fund (as more particularly described under "Credit Support and Liquidity" below) credited to the Reserve GIC Account at the 54 Lombard Street, London EC3V 9EX branch of the Reserve GIC Provider will be available to the Issuer to make good certain shortfalls of funds available to the Issuer to meet its obligations.</p>
Liquidity Facility Agreement: .....	<p>The Issuer will enter into the Liquidity Facility Agreement with Barclays Bank PLC, acting through its London branch at 54 Lombard Street, London EC3V 9EX as liquidity facility provider (the "<b>Liquidity Facility Provider</b>"), and the Trustee pursuant to which the Liquidity Facility Provider will agree to make available to the Issuer a 364 day committed facility under which the Issuer may make certain drawings in circumstances where the Issuer has insufficient funds to provide for the Senior Liabilities (as defined below) subject, where applicable, to the commitment period being extended to the last day of the Liquidity Facility Commitment Period (as defined and as more particularly described in "Credit Support and Liquidity – Liquidity Facility", below).</p>
Subordinated Loan Agreement: .....	<p>On the Closing Date the Issuer will make a drawing of up to £5,320,000 under the Subordinated Loan Agreement (as more particularly described under "Credit Support and Liquidity" below) the first tranche of which will be used to meet certain fees and expenses of the Issuer in connection with the issue of the Notes and the second tranche of which will be used to establish the Cash Reserve Fund, to be credited to the Reserve GIC Account.</p>
Swap Agreement: .....	<p>The Issuer will enter into two interest rate swap transactions pursuant to a Swap Agreement (as more particularly described under "Credit Support and Liquidity" below) with the Swap Counterparty. The documentation will be based on market standard ISDA forms.</p> <p>The first interest rate swap (the "<b>Variable Rate Mortgages Swap</b>") will hedge the Issuer against interest rate exposure arising from differences between the interest rate profile of its obligations under the Notes and that of the Variable Rate Mortgages and any other Mortgage Loans that may, from time to time, be subject to a variable rate of interest. Under the Variable Rate Mortgages Swap, payments will be</p>



calculated by reference to the outstanding Current Balance of the Currently Variable Rate Mortgages and (i) Note LIBOR plus a margin and (ii) an average of variable mortgage interest rates offered by specified major UK mortgage lenders. If the amounts calculated by reference to (i) exceed the amounts calculated by reference to (ii), the Swap Counterparty will make a payment to the Issuer which represents that excess. If, however, the amounts calculated by reference to (ii) exceed the amounts calculated by reference to (i) the Issuer will make a payment to the Swap Counterparty which represents that excess.

The second interest rate swap (the “**Fixed Rate Mortgages Swap**”) will hedge the Issuer against interest rate exposure arising from differences between the interest rate profile of its obligations under the Notes and that of the Fixed Rate Mortgages and any other Mortgage Loans that may, from time to time, be subject to a fixed rate of interest. Under the Fixed Rate Mortgages Swap, payments will be calculated by reference to the outstanding Current Balance of the Currently Fixed Rate Mortgages and (i) Note LIBOR plus a margin and (ii) a weighted average of the fixed rates applicable to such Mortgage Loans. If the amounts calculated by reference to (i) exceed the amounts calculated by reference to (ii) the Swap Counterparty will make a payment to the Issuer which represents that excess. If the amounts calculated by reference to (ii) exceed the amounts calculated by reference to (i) the Issuer will make a payment to the Swap Counterparty which represents that excess.

A Capped Rate Mortgage is treated for the purposes of the Swap Agreement as a Variable Rate Mortgage save for such time as the interest rate applicable under that Capped Rate Mortgage is at the capped level, when it is treated as a Fixed Rate Mortgage.

Bank Account Arrangements:.....

The Administrator will procure that all payments in respect of amounts due under the Mortgage Loans will be made by direct debit or, if such payment is late or Borrowers choose not to pay by direct debit, by cheque or other means into accounts in the name of the Administrator held with Girobank plc at Bridle Road branch in Bootle, Merseyside and such other accounts as the Administrator may utilise from time to time (the “**Collection Accounts**”) all of which are trust accounts. Amounts standing to the credit of the Collection Accounts representing receipts or recoveries in respect of the Mortgage Loans in the Mortgage Portfolio will be transferred by the Administrator to the Transaction GIC Account, save in circumstances beyond the Administrator’s control, at the close of business on each Business Day. Any amounts standing to the credit of the Transaction GIC Account will either be left standing to the credit of the Transaction GIC Account or at the Administrator’s option invested, on a weekly basis, in Authorised Investments provided that the yield on such Authorised Investments shall not be less than the interest rate on the Transaction GIC

Account. Any amount standing to the credit of the Transaction GIC Account shall accrue interest at a margin below LIBOR.

The Reserve Fund will be deposited into the Reserve GIC Account. Any amounts standing to the credit of the Reserve GIC Account will either be left standing to the credit of the Reserve GIC Account or invested in Authorised Investments provided that the yield on such Authorised Investments shall not be less than the interest rate on the Reserve GIC Account. Any amount standing to the credit of the Reserve GIC Account shall accrue interest at a margin below LIBOR.

The Transaction GIC Account and the Reserve GIC Account will be operated in accordance with the Administration Agreement and the Transaction GIC Agreement and the Reserve GIC Agreement, respectively.

The Corporate Services Provider:..... Pursuant to the Corporate Services Agreement, the Corporate Services Provider has agreed to provide certain administrative services to the Issuer, Holdings and the Post-Maturity Call Option Holder. The Issuer will pay an annual fee to the Corporate Services Provider for the provision of such services.

Covenants: ..... The Issuer will make various covenants, as described in Condition 4, including a negative pledge, a limitation on incurring indebtedness and paying distributions or dividends to its shareholders, as well as an undertaking not to engage in any business other than as described in this Offering Circular. Further covenants of the Issuer are contained in the Trust Deed.

Withholding Tax: ..... Payments of interest and principal with respect to the Notes will be subject to any applicable withholding taxes and the Issuer will not be obliged to pay additional amounts in relation thereto. The applicability of any withholding taxes is discussed under "United Kingdom Taxation". See also "Special Considerations – Proposed EU Withholding Tax Directive".

All prospective Noteholders should be aware that the UK Finance Act, 2000 contains measures which will affect the above analysis. The applicability of any UK withholding taxes (including the effect of measures contained in the UK Finance Act, 2000) is discussed further under "United Kingdom Taxation" below.

The Mortgage Portfolio: ..... The Issuer has been established:

*Sale of the Mortgage Portfolio:* ..... (i) to acquire a portfolio (the "**Mortgage Portfolio**") of residential mortgage loans originated by Alliance & Leicester together with the related security for their repayment, including the relevant mortgages or standard securities and the benefit of the Insurance Contracts (each as defined in the Master Definitions Schedule) (each such mortgage loan, a "**Mortgage Loan**"); the related security for its repayment (including the relevant mortgage or standard security

and the benefit of the Insurance Contracts (each as defined in the Master Definitions Schedule), the “**Related Security**”; and each such mortgage or standard security, a “**Mortgage**”);

- (ii) to acquire Substitute Mortgage Loans (defined below); and
- (iii) to acquire Further Advances (defined below) in respect of these Mortgage Loans.

For the avoidance of doubt, reference herein to Mortgage Loans shall, where the context so requires, include the Substitute Mortgage Loans.

Each Mortgage is a mortgage or standard security of a residential property in Northern Ireland, Scotland or England and Wales (a “**Property**”). Unless the context requires otherwise, any reference herein to a Mortgage Loan includes the relevant Related Security.

The Mortgage Portfolio owned by the Issuer from time to time will comprise:

- (a) the portfolio of Mortgage Loans to be purchased by the Issuer on the Closing Date (the “**Initial Mortgage Portfolio**”) pursuant to the mortgage sale agreement to be entered into on the Closing Date between the Issuer, Alliance & Leicester and the Trustee (the “**Mortgage Sale Agreement**”);
- (b) each “**Substitute Mortgage Loan**” (being a BoW Substitute Mortgage Loan or an ARR Substitute Mortgage Loan as herein defined) acquired by the Issuer in accordance with the provisions of the Mortgage Sale Agreement; and
- (c) any Further Advances purchased by the Issuer,

other than Mortgage Loans which have been repaid in full and Mortgage Loans which have been repurchased by Alliance & Leicester pursuant to the Mortgage Sale Agreement (see “Sale of the Mortgage Portfolio – Repurchase of Mortgage Loans”).

The Mortgage Loans will be selected from a larger pool (the “**Provisional Mortgage Portfolio**”) which has the characteristics described under “The Mortgages – The Provisional Mortgage Portfolio”. All the statistical and other information contained in this Offering Circular, unless otherwise stated, relates to the Provisional Mortgage Portfolio.

The Provisional Mortgage Portfolio will comprise:

- (a) Mortgage Loans which are subject to a variable rate of interest set by Alliance & Leicester from time to time, including discount rate mortgages (the “**Variable Rate Mortgages**”);

- (b) Mortgage Loans which are subject to a variable rate of interest set by Alliance & Leicester from time to time but which rate of interest is capped at an agreed percentage level (“**Capped Rate Mortgages**”);
- (c) Mortgage Loans which are subject to a fixed rate of interest set by reference to a pre-determined rate for a fixed period (the “**Fixed Rate Mortgages**”);
- (d) Mortgage Loans which for a period of between one and five years following completion are subject to a discount variable rate of interest set by Alliance & Leicester from time to time and are for a period of between one and five years thereafter subject to a fixed rate of interest (the “**Discount/Fixed Rate Mortgages**”); and
- (e) Mortgage Loans which for a period of years following completion are subject to (i) a discount variable rate of interest set by Alliance & Leicester from time to time or (ii) a fixed rate of interest, and which thereafter revert to a variable rate of interest calculated by reference to the Bank of England base rate from time to time plus a pre-determined fixed percentage margin (the “**Base Rate Tracker Mortgages**”).

*Repurchase of Mortgage Loans:* ..... Alliance & Leicester will agree in the Mortgage Sale Agreement to repurchase Mortgage Loans in respect of which there is a material breach of warranty by Alliance & Leicester under the Mortgage Sale Agreement which has not been remedied by Alliance & Leicester within 30 days of receipt of written notice of such breach from the Issuer or Trustee. Alliance & Leicester whilst it is the Administrator will be under an obligation to notify the Issuer and Trustee of any material breach of warranty as soon as its senior management or the managers responsible for this securitisation transaction become aware of such breach. In certain limited circumstances, Alliance & Leicester may be entitled to indemnify the Issuer and the Trustee in respect of any losses suffered by either or both of them in connection with the relevant Mortgage Loan or Mortgage Loans rather than repurchasing them. See “Sale of the Mortgage Portfolio – Repurchase by Alliance & Leicester”.

Alliance & Leicester will, in some circumstances, also be entitled but not obliged to repurchase fully performing Mortgage Loans which are the subject of applications by Borrowers for Product Switches and/or Further Advances. See “Further Advances” and “Product Switches” below.

There are no other circumstances in which Alliance & Leicester is entitled to repurchase Mortgage Loans.

*Further Advances:* ..... An amount not exceeding the balance standing to the credit of the Prepayments Ledger may, subject to the conditions set out below and in “Sale of the Mortgage Portfolio – Further Advances”, be used by the Issuer during the Determination Period after the first Determination Period, in which such credit balances arose for the purposes of purchasing from

Alliance & Leicester further advances of principal made by Alliance & Leicester to Borrowers of the Mortgage Loans (“**Further Advances**”). If not used to purchase Further Advances or retained as the ARR Substitution Amount (as defined below), such amounts shall be used to redeem principal outstanding under the Notes as set out in “Redemption and Post Maturity Call Option – Mandatory Redemption in Part”.

On each Business Day, the Administrator will make a determination on a loan by loan basis of the amount (if any) of the Mortgage Loan Proceeds received in respect of each Mortgage Loan which represents a payment (whether in full or in part) of principal in respect of such Mortgage Loan, which payment of principal is received prior to the due date for payment of such amount (each such amount a “**Prepayment**”). An amount equal to the amount of each such Prepayment will be credited to a ledger to the Transaction GIC Account established for that purpose (the “**Prepayments Ledger**”). The Administrator shall ensure that an amount equal to the amount of each Prepayment is credited to the Prepayments Ledger on the date of deposit of such Prepayment into the Transaction GIC Account.

Purchases of Further Advances by the Issuer will occur at the month end in which the Further Advance was made. On the date of purchase of a Further Advance, the Administrator shall ensure that the Prepayments Ledger shall be debited with an amount equal to the amount of that Further Advance. Other than any credit balance representing any retained ARR Mortgage Amount, any credit balance remaining on the Prepayments Ledger on any Calculation Date shall be transferred to the credit of the Principal Ledger on such Calculation Date.

Alliance & Leicester will covenant in the Mortgage Sale Agreement not to make any Further Advances secured by the same Mortgage as a Mortgage Loan unless it first confirms to the Issuer that it will repurchase that Mortgage Loan if the Issuer does not purchase that Further Advance (because, for example, there are insufficient funds in the Prepayments Ledger or the conditions referred to in “Sale of Mortgage Portfolio – Further Advances” are not met).

Alliance & Leicester will be entitled to make advances which are not secured by, and rank behind, the Mortgages.

*Product Switches:* .....

Alliance & Leicester, on behalf of the Issuer, shall be entitled to vary the financial terms and conditions of a Mortgage Loan (a “**Product Switch**”) upon the fulfilment of certain conditions. In particular, no Product Switch may be made unless the yield on the mortgage loans in the Mortgage Portfolio (reduced by amounts payable by the Issuer or increased by amounts payable to the Issuer, as appropriate, under the Swap Agreement) before and after the Product Switch on the date of the Product Switch is not less than LIBOR for three month deposits plus 0.80 per cent. See “Sale

of the Mortgage Portfolio – Product Switches”. Alliance & Leicester may not make a Product Switch which does not meet those conditions unless it first confirms to the Issuer that it will repurchase the relevant Mortgage Loan.

*Substitution:* .....

When Alliance & Leicester is obliged to repurchase a Mortgage Loan because of the occurrence of a material breach of warranty, Alliance & Leicester shall be entitled (but not obliged) to sell to the Issuer a Mortgage Loan (a “**BoW Substitute Mortgage Loan**”) subject to the satisfaction of certain conditions. See “Sale of the Mortgage Portfolio – Substitution”.

Additionally, if on any Calculation Date the actual rate of repayment of principal of Mortgage Loans (howsoever made) together with the principal amount of Mortgage Loans repurchased (but in any case excluding any principal used to purchase Substitute Mortgage Loans) (the “**ARR**”) exceeds 20 per cent. per annum and there is credit balance remaining on the Prepayments Ledger in respect of that preceding Determination Period, then an amount equal to Prepayments attributable to such excess (the “**ARR Mortgage Amount**”) will be retained on the Prepayments Ledger for the next succeeding Determination Period to be available to fund the purchase of ARR Substitute Mortgage Loans (as defined below). Alliance & Leicester shall be entitled to sell on any Business Day of such Determination Period (an “**ARR Substitution Date**”) to the Issuer Mortgage Loans (“**ARR Substitute Mortgage Loans**”) for a consideration based on the Current Balance of the Mortgage Loans as at such ARR Substitution Date subject to the satisfaction of certain conditions, including a condition to the effect that the sale price of those ARR Substitute Mortgage Loans shall not exceed the ARR Mortgage Amounts. The ARR on any given date (the “**ARR Calculation Date**”) shall be calculated by reference to the amount of principal repaid under the Mortgage Loans together with the principal amount of Mortgage Loans repurchased (but in any case excluding any principal used to purchase Substitute Mortgage Loans) during the period from and including the Closing Date to and including that ARR Calculation Date, expressed as a percentage rate per annum.

On the date of purchase of an ARR Substitute Mortgage Loan, the Administrator shall ensure the Prepayments Ledger is debited with an amount equal to the amount of Prepayments applied toward the sale price of such loan. Alliance & Leicester shall not be entitled to sell the Issuer an ARR Substitute Mortgage Loan if the purchase of such loan by the Issuer would reduce the credit balance of the Prepayments Ledger represented by ARR Mortgage Amounts to less than zero. On the Calculation Date immediately following the Determination Period for which an ARR Mortgage Amount is available, any credit balance attributable to such ARR Mortgage Amount standing to the credit of the Prepayments Ledger shall be transferred to the credit of the Principal Ledger.

*Overpayments:* .....

At their election, Borrowers may during the course of any year make payments in excess of that required under the terms of the relevant Mortgage Loan without identifying the amount as a principal payment or payment of amounts in arrears. In these circumstances, each such overpayment (each an “**Overpayment**”) will be held by the Issuer in the Transaction GIC Account or as Authorised Investments and allocated as receipts for interest or principal (as applicable) from the relevant Borrower if that Borrower is in arrears on interest or principal payments prior to the end of the calendar year in which such Overpayments are made. At the end of each calendar year, the balance of all Overpayments made during that year (less amounts attributed during that year for interest or principal arrears referred to above) will be credited to the Prepayments Ledger.

## SPECIAL CONSIDERATIONS

*The following is a summary of certain aspects of the issue of the Notes about which prospective investors should be aware but is not intended to be exhaustive. Prospective investors should carefully consider the risk factors set out in this summary, in addition to the other information contained in this Offering Circular, in evaluating whether to purchase the Notes of any class.*

### **Non-Recourse Obligations**

The Notes represent obligations of the Issuer and do not constitute obligations or responsibilities of, or guarantees by, any other person (including, but not limited to, Alliance & Leicester, the Trustee, the Administrator, the Lead Manager, the Co-Managers, Holdings, the Post Maturity Call Option Holder, the Corporate Services Provider the Liquidity Facility Provider, the Swap Counterparty, the Swap Guarantor, the Transaction GIC Provider, the Reserve GIC Provider or any affiliate of any of the foregoing). The Issuer will rely solely on funds received under the Mortgage Loans, the Swap Agreement, the Swap Guarantee, the Liquidity Facility Agreement, Authorised Investments, the Cash Reserve Fund and interest paid on the Bank Accounts to enable it to make payments in respect of the Notes.

Upon enforcement of the security for the Notes, the Trustee will have recourse only to the Charged Assets. Other than as provided in the Mortgage Sale Agreement (see “Limitation of the Liability of Alliance & Leicester” below), the Issuer and the Trustee will have no recourse to Alliance & Leicester or any other entity including, but without limitation, in the event that the Issuer suffers a shortfall of funds following the enforcement of the relevant Mortgage and a claim being paid under the mortgage indemnity policy (if any).

If, upon default by Borrowers under the Mortgage Loans and after the exercise by the Administrator of all usual remedies in respect of the Mortgage Loans, the Issuer does not receive the full amount due from those Borrowers, then Noteholders may receive by way of principal repayment an amount less than the face value of their Notes and the Issuer may be unable to pay in full interest due on the Notes.

### **Collectability of Loans**

The collectability of the Mortgage Loans is subject to credit, liquidity and interest rate risks and will generally fluctuate in response to, among other things, market interest rates, general economic conditions, the financial standing of Borrowers and other similar factors. Other factors (which may not affect real estate values) may have an impact on the ability of Borrowers to repay Mortgage Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy filings by Borrowers and could ultimately have an adverse impact on the ability of Borrowers to repay Mortgage Loans.

In addition, the ability of the Issuer to dispose of a Property at a price sufficient to repay the amounts outstanding under the relevant Mortgage Loan will depend upon the availability of buyers for the Property.

### **Risks of Losses Associated with Declining Property Values**

The security for the Notes consists of, *inter alia*, the Issuer’s interest in the Mortgages. This security may be affected by, among other things, a decline in property values. No assurance can be given that values of the Properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgage Loans. If the residential property market in the United Kingdom experiences an overall decline in property values, such a decline could in certain circumstances result in the value of the security created by the Mortgages being significantly reduced and, ultimately, may result in losses to the Noteholders if the security is required to be enforced.

### **Geographic Concentration of Mortgaged Properties**

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, will experience higher rates of loss and delinquency on mortgage loans generally. There are concentrations of Properties within certain regional



areas which may present risk considerations in addition to those generally present for similar mortgage loan asset backed securities without such concentrations. See “The Mortgages – The Provisional Mortgage Portfolio”.

### **Risk of Losses Associated with Interest Only Loans**

Approximately 77 per cent. of the Mortgage Loans in the Provisional Mortgage Portfolio by value constitute either “Interest Only Loans” or “Policy Backed Mortgage Loans” (see “The Mortgages – Characteristics of the Mortgage Loans”). Interest Only Loans and Policy Backed Mortgage Loans are originated with a requirement that the Borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest Only Loan or a Policy Backed Mortgage Loan, the Borrower will be required to make a “bullet” payment that will represent the entirety of the principal amount outstanding. The ability of such a Borrower to repay an Interest Only Loan or a Policy Backed Mortgage Loan at maturity frequently may depend on such Borrower’s ability to obtain funds from another source, the financial condition of the Borrower, tax laws and general economic conditions at the time. In the case of Policy Backed Mortgage Loans backed by an endowment policy only, Alliance & Leicester requires a Borrower to take out and maintain an endowment policy with a sum assured and guaranteed death benefit equal to the initial amount of the loan. It reminds Borrowers to check the level of their premium contributions periodically, but it does not take any form of security over the policy concerned. It will (at its election) permit a Borrower to utilise the commutation option within a personal pension policy as an alternative repayment method, provided the projected growth rates in the fund appear reasonable and term assurance with a death benefit equal to the initial amount of the loan is taken out concurrently.

### **Yield and Prepayment Considerations**

The yield to maturity of the Notes of each class will depend on, *inter alia*:

- (a) the amount and timing of payment of principal on the Mortgage Loans (including prepayments, repayments in respect of Mortgage Loans which have converted from being Interest Only Loans to Repayment Loans, sale proceeds arising on enforcement of a Mortgage, and repurchases by Alliance & Leicester due to, *inter alia*, breaches of representations and warranties under the Mortgage Sale Agreement or any repurchase by Alliance & Leicester of any Mortgage Loan in respect of which the relevant Borrower has applied for a Further Advance or Product Switch which the Issuer is not entitled to provide and the price paid by the holders of the Notes;
- (b) the number and timing of purchases of ARR Substitute Mortgage Loans and BoW Substitute Mortgage Loans; and
- (c) whether such yield is adversely affected, *inter alia*, by a higher or lower than anticipated rate of prepayments on the Mortgage Loans.

Prepayments may result in connection with refinancings, sales of Properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgages, as well as the receipt of proceeds from buildings insurance and life insurance policies where the proceeds are remitted by the Borrowers. In addition, repurchases of certain Mortgage Loans made under the Mortgage Sale Agreement will have the same effect as a prepayment of such Mortgage Loans.

The rate of prepayment of Mortgage Loans cannot be predicted and is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. Therefore, no assurance can be given as to the level of prepayments that the Mortgage Portfolio will experience. See “Expected Average Lives of the Notes”.

### **Income and Principal Deficiency**

If, on any Payment Date, Available Revenue Receipts are insufficient to enable the Issuer to pay interest on the Notes and amounts ranking in priority thereto (but excluding items (f), (h) and (j) of the Pre-Enforcement Revenue Priority of Payments), the Issuer may in certain circumstances apply funds standing to the credit of the Principal Ledger in or towards payment thereof. In this event, the consequences set out in the following paragraph may result.

If funds standing to the credit of the Principal Ledger are applied in paying interest on the Class A Notes, the Class B Notes, the Class C Notes and amounts ranking in priority thereto on a Payment Date or, upon default by Borrowers and the exercise by the Issuer or the Administrator of all available remedies under the Mortgage Loans and the Related Security, the Issuer does not receive the full amount due from those Mortgage Loans and the Related Security, the Issuer will be obliged to record any such losses first in the C Principal Deficiency Ledger and, when the amount standing to the debit of the C Principal Deficiency Ledger is equal to the C Note Principal Deficiency Limit, in the B Principal Deficiency Ledger and, when the amount standing to the debit of the B Principal Deficiency Ledger is equal to the B Note Principal Deficiency Limit, in the A Principal Deficiency Ledger. These principal deficiencies will be recouped from subsequent receipts (other than principal receipts) into the Transaction GIC Account and, subject to the payment of prior ranking obligations as set out under the Pre-Enforcement Revenue Priority of Payments, first credited to the A Principal Deficiency Ledger and secondly (once the balance on the A Principal Deficiency Ledger is reduced to nil) to the B Principal Deficiency Ledger and thirdly (once the balance on the B Principal Deficiency Ledger is reduced to nil) to the C Principal Deficiency Ledger.

If there are insufficient funds available as a result of such income or principal deficiencies, then one or more of the following consequences may ensue:

- (i) the Issuer's interest and other net income may not be sufficient, after making the payments to be made in priority thereto, to pay, in full or at all, interest due on the Class B Notes and/or the Class C Notes;
- (ii) there may be insufficient funds to redeem the Class B Notes and/or the Class C Notes at their face value unless prior to their final maturity date the Issuer's interest and other net income is sufficient, after making other payments to be made in priority thereto, to reduce to nil the debit provision in the Principal Deficiency Ledger;
- (iii) if the aggregate debit balances, notwithstanding any reduction as aforesaid, exceed the aggregate face value of the Class C Notes, the Class B Noteholders may not receive by way of principal repayment the full face value of their Class B Notes, and if they exceed the aggregate face value of the Class B Notes and the Class C Notes, the Class A Noteholders may not receive by way of principal repayment the full face value of their Class A Notes; and
- (iv) the Issuer may be unable to pay, in full or at all, interest due on the Class A Notes.

However, drawings under the Liquidity Facility will be available to be applied in or towards payment of Senior Liabilities (as defined below and as more fully described in "Credit Support and Liquidity – Liquidity Facility").

### **Setting of variable mortgage rates**

The terms and conditions applicable to the Mortgage Loans in the Mortgage Portfolio (the "**Mortgage Conditions**") provide that in respect of the Variable Rate Mortgages (and the Capped Rate Mortgages and the Discount/Fixed Rate Mortgages subject to a variable rate of interest) the lender may vary the mortgage rate (but in the case of Mortgage Loans originated after 21st April, 1997 the interest rate may only be varied for reasons specified in the Mortgage Conditions or other unspecified valid reasons). The lender is defined in the Mortgage Conditions to include any successors. The rate payable under the Variable Rate Mortgages (and the Capped Rate Mortgages and the Discount/Fixed Rate Mortgages subject to a variable rate of interest) must not be greater than Alliance & Leicester's standard variable base rate (the "**Variable Mortgage Rate**") (or in certain cases subject to a fixed discount or margin over it). Alliance & Leicester will give, pursuant to the Mortgage Sale Agreement, the Issuer and the Trustee the power to set Alliance & Leicester's standard variable mortgage base rate but such power will only be exercisable in limited circumstances. See "Administration of the Mortgage Portfolio – Mortgage Rates". There is no requirement for any minimum period of notice to be given to Borrowers before an interest variation takes effect but Borrowers have the right in certain circumstances to give Alliance & Leicester, within one month of any variation, notice of their intention to redeem and if they then redeem within 3 months, they are not obliged to pay the increase in interest arising from that variation.

### **Reversion to Variable Mortgage Rate and Bank of England Base Rate Tracker Rate**

The Mortgages provide that the interest is payable at (i) a fixed rate in respect of the Fixed Rate Mortgages; (ii) a floating rate or discounted floating rate in respect of the Variable Rate Mortgages; (iii) a capped floating rate in respect of the Capped Rate Mortgages; (iv) a combination of discount floating rate and fixed rate in respect of the Discount/Fixed Mortgages; and (v) a combination of discount floating rate or fixed rate and a rate of interest calculated by reference to the Bank of England base rate from time to time plus a pre-determined fixed percentage margin (the “**Bank of England Base Rate Tracker Rate**”) in respect of the Base Rate Tracker Mortgages, for the period set out in each case in the relevant offer of loan. At the end of the fixed period specified in the relevant offer of loan, the mortgage rate reverts to the Variable Mortgage Rate or the Bank of England Base Rate Tracker Rate. This reversion will necessitate the entry into by the Issuer of further hedging arrangements which must be satisfactory to the Trustee (such satisfaction to be deemed upon receipt of written confirmation by the Rating Agencies) with the Swap Counterparty or with an alternative counterparty satisfactory to the Rating Agencies at such time. Such alternative counterparty, if any, must have a rating sufficient to support the then current ratings of the Notes and become a party to the documents to which the Swap Counterparty is a party (other than the Swap Agreement). There can, however, be no assurance that such a counterparty will be available at the relevant time.

### **Limitation of the Liability of Alliance & Leicester**

Neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Mortgage Loans and their Related Security, and each will rely instead on the warranties given by Alliance & Leicester in the Mortgage Sale Agreement. The Mortgage Sale Agreement restricts the remedies available to the Issuer and the Trustee against Alliance & Leicester in respect of the Mortgage Portfolio, as described in “Sale of the Mortgage Portfolio – Liability of Alliance & Leicester”. There can be no assurance that Alliance & Leicester will have the financial resources to honour such obligations under the Mortgage Sale Agreement. Such obligations are not guaranteed by nor will they be the responsibility of any person other than Alliance & Leicester and neither the Issuer nor the Trustee shall have recourse to any other person in the event that Alliance & Leicester, for whatever reason, fails to meet such obligations.

### **Realisation of Charged Assets**

The ability of the Issuer to redeem all the Notes in full and to pay all amounts due to the Noteholders, including after the occurrence of an Event of Default in relation to the Notes (see “Terms and Conditions of the Notes”), while any of the Mortgage Loans are still outstanding may depend upon whether the Mortgage Loans can be realised to obtain an amount sufficient to redeem the Notes.

### **Administration and Reliance on Third Parties**

In the event of the termination of the appointment of the Administrator under the Administration Agreement, it would be necessary for the Issuer and/or the Trustee to appoint a substitute administrator. Such substitute administrator would be required to assume responsibility for the provision of the administration services required to be performed under the Administration Agreement for the Mortgage Loans and the Issuer’s business. There can be no assurance that a substitute administrator will be willing to accept such appointment or that the substitute administrator will be able to assume and/or perform the duties of the Administrator pursuant to the Administration Agreement. The ability of a substitute administrator fully to perform the required services would depend, *inter alia*, on the information, software and records available at the time of the relevant appointment. The Trustee has no obligation to assume the role or responsibilities of the Administrator.

The Issuer is party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Swap Counterparty has agreed to enter into the Swap Agreement, the Swap Guarantor has agreed to enter into the Swap Guarantee, the Subordinated Loan Provider has agreed to enter into the Subordinated Loan Agreement, the Corporate Services Provider has agreed to provide certain corporate services and the Principal Paying Agent and the

Reference Agent have all agreed to provide services with respect to the Notes. In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, investors may be adversely affected.

### **Regulatory Considerations**

Set out below is a summary of certain regulatory matters affecting the UK residential mortgage market to which, *inter alia*, prospective investors should have regard.

#### ***Office of Fair Trading***

The Office of Fair Trading (the “OFT”) is responsible for the issue of licences under the Consumer Credit Act 1974 (the “Act”) and the related Consumer Credit Regulations promulgated thereunder.

#### ***Unfair Terms in Consumer Contracts Regulations***

The Unfair Terms in Consumer Contracts Regulations 1999 (the “Regulations”), which, together with the Unfair Terms in Consumer Contracts Regulations 1994, apply to agreements entered into on or after 1st July 1995 and affect all of the Mortgage Loans and separate agreements for further advances in each case made on or after such date, provide that (i) a Borrower may challenge a term in an agreement on the basis that it is an “unfair term” within the Regulations and therefore not binding as against the Borrower and (ii) the Director General of Fair Trading and any “qualified body” may seek to injunct a business against relying on an unfair term.

This will not generally affect “core terms” which set out the main subject-matter of the contract, for example the Borrower’s obligation to repay the principal, but may affect terms deemed to be ancillary terms such as terms the application of which are in the lender’s discretion, for instance the right of the lender to vary the interest rate.

For example, if a term imposing a charge upon redemption is unfair, the Borrower will not be liable to pay the charge or, to the extent that he has paid it, will be able, as against Alliance & Leicester or any assignee such as the Issuer, to claim restitution of the amount or to set-off the amount of such claim against the amount owing by the Borrower under the relevant Mortgage Loan. Any such non-recovery, claim or set-off may adversely affect the ability of the Issuer to make payments to Noteholders.

#### ***Financial Services Authority***

HM Treasury announced on 26th January 2000 that it will give the Financial Services Authority (the “FSA”) statutory responsibility for regulating most residential mortgages and that all mortgage lenders will have to be authorised by the FSA. The FSA has announced that it will begin a consultation process as to the new regulatory regime later this year with a view to bringing the new regime into force in the latter half of 2001.

No assurance can be given as to how the new regulatory regime will affect the mortgage market in the UK. Any such regime may have a material adverse effect on Alliance & Leicester, the Issuer and their respective mortgage businesses and operations.

No assurance can be given that future adverse regulatory developments will not arise with regard to the mortgage market in the UK. Any such action or developments may have a material adverse effect on Alliance & Leicester, the Issuer and their respective mortgage businesses and operations.

#### **Buildings Insurance**

The practice of Alliance & Leicester in relation to buildings insurance is described under “The Mortgages – Buildings Insurance”. As described in that section, no assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable insurance contracts.

#### **Mortgage Indemnity Insurance**

Alliance & Leicester will warrant under the Mortgage Sale Agreement that a Mortgage Loan with an LTV ratio in excess of 75 per cent. was insured by mortgage indemnity insurance (also referred to as “mortgage indemnity guarantee” or “MIG”) at the date of origination of that Mortgage Loan. However,

the Issuer will not have the benefit of any mortgage indemnity guarantee and will not be entitled to the proceeds of any claim under any mortgage indemnity guarantee (such proceeds, if any, will be for Alliance & Leicester's benefit). See "The Mortgages – MIG".

### **Certain Legal Considerations**

#### ***Title of the Issuer***

Legal title to the Mortgage Loans and their Related Security will only be transferred to the Issuer in the limited circumstances described under "Title to the Mortgage Portfolio – Perfection of Title". Prior to the Issuer obtaining legal title to the Mortgages, a bona fide purchaser from Alliance & Leicester for value of any of such Mortgage Loans without notice of any of the interests of the Issuer or the Trustee might obtain a good title, free of any such interests. However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee in this way is likely to be limited to circumstances arising from a breach by Alliance & Leicester of its contractual obligations or fraud, negligence or mistake on the part of Alliance & Leicester or the Issuer or their respective personnel or agents. Further, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against Alliance & Leicester. Such rights may include the rights of set-off which arise in relation to transactions or deposits made between certain Borrowers and Alliance & Leicester and the right of the relevant Borrowers to redeem their Mortgages by repaying the relevant Mortgage Loan directly to Alliance & Leicester. These rights may result in the Issuer receiving less monies than anticipated from the Mortgage Loans. Alliance & Leicester will, however, undertake in the Mortgage Sale Agreement to indemnify the Issuer in respect of amounts relating to such transactions and deposits which are set off against any sum to which the Issuer is entitled under the Mortgage Sale Agreement. Under the Mortgage Sale Agreement, Alliance & Leicester will be obliged to give notice of the transfer of the interest in the Mortgage Loans to the Borrowers at the request of the Trustee made at any time after Alliance & Leicester ceases to have a long term credit rating by Fitch of at least BBB+ or by Moody's of at least Baa2 (unless the Rating Agencies confirm that the then current ratings of the Notes will not be adversely affected).

The giving of notice to each Borrower would crystallise any right of set-off which accrues in the Borrower's favour against Alliance & Leicester at the time such notice is given and further rights of set-off would cease to accrue from that date.

For so long as neither the Issuer nor the Trustee have obtained legal title, Alliance & Leicester will undertake for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Mortgage Loans and their Related Security.

#### ***Enforcement***

In order to enforce a power of sale in respect of a Property, the relevant mortgagee (which may be Alliance & Leicester, the Issuer or the Trustee) must first obtain possession of the Property. Possession is usually obtained by way of a court order although this can be a lengthy process and will involve the mortgagee assuming certain risks. The Trustee is entitled to be indemnified to its satisfaction against personal liabilities which it may incur in becoming a mortgagee in possession before it is obliged to seek possession. See "Title to the Mortgage Portfolio – Enforcement".

### **Proposed EU Withholding Tax Directive**

In June 1998, the European Commission presented to the Council of Ministers of the European Union a proposal for a Council Directive relating to the taxation of payments of interest and discount within the European Community, see "United Kingdom Taxation". In the event that implementation of the Council Directive were to result in a withholding being made in respect of any payments on the Notes, neither the Issuer nor any other person would be obliged to pay additional amounts in relation thereto.

### **Year 2000 Issues**

An issue still exists for all companies that rely on computers in respect of the year 2000. The year 2000 problem is the result of a past practice in the computer industry of using two digits rather than four to identify the applicable year. This practice may result in incorrect results when computers perform arithmetic operations, comparisons or data field sorting involving years later than 1999. Alliance &

Leicester has completed an exercise to establish year 2000 compliance and, to date, has not encountered any problems. There can, however, be no assurance that the year 2000 problem will not have an adverse impact on the operations of Alliance & Leicester.

### **European Monetary Union**

It is possible that prior to the maturity of the Notes the United Kingdom may become a participating Member State in European economic and monetary union and the euro may become the lawful currency of the United Kingdom. In that event, (a) all amounts payable in respect of the Notes may become payable in euros; (b) applicable provisions of law may allow or require the Issuer to redenominate the Notes into euros and take additional measures in respect of the Notes; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Notes.

### **Subordination and credit enhancement**

Class B Noteholders and Class C Noteholders should have particular regard to the special factors identified in the section headed "Credit Support and Liquidity" below in determining the likelihood or extent of any shortfall of funds available to the Issuer to meet payments of interest and/or principal due under the Class B Notes and the Class C Notes.

## CREDIT SUPPORT AND LIQUIDITY

### Excess Spread

The interest rates charged on the Mortgage Loans vary according to product type. It is anticipated that, on the Closing Date, the revenue generated by applying the weighted average mortgage rate charged on the aggregate Notional Outstanding on the Mortgage Loans (defined below) will exceed the estimated transaction items described in paragraphs (a) through (i) of the Pre-Enforcement Revenue Priority of Payments, the amount of such excess being the “**Excess Spread**”. The actual amount of the excess will vary during the life of the Notes; among the key factors determining such variations are the level of delinquencies and defaults experienced, the level of prepayments and the weighted average interest rate in each case on the Mortgage Portfolio.

On any Payment Date, the Excess Spread will be available to meet the payments and provisions referred to in the Pre-Enforcement Revenue Priority of Payments. It is not intended that any surplus will be accumulated in the Issuer except for the Issuer's Profit. Any Excess Spread will be paid to Alliance & Leicester by way of deferred purchase price under the Mortgage Sale Agreement or interest on the Subordinated Loan pursuant to the Pre-Enforcement Revenue Priority of Payments and such payments cannot subsequently be clawed back by the Issuer.

The “**Notional Outstanding on the Mortgage Loans**” is (at any time) the difference between (a) the aggregate of the Current Balances of all Mortgage Loans comprised in the Mortgage Portfolio on the Closing Date; and (b) the aggregate of all Mortgage Principal Receipts (excluding amounts recovered following any enforcement proceedings) and the Current Balances of all Mortgage Loans which have been repossessed and where recovery proceedings have been completed.

The “**Current Balance**” of a Mortgage Loan is the principal amounts advanced to the Borrower plus all arrears charged pursuant to the Mortgage Conditions less all amounts representing payments applied in reduction of the Borrower's loan account.

### Cash Reserve Fund

A reserve fund (the “**Cash Reserve Fund**”) will be established using a drawing under the second tranche of the Subordinated Loan Facility in the sum of £3,750,000, being the aggregate of (i) an amount equal to 1.30 per cent. of the Initial Principal Amount of the Notes (the “**IRSMA**”) and (ii) a collateral liquidity amount equal to 0.20 per cent. of the Initial Principal Amount of the Notes made available to cover the timing differences between interest collections on the Mortgage Loans and interest accrual on the Notes. This deposit will be made into the Reserve GIC Account or invested in Authorised Investments on the Closing Date such amount being credited to a ledger for that purpose (the “**Cash Reserve Ledger**”).

On each Payment Date, the Cash Reserve Fund may be increased or, as the case may be, replenished from Available Revenue Receipts, in accordance with the Pre-Enforcement Revenue Priority of Payments up to an amount equal to 1.50 per cent. of the aggregate Initial Principal Amount of the Notes (the “**Cash Reserve Scheduled Maximum Amount**” or “**CRSMA**”). “**Initial Principal Amount**” means the aggregate Principal Amount Outstanding of all of the Notes as at the Closing Date. See “Summary Information – Pre-Enforcement Revenue Priority of Payments”.

Amounts credited to the Cash Reserve Fund will be available to meet the payments and provisions under the Pre-Enforcement Revenue Priority of Payments as more fully described in “Subordinated Loan Agreement” below.

Amounts standing to the credit of the Cash Reserve Fund in excess of the Cash Reserve Scheduled Maximum Amount (the “**Cash Reserve Excess**”) will be applied to make the payments and provisions under the Pre-Enforcement Revenue Priority of Payments.

### Liquidity Facility

Pursuant to the terms of the Liquidity Facility Agreement, the Liquidity Facility Provider will provide a 364-day committed facility (the “**Liquidity Facility**”) to the Issuer. The Issuer will be permitted at any time during the Liquidity Facility Commitment Period to make drawings under the Liquidity Facility where the Issuer has insufficient funds available to pay in full on any Payment Date any of the Senior Liabilities (as defined below) subject, where applicable, to the commitment period being extended to the last

day of the Liquidity Facility Commitment Period. The “**Liquidity Facility Commitment Period**” means the 364 day period from the Issue Date. The Issuer may request the extension of the Liquidity Facility for a further 364 day period subject to giving written notice thereof to the Liquidity Facility Provider.

The “**Senior Liabilities**” are:

- (i) the items listed in paragraphs (a) through (i) (but excluding the items listed in paragraphs (f) and (h)) of the Pre-Enforcement Revenue Priority of Payments; or
- (ii) if as at the preceding Calculation Date the balance of the C Principal Deficiency Ledger is greater than or equal to 20 per cent. of the Principal Amount Outstanding of the Class C Notes, the items listed in paragraphs (a) through (g) (but excluding the item listed in paragraph (f)) of the Pre-Enforcement Revenue Priority of Payments; or
- (iii) if notwithstanding (ii) above as at the preceding Calculation Date the balance of the B Principal Deficiency Ledger is greater than or equal to 50 per cent. of the Principal Amount Outstanding of the Class B Notes, the items listed in paragraphs (a) through (e) of the Pre-Enforcement Revenue Priority of Payments.

The amount available to be drawn by the Issuer under the Liquidity Facility will be equal to the Liquidity Shortfall (subject to an overall facility limit of £7,500,000). The “**Liquidity Shortfall**” is the difference between the aggregate amount of the Issuer’s obligations in respect of the Senior Liabilities, on a Payment Date and the aggregate amount of Available Revenue Receipts and principal funds available to be applied (as described in “Cash Management and Use of Ledgers – Pre-Enforcement Revenue Priority of Payments” on that Payment Date.

The Issuer will not be permitted to draw under the Liquidity Facility to fund termination payments (if any) payable to the Swap Counterparty.

The Liquidity Facility Agreement will provide that if:

- (a) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Liquidity Facility Provider cease to be rated at least P-1 by Moody’s or F-1+ by Fitch (the “**Requisite Ratings**”); or
- (b) the Liquidity Facility Provider does not agree to extend the Liquidity Facility Commitment Period,

the Issuer may require the Liquidity Facility Provider to pay into a designated bank account of the Issuer (the “**Liquidity Facility Stand-by Account**”), maintained with an appropriately rated bank (which shall be the Liquidity Facility Provider if it has the Requisite Ratings), an amount equal to the then undrawn commitment under the Liquidity Facility Agreement (the “**Liquidity Facility Standby Drawing**”). Amounts standing to the credit of the Liquidity Facility Stand-by Account will be available to the Issuer for drawing during the Liquidity Facility Commitment Period in the circumstances described above.

The Administrator will keep a ledger (the “**Liquidity Ledger**”) recording all drawings and repayments under the Liquidity Facility in accordance with the terms of the Liquidity Facility Agreement.

If the Liquidity Facility Provider ceases to have the Requisite Ratings, the Issuer may require that the Liquidity Facility Provider transfer its rights and obligations under the Liquidity Facility Agreement to a replacement Liquidity Facility Provider which has the Requisite Ratings on the basis that the Liquidity Facility Provider is repaid in full and provided that the then current ratings of the Notes are not adversely affected thereby.

The Liquidity Facility Provider will be a secured creditor of the Issuer pursuant to the Deed of Charge. All amounts owing to the Liquidity Facility Provider (other than any Liquidity Subordinated Amounts) will, on enforcement of the security for the Notes, rank in priority to the payment of all amounts of interest and principal in respect of the Class A Notes and amounts ranking *pari passu* therewith.

The Liquidity Facility Agreement will be governed by English law.

### **Swap Agreement**

The Issuer will enter into the Variable Rate Mortgages Swap and the Fixed Rate Mortgages Swap pursuant to the Swap Agreement with the Swap Counterparty.



The Issuer will enter into the Variable Rate Mortgages Swap to hedge itself against interest rate exposure arising as a result of differences between the rate of interest charged on the Variable Rate Mortgages (and any other Mortgage Loans that may, from time to time, be subject to a variable rate of interest) (the “**Currently Variable Rate Mortgages**”) and the rates of interest payable on the Notes. A single net payment obligation will be determined in respect of each Payment Date by reference to amounts calculated in respect of the Calculation Period (as such term is defined in the confirmation for the Variable Rate Mortgages Swap) in which such Payment Date falls and the two immediately preceding Calculation Periods by applying to a notional amount equal to the outstanding Current Balance of the Currently Variable Rate Mortgages in the Mortgage Portfolio (but excluding Security Enforced Mortgage Loans) for each such Calculation Period (the “**Basis Swap Notional Amounts**”) the following rates (rate (x) and rate (y) respectively):

- (x) Note LIBOR plus a margin; and
- (y) the Average Standard Variable Rate (as defined below) for that Calculation Period.

“**Average Standard Variable Rate**” means, in relation to a Calculation Period, a rate of interest calculated as an average of specified major mortgage lenders’ mortgage interest rates applicable in the Reference Period (as defined in the confirmation for the Variable Rate Mortgages Swap) which ends on the day immediately preceding the first day of that Calculation Period.

“**Security Enforced Mortgage Loan**” means a Mortgage Loan in respect of which the Related Security has been enforced, the relevant Property has been repossessed, enforcement and recovery proceedings have been completed and the proceeds of which have been insufficient to redeem the Mortgage Loan in full.

These amounts will be calculated on the relevant Calculation Date. If the aggregate of amounts calculated by applying rate (x) exceeds the aggregate of amounts calculated by applying rate (y), the Swap Counterparty will be required to pay to the Issuer, on the relevant Payment Date, the difference between those amounts. If the aggregate of amounts calculated by applying rate (y) exceeds the aggregate of amounts calculated by applying rate (x), the Issuer will be required to pay to the Swap Counterparty, on the relevant Payment Date, the difference.

The Issuer will enter into the Fixed Rate Mortgages Swap to hedge itself against interest rate exposure arising as a result of differences between the rate charged on the Fixed Rate Mortgages (and any other Mortgage Loans that may, from time to time, be subject to a fixed rate of interest) (the “**Currently Fixed Rate Mortgages**”) and the rates of interest payable on the Notes. A single net payment obligation will be determined in respect of each Payment Date by reference to amounts calculated in respect of the Calculation Period (as such term is defined in the confirmation for the Fixed Rate Mortgages Swap) in which such Payment Date falls and the two immediately preceding Calculation Periods by applying to a notional amount equal to the outstanding Current Balance of the Currently Fixed Rate Mortgages in the Mortgage Portfolio (but excluding Security-Enforced Mortgage Loans) for each such Calculation Period (the “**Fixed Rate Notional Amount**”) the following rates (rate (w) and rate (z) respectively):

- (w) Note LIBOR plus a margin; and
- (z) the weighted average fixed rate of the Currently Fixed Rate Mortgages applicable at the opening of business on the first day of that Calculation Period.

These amounts will be calculated on the relevant Calculation Date. If the aggregate of amounts calculated by applying rate (w) exceeds the aggregate of amounts calculated by applying rate (z), the Swap Counterparty will be required to pay to the Issuer, on the relevant Payment Date, the difference between those amounts. If the aggregate of amounts calculated by applying rate (z) exceeds the aggregate of amounts calculated by applying rate (w), the Issuer will be required to pay to the Swap Counterparty, on the relevant Payment Date, the difference.

In the event of a withholding tax being imposed on payments due to be made by the Issuer, it will not be obliged to gross up such payments. The Swap Counterparty, however, will be obliged to gross up on any payments due to be made by it to the Issuer in the event of a withholding tax being imposed.

Under the terms of the Swap Agreement, in the event that the long term unsecured, unsubordinated and unguaranteed credit rating of the Swap Guarantor is downgraded below AA- by Fitch or Aa3 by Moody’s and as a result of such downgrade, any of the then current ratings of the Notes would be adversely affected, the Swap Counterparty may either, *inter alia*, (i) provide collateral for its obligations in order to

maintain the ratings of the Notes at their then current ratings, or (ii) arrange for its obligations under the Swap Agreement to be transferred to an appropriate entity with at least a AA- and Aa3 rating, in order to maintain the ratings of the Notes at their then current ratings all as provided in the Swap Agreement. If the Swap Counterparty does not take any of the measures described above, such failure shall constitute an Additional Termination Event (as defined in the Swap Agreement) on the thirtieth day following such downgrade. The Swap Guarantor currently has long term senior unsecured, unguaranteed and unsubordinated debt ratings of AAA by Fitch and Aaa by Moody's.

If an Early Termination Date (as defined in the Swap Agreement) has been designated by the Issuer as a result of the occurrence of an Event of Default (as defined in the Swap Agreement) where the Swap Counterparty is the Defaulting Party (as defined in the Swap Agreement) (a "**Swap Trigger**") then amounts due or overdue by the Issuer to the Swap Counterparty will be paid in a different order of priority. (See the Pre-Enforcement Revenue Priority of Payments.).

### **Subordinated Loan Agreement**

Alliance & Leicester will make available to the Issuer a subordinated loan (the "**Subordinated Loan**") pursuant to the Subordinated Loan Agreement, which will be a subordinated loan facility consisting of two tranches. The first tranche of the Subordinated Loan ("**Tranche A**") will be an amount of up to £1,570,000 and will be used for meeting the costs and expenses arising in respect of the issue of the Notes. The second tranche of the Subordinated Loan ("**Tranche B**"), will be an amount of £3,750,000 which will be used to provide the initial funding of the Cash Reserve Fund which will be credited to the Reserve GIC Account or invested in Authorised Investments (with a corresponding credit to the Cash Reserve Ledger).

### **The Class B Notes**

The Class B Notes will provide credit and liquidity protection for the Class A Notes.

The Class B Noteholders will not receive any payment of interest unless and until all interest amounts then due to the Class A Noteholders have been paid in full, in accordance with the Pre-Enforcement Revenue Priority of Payments. In addition, in the circumstances described in "Redemption and Post-Maturity Call Option – Mandatory Redemption in Part", payments of principal on the Class B Notes will be subordinated to payments of principal on the Class A Notes.

In the event that, on any Payment Date, there are insufficient funds (including Available Revenue Receipts, principal and liquidity funds available to be applied as described under "Cash Management and Use of Ledgers – Pre-Enforcement Revenue Priority of Payments") available to make payment in full of interest amounts due and payable on the Class B Notes, then to that extent interest shall be deferred until the next Payment Date on which there are sufficient such funds, as more fully set out in Condition 5(g).

The Class A Notes and the Class B Notes will be constituted by the Trust Deed and will share the same security although, upon enforcement, the Class A Notes will rank in priority to the Class B Notes.

If following enforcement of the Security, the Trustee determines that the proceeds from enforcement are insufficient after payment of all other claims ranking in priority to or *pari passu* with the Notes to enable the Issuer to pay in full all outstanding principal and accrued interest (including any shortfalls of interest and/or principal and, in respect of shortfalls of interest, the interest accrued thereon) in respect of the Notes then if so requested by the Post Maturity Call Option Holder the Noteholders are required to sell to the Post Maturity Call Option Holder all (but not some only) of their holdings of Relevant Notes (as defined in Condition 6(j)) for a consideration of £0.01 per Relevant Note.

The Trust Deed will contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders and the Class B Noteholders, but where there is in the Trustee's opinion, a conflict between such interests, requiring the Trustee to have regard only to the interests of the Class A Noteholders. The Trust Deed will also contain provisions limiting the powers of the Class B Noteholders to take any action which may affect the interests of the Class A Noteholders. Except in certain circumstances, the Trust Deed will contain no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding upon the Class B Noteholders, irrespective of the effect thereof on their interests.

### **The Class C Notes**

The Class C Notes will provide credit and liquidity protection for the Class A Notes and the Class B Notes.

The Class C Noteholders will not receive any payment of interest unless and until all interest amounts then due to the Class A Noteholders and the Class B Noteholders have been paid in full, in accordance with the Pre-Enforcement Revenue Priority of Payments. In addition, in the circumstances described in “Redemption and Post-Maturity Call Option – Mandatory Redemption in Part”, payments of principal on the Class C Notes will be subordinated to payments of principal on the Class A Notes and the Class B Notes.

In the event that, on any Payment Date, there are insufficient funds (including Available Revenue Receipts principal and liquidity funds available to be applied as described under “Cash Management and Use of Ledgers – Pre-Enforcement Revenue Priority of Payments”) available to make payment in full of interest amounts due and payable on the Class C Notes, then to that extent interest shall be deferred until the next Payment Date on which there are sufficient such funds, as more fully set out in Condition 5(g).

The Class A Notes, the Class B Notes and the Class C Notes will be constituted by the Trust Deed and will share the same security although, upon enforcement, the Class A Notes and the Class B Notes will rank in priority to the Class C Notes.

If following enforcement of the Security, the Trustee determines that the proceeds from enforcement are insufficient after payment of all other claims ranking in priority to or *pari passu* with the Notes to enable the Issuer to pay in full all outstanding principal and accrued interest (including any shortfalls of interest and/or principal and, in respect of shortfalls of interest, the interest accrued thereon) in respect of the Notes then, if so requested by the Post Maturity Call Option Holder the Noteholders are required to sell to the Post Maturity Call Option Holder all (but not some only) of their holdings of Relevant Notes (as defined in Condition 6(j)) for a consideration of £0.01 per Relevant Note.

The Trust Deed will contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders, but where there is in the Trustee’s opinion, a conflict between the interests of the Class C Noteholders and those of the Class A Noteholders and/or the Class B Noteholders, requiring the Trustee to have regard only to the interests of the holders of those Notes ranking highest in point of priority. The Trust Deed will also contain provisions limiting the powers of the Class C Noteholders to take any action which may affect the interests of the Class A Noteholders and the Class B Noteholders. Except in certain circumstances, the Trust Deed will contain no limitations on the powers of the Class A Noteholders and the Class B Noteholders taking action which may affect the interests of the Class C Noteholders, the exercise of which will be binding upon the Class C Noteholders, irrespective of the effect thereof on their interests.

## DESCRIPTION OF THE NOTES

### General

Each class of Notes will initially be represented by a temporary global Note (each a “**Temporary Global Note**”) without coupons for principal or interest attached.

The Temporary Global Notes, will be deposited on behalf of the subscribers of the Notes with a common depository (the “**Common Depository**”) for Euroclear and Clearstream, Luxembourg on the Closing Date. Upon deposit of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg will credit such subscriber of Notes with the principal amount of Notes for which it has subscribed and paid.

Interests in each Temporary Global Note will be exchangeable on or after the Exchange Date, provided Certification by the relevant Noteholders has been received, for interests in a Permanent Global Note without coupons for principal or interest attached (and the expression “**Global Note**” shall be read and construed to mean a Temporary Global Note or a Permanent Global Note as the context may require). On the exchange of each Temporary Global Note for the relevant Permanent Global Note, such Permanent Global Note will remain deposited with the Common Depository.

References herein to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

For so long as the Notes are represented by a Global Note, each Accountholder (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes), will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of Notes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders), other than for the purposes of payment of principal and interest on such Notes, the right to which shall be vested solely in the bearer of the relevant Global Note in accordance with and subject to the terms of the Trust Deed, and the expression “**Noteholders**” shall be construed accordingly. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note and will be entitled to receive any payment so made in respect of that Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate.

### Information Regarding Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg have advised the Issuer as follows:

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

### Payments

On and after the Exchange Date, no payment will be made on any Temporary Global Note unless exchange for an interest in the corresponding Permanent Global Note is improperly withheld or refused. Payments of principal and/or interest in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Paying Agent. A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Note by or on behalf of

the Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Global Notes. Payments of interest on the Temporary Global Notes will be made upon Certification unless such Certification has already been made.

### **Notices**

For so long as all of the Notes are represented by Global Notes and such Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 15 provided that, so long as the Notes are listed on the London Stock Exchange, the London Stock Exchange so agrees. Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

### **Redemption**

In the event that any Global Note (or portion thereof) is redeemed, the Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the Common Depositary and, upon final payment and surrender of such Global Note to the Paying Agent, the Paying Agent shall cancel such Global Note. The redemption price payable in connection with the redemption of Noteholder interests in a Global Note will be equal to the amount received by the Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of a Global Note in part, selection of the relevant Noteholder interests relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, on a pro rata basis (or on such other basis as Euroclear or Clearstream, Luxembourg deems fair and appropriate) provided that only Noteholder interests of £100,000 original principal amount or integral multiples thereof shall be redeemed. Upon any redemption in part, the Paying Agent will mark down the schedule to such Global Note by the principal amount so redeemed.

### **Cancellation**

Cancellation of any Note represented by a Global Note and required by the Conditions to be cancelled following its redemption will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant schedule thereto.

### **Transfers**

Title to the Global Notes will pass by delivery. Notes represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

### **Issuance of Definitive Notes**

The Permanent Global Notes will be exchangeable in whole but not in part (free of charge to the holder) for Definitive Notes only if:

- (i) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease business and no alternative clearing system satisfactory to the Trustee is available; or
- (ii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form, in which case the Issuer will deliver Definitive Notes in bearer form, serially numbered, in denominations of £100,000 each with interest and principal coupons (“**Coupons**”) attached on issue.

The Definitive Notes will bear the following legend: “Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”. The sections referred to in the legend provide that a United States Person will not, with certain exceptions, be permitted to deduct any loss and will not be eligible for favourable capital gains treatment with respect to any gain realised on a sale, exchange or redemption of any Note or Coupon.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions (the “Conditions” and any reference to a “Condition” shall be construed accordingly) of the Notes in the form (subject to amendment) in which they will be set out in the Trust Deed.*

The £235,000,000 Class A Mortgage Backed Floating Rate Notes due 2032 (the “**Class A Notes**”), the £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2032 (the “**Class B Notes**”) and the £10,000,000 Class C Mortgage Backed Floating Rate Notes due 2032 (the “**Class C Notes**”, and together with the Class A Notes and the Class B Notes, the “**Notes**”, as more fully defined below) of Fosse Securities No. 1 plc (the “**Issuer**”) are constituted by a trust deed dated on or about 1st November, 2000 (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression includes its successors or any further or other note trustee under the Trust Deed) as trustee for, *inter alios*, the holders for the time being of the Class A Notes (the “**Class A Noteholders**”), the holders for the time being of the Class B Notes (the “**Class B Noteholders**”) and the holders for the time being of the Class C Notes (the “**Class C Noteholders**” and together with the Class A Noteholders and the Class B Noteholders, the “**Noteholders**”). Any reference below to a “**class**” of Notes or of Noteholders shall be a reference to the Class A Notes, the Class B Notes or the Class C Notes, as the case may be, or to the respective holders thereof.

The security for the Notes is created pursuant to, and on the terms set out in, a deed of charge (the “**Deed of Charge**”, which expression includes such deed of charge as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) dated on or about 1st November, 2000 and made between, *inter alios*, the Issuer and the Trustee. By a paying agency agreement (the “**Agency Agreement**”, which expression includes such agency agreement as from time to time modified in accordance with the provisions contained therein and any agreement, deed or other document expressed to be supplemental thereto as from time to time modified) dated on or about 1st November, 2000 between the Issuer, the Trustee and Citibank, N.A. acting through its London branch, in its capacity as principal paying agent (the “**Principal Paying Agent**”) and in its capacity as reference agent (the “**Reference Agent**”) (the Principal Paying Agent together with any further or other paying agents for the time being appointed under the Notes being, together, the “**Paying Agents**”, and, together with the Reference Agent, the “**Agents**”), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes of each class. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Deed of Charge and the Agency Agreement.

Copies of the Trust Deed, the Deed of Charge, a Master Definitions Schedule dated on or about 1st November, 2000 and signed for identification purposes by Allen & Overy and Linklaters & Alliance (the “**Master Definitions Schedule**”), the Agency Agreement and each of the other Transaction Documents are available for inspection at the office for the time being of the Principal Paying Agent, being at the date hereof 5 Carmelite Street, London EC4Y 0PA. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of Charge, the Master Definitions Schedule and the documents referred to in each of them, and are deemed to have notice of all the provisions of the Agency Agreement.

Capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions Schedule, which may be obtained as described above.

The issue of the Notes was authorised by a resolution of the Board of Directors of the Issuer passed on 25th October, 2000.

### 1. Global Notes

#### (a) Temporary Global Notes

The Notes of each class will each initially be represented by a separate temporary global note (the “**Class A Temporary Global Note**”, the “**Class B Temporary Global Note**”, and the “**Class C Temporary Global Note**”, respectively, and together, the “**Temporary Global Notes**”). The Temporary Global Notes will be deposited on behalf of the subscribers of the Notes with a common depositary (the “**Common**”

**Depository**) for Morgan Guaranty Trust Company of New York, Brussels office as operator of Euroclear and Clearstream, Luxembourg on the Closing Date. Upon deposit of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg will credit each subscriber of the relevant class of Notes with the principal amount of such Notes, in denominations of £100,000, for which it has subscribed and paid.

**(b) Permanent Global Notes**

Interests in each Temporary Global Note will be exchangeable on or after a date expected to be not earlier than 10th December, 2000 (the “**Exchange Date**”), provided certification of non-U.S. beneficial ownership (“**Certification**”) by the relevant Noteholders has been received, for interests in a permanent global note (the “**Class A Permanent Global Note**”, “**Class B Permanent Global Note**” and “**Class C Permanent Global Note**”, respectively, and together the “**Permanent Global Notes**”) (and the expression “**Global Notes**” shall be read and construed to mean the Temporary Global Notes or the Permanent Global Notes or any one of them as the context may require). On the exchange of the Temporary Global Notes for the Permanent Global Notes the Permanent Global Notes will remain deposited with the Common Depository.

**(c) Form and Title**

Each Global Note shall be issued in bearer form without coupons or talons.

Title to the Global Notes will pass by delivery. Notes represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

For so long as Notes of any class are represented by a Global Note the Issuer and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of the relevant class of Global Note (each an “**Accountholder**”) as the holder of such principal amount of such Global Note (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the relevant class of Noteholders), other than for the purposes of payment of principal and interest on such Global Note, the right to which shall be vested solely in the bearer of the relevant Global Note in accordance with and subject to the terms of the Trust Deed.

**2. Definitive Notes**

**(a) Issue of Definitive Notes**

A Permanent Global Note will only be exchanged (in whole but not in part) for Notes of the relevant class in definitive bearer form (the “**Class A Definitive Notes**”, “**Class B Definitive Notes**” and “**Class C Definitive Notes**”, respectively, and together, the “**Definitive Notes**”) if at any time after the Exchange Date any of the following apply:

- (i) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease business and no alternative clearing system satisfactory to the Trustee is available; or
- (ii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will become (within 90 days (or less)) required to make any deduction or withholding from any payment in respect of any class of the Notes which would not be required were such class of Notes in definitive form.

**(b) Title to and Transfer of Definitive Notes**

Each Definitive Note shall be issued in bearer form, serially numbered, in denominations of £100,000 each with interest coupons (the “**Class A Interest Coupons**”, “**Class B Interest Coupons**” and “**Class C Interest Coupons**”, respectively, and together, “**Interest Coupons**”) and principal coupons (the “**Class A**



**Principal Coupons**”, **“Class B Principal Coupons”** and **“Class C Principal Coupons”**, respectively, and together, **“Principal Coupons”** and, together with the Interest Coupons, the **“Coupons”**) and talons for further Coupons attached on issue.

Title to the Definitive Notes will pass by delivery.

The Issuer, the Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any class of Definitive Note and the holder of any class of Coupons as the absolute owner for all purposes (whether or not the relevant class of Definitive Notes or Coupons shall be overdue and notwithstanding any notice of ownership or writing on the such class of Definitive Note or Coupon or any notice of previous loss or theft of the such class of Definitive Note or Coupon).

### **3. Status, Security and Priority of Payments**

#### **(a) Status and relationship between classes of Notes**

The Notes of each class constitute direct, secured and unconditional obligations of the Issuer and are secured by an assignment and a fixed and floating charge (the **“Security”**) over all of the assets of the Issuer (as more particularly described in the Deed of Charge) (the **“Charged Assets”**). The Notes of the same class rank *pari passu* and rateably without any preference or priority amongst themselves.

The Notes are constituted by the Trust Deed and are secured by the same security. In the event of the security being enforced the Class A Notes will rank in priority to the Class B Notes and the Class C Notes, and the Class B Notes will rank in priority to the Class C Notes.

The Trust Deed contains provisions requiring the Trustee to have regard to the interests of the Noteholders as a whole as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise) but requiring the Trustee in any particular case to have regard only to the interests of (i) the Class A Noteholders (for so long as there are Class A Notes outstanding) if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and/or the interests of the Class B Noteholders and/or the Class C Noteholders, (ii) (after the Class A Notes have been redeemed in full, but if there are Class B Notes outstanding) the Class B Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class B Noteholders and/or the interests of the Class C Noteholders and (iii) (after the Class A Notes and the Class B Notes have been redeemed in full, but if there are Class C Notes outstanding) the Class C Noteholders.

The Trustee has no duties under the Deed of Charge to any other person entitled to the benefit of the Security created by the Deed of Charge save to pay to them any monies held by the Trustee and due to them. The Trustee will not be obliged to take any action to enforce the Security constituted by the Deed of Charge unless indemnified to its satisfaction.

#### **(b) Security and Priority of Payments**

As security for the payment of all monies payable in respect of the Notes and otherwise under the Trust Deed (including the remuneration, expenses and other claims of the Trustee and any receiver appointed by the Trustee) and in respect of certain amounts payable, *inter alia*, to the Administrator under the Administration Agreement, Banque AIG, London Branch (the **“Swap Counterparty”**) under the Swap Agreement and Barclays Bank PLC (the **“Liquidity Facility Provider”**) under the Liquidity Facility Agreement, the Issuer has entered into the Deed of Charge creating the following security in favour of the Trustee for itself and for the other persons to whom the Secured Amounts (as defined in the Master Definitions Schedule) are owing:

- (i) a first fixed charge in favour of the Trustee over the Issuer’s interests in the Mortgage Loans, the Mortgages and Related Security;
- (ii) an equitable assignment in favour of the Trustee of the Issuer’s interests in the Insurance Contracts so far as they relate to the Mortgages (each as defined in the Master Definitions Schedule);
- (iii) an assignment in favour of the Trustee of the benefit of the Administration Agreement, the Mortgage Sale Agreement, the Scottish Declaration of Trust, the Bank Agreement (including the trust rights created therein), the Paying Agency Agreement, the Transaction GIC

- Agreement, the Reserve GIC Agreement, the Corporate Services Agreement, the Liquidity Facility Agreement, the Swap Agreement, the Swap Guarantee, and the Subordinated Loan Agreement (each as defined in the Master Definitions Schedule);
- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer's interest in the Transaction GIC Account, the Reserve GIC Account, any other bank account in which the Issuer has an interest and any Authorised Investments; and
  - (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer which are not subject to the fixed security described above, but extending to all of the Issuer's Scottish assets and Northern Irish assets including those covered by the fixed security.

*Pre-Enforcement Revenue Priority of Payments*

Prior to the enforcement of the Security, the Administrator shall, on the date six Business Days after the Determination Date (as defined in the Master Definitions Schedule) (the "**Calculation Date**"), determine the extent to which Available Revenue Receipts will be sufficient to make the following payments and provisions and on each Payment Date (as defined in Condition 5) the Administrator, on behalf of the Issuer, shall apply the Available Revenue Receipts in making the following payments and provisions in the following order of priority (in each case only to the extent that items of a higher priority have been paid or provided for in full) (the "**Pre-Enforcement Revenue Priority of Payments**"):

- (a) first, *pro rata*, the amounts payable by the Issuer to the Trustee, the Share Trustee, the Reference Agent, the Principal Paying Agent and any other agents appointed under the Paying Agency Agreement, the Transaction GIC Provider, the Reserve GIC Provider, the Corporate Services Provider and the Operating Banks pursuant to the Trust Deed, the Share Trust Deed, the Paying Agency Agreement, the Transaction GIC Agreement, the Reserve GIC Agreement, the Corporate Services Agreement and the Bank Agreement;
- (b) second, sums due or expected to become due in the next Interest Period to third parties under obligations incurred in the course of the Issuer's business without breach by the Issuer of the provisions of the Transaction Documents (other than those referred to later in this priority of payments), including provision for and payment of the Issuer's liability (if any) to corporation tax (to the extent not payable out of available profits);
- (c) third, the Administration Fee together with all expenses and other sums due or overdue to the Administrator or any substitute administrator under the Administration Agreement;
- (d) fourth, in or towards payment of all amounts due or overdue to the Liquidity Facility Provider under the Liquidity Facility Agreement (other than Liquidity Subordinated Amounts);
- (e) fifth, in or towards payment of *pari passu* and *pro rata* (i) (before the occurrence of the Swap Trigger) all amounts due or overdue by the Issuer to the Swap Counterparty and (ii) interest due or overdue on the Class A Notes;
- (f) sixth, to transfer to Available Principal Receipts an amount up to the debit balance on the A Principal Deficiency Ledger;
- (g) seventh, in or towards payment of interest due or overdue on the Class B Notes;
- (h) eighth, to transfer to Available Principal Receipts an amount up to the debit balance on the B Principal Deficiency Ledger;
- (i) ninth, in or towards payment of interest due or overdue on the Class C Notes;
- (j) tenth, to transfer to Available Principal Receipts an amount up to the debit balance on the C Principal Deficiency Ledger;
- (k) eleventh, in replenishment of the Cash Reserve Fund up to the Cash Reserve Scheduled Maximum Amount;
- (l) twelfth, in or towards payment to the Liquidity Facility Provider in respect of the aggregate of (i) any amounts payable by the Issuer to the Liquidity Facility Provider in respect of increased costs and its obligation to gross up any payments made by it under the Liquidity Facility Agreement by reason of any withholding or deduction for or on account of any tax and (ii) the

amount of interest accruing at the Additional Percentage (as defined in the Master Definitions Schedule) which exceeds 0.25 per cent. per annum of the principal amount under the Liquidity Facility Agreement (together, the “**Liquidity Subordinated Amounts**”);

- (m) thirteenth, (after the occurrence of the Swap Trigger) all amounts due by the Issuer to the Swap Counterparty;
- (n) fourteenth, to retain in the Transaction GIC Account an amount equal to 0.01 per cent. of the product of the time weighted average Mortgage Rate of the Mortgage Loans then in the Mortgage Portfolio during the preceding Determination Period and the aggregate Notional Outstanding on the Mortgage Loans (the “**Issuer’s Turnover**”) as of the beginning of the preceding Determination Period (the “**Issuer’s Profit**”) divided by four so that in each year 0.01 per cent. of the Issuer’s Turnover for that year comprises the Issuer’s Profit;
- (o) fifteenth, amounts due under the Subordinated Loan Agreement other than principal;
- (p) sixteenth, principal under the Subordinated Loan Agreement;
- (q) seventeenth, deferred consideration under the Mortgage Sale Agreement; and
- (r) eighteenth, the surplus, if any, to the Issuer.

If, on any Payment Date, the amount of Available Revenue Receipts is less than the aggregate of the amounts specified to be paid or provided for in priority to item (j) (or, if the debit balance of the C Principal Deficiency Ledger is at the C Note Principal Deficiency Limit, item (h), or, if the debit balance of the B Principal Deficiency Ledger is at the B Note Principal Deficiency Limit, item (f) (but excluding in all cases items (f) and (h))), then an amount equal to the shortfall shall be debited to the Principal Ledger and the Principal Deficiency Ledger and applied in the payment of the amounts specified.

If, on any Payment Date, funds applied as described above would be insufficient to meet the Issuer’s financial obligations in respect of the Senior Liabilities, then the Issuer may apply funds drawn under the Liquidity Facility Agreement in or towards payment of the Senior Liabilities in accordance with the Pre-Enforcement Revenue Priority of Payments.

#### *Allocation of Receipts Following Enforcement*

After enforcement of the Security, the Trustee shall hold all monies received on trust to be applied in making the following payments in the following order of priority (in each case only to the extent that items of a higher priority have been paid in full) (the “**Post-Enforcement Priority of Payments**”):

- (a) first, *pari passu* and *pro rata*, in or towards satisfaction of (i) the fees or other remuneration then payable from the Issuer to the Trustee, inclusive of any amount in respect of VAT, and any costs, charges, liabilities, expenses and other amounts (together with any amount in respect of VAT thereon) then incurred by the Trustee under or in connection with the Trust Deed, the Notes and the Deed of Charge, together with interest thereon as provided in the Trust Deed and (ii) the fees or other remuneration then payable to any receiver inclusive of any amounts in respect of VAT and any costs, charges, liabilities, expenses and other amounts (together with any amount in respect of VAT thereon) then incurred by such receiver under or in connection with the Deed of Charge together with interest on such amounts as provided for in the Deed of Charge;
- (b) second, *pro rata*, in or towards satisfaction of the fees, expenses and other sums due or overdue to the agents appointed under the Paying Agency Agreement and any other expenses incurred under the Bank Agreement, the Transaction GIC Agreement and the Reserve GIC Agreement;
- (c) third, *pro rata*, in or towards satisfaction of all fees, expenses and other sums due or overdue (i) to the Administrator or any substitute administrator under the Administration Agreement and (ii) to the Corporate Services Provider under the Corporate Services Agreement;
- (d) fourth, in or towards payment of all amounts due or overdue to the Liquidity Facility Provider under the Liquidity Facility Agreement or any replacement therefor (other than Liquidity Subordinated Amounts);

- (e) fifth, *pari passu* and *pro rata*, in or towards satisfaction of (i) (before the occurrence of the Swap Trigger) all amounts (if any) due or overdue to the Swap Counterparty in respect of the Swap Agreement and (ii) all amounts due or overdue in respect of the Class A Notes;
- (f) sixth, *pro rata*, in or towards satisfaction of interest, principal and all other amounts due or overdue in respect of the Class B Notes;
- (g) seventh, *pro rata*, in or towards satisfaction of interest, principal and all other amounts due or overdue in respect of the Class C Notes;
- (h) eighth, in or towards payment to the Liquidity Facility Provider of any Liquidity Subordinated Amounts;
- (i) ninth, (after the occurrence of the Swap Trigger) in or towards satisfaction of all amounts due by the Issuer to the Swap Counterparty;
- (j) tenth, in or towards satisfaction of all unpaid interest (whether overdue or current) in respect of the Subordinated Loan Agreement;
- (k) eleventh, in or towards satisfaction of all amounts of principal and all other amounts due in respect of the Subordinated Loan Agreement;
- (l) twelfth, in or towards satisfaction of all amounts of deferred consideration under the Mortgage Sale Agreement; and
- (m) thirteenth, the surplus (if any) to the Issuer or other persons entitled thereto.

#### 4. Covenants of the Issuer

So long as any of the Notes remain outstanding, the Issuer shall not, save to the extent permitted by the Transaction Documents or these Conditions or with the prior written consent of the Trustee:

- (a) Business Activities: carry on any business other than as described in the Offering Circular dated 25th October, 2000 in relation to the issue by the Issuer of the Notes and the related activities described therein and, in respect of that business, shall not engage in any activity or do anything whatsoever except:
  - (i) purchase, pursuant to the terms of the Mortgage Sale Agreement, and own and exercise its rights and perform its obligations in respect of, the Mortgage Loans and their Related Security;
  - (ii) issue the Notes;
  - (iii) own and exercise its rights in respect of the Charged Assets and its interests therein and perform its obligations in respect of the Charged Assets;
  - (iv) exercise its rights and perform and observe its obligations under the Transaction Documents;
  - (v) preserve and/or enforce any of its rights under the Transaction Documents; or
  - (vi) perform any act incidental to or necessary in connection with (i) to (v) above;
- (b) Subsidiaries: have any subsidiaries or subsidiary undertakings (each as defined in the Companies Act 1985);
- (c) Negative Pledge: create or permit to subsist any mortgage, sub-mortgage, charge, sub-charge, assignment, assignation, pledge, lien, hypothecation, standard security or other security interest whatsoever, howsoever created or arising (unless arising by operation of law), (each a “**Security Interest**”) over any of its property, assets or undertakings (including the Charged Assets) or any interest, estate, right, title or benefit therein or use, invest or dispose of, including by way of sale or the grant of any security interest of whatsoever nature, or otherwise deal with, or agree or attempt or purport to sell or otherwise dispose of (in each case whether by one transaction or series of transactions) or grant any option or present or future right to acquire any such property, assets or undertakings;

- (d) Distributions/Dividends: pay any dividend or make any other distribution to its shareholders while any amount is due and owing to any person pursuant to or in accordance with any Transaction Document;
- (e) Indebtedness: incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness for borrowed money;
- (f) Consolidation etc: consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person;
- (g) Variation: permit the validity or effectiveness of any of the terms of any Transaction Document or the priority of the security interests created thereby to be amended, terminated, postponed or discharged, or consent to any variation of or exercise any powers of consent or waiver pursuant to the terms of the Trust Deed, these Conditions, the Deed of Charge or any of the other Transaction Documents, or permit any party to any of the Transaction Documents or any other person whose obligations form part of the Charged Assets to be released from such obligations or dispose of all or any part of the Charged Assets;
- (h) Bank Accounts: have an interest (including a beneficial interest) in any bank account, other than the Transaction GIC Account, the Reserve GIC Account, any Liquidity Stand-by Account and the Collection Accounts, unless such account or interest is charged to the Trustee so as to form part of the Charged Assets on terms acceptable to the Trustee;
- (i) Employees: have any employees (but shall procure that, at all times, it shall retain at least one independent director who shall not be a director or employee of Alliance & Leicester, any of its subsidiaries or of any of Barclays Bank PLC, Girobank plc and Alliance & Leicester Group Treasury plc or such other bank as may be appointed as such under and in accordance with the Transaction Documents (the “**Operating Banks**”));
- (j) Property: own, rent, lease or be in possession of any buildings or equipment;
- (k) Assets: own assets other than those representing share capital and the funds arising from the issue of the Notes or its interests in the Charged Assets and associated rights and interests purchased by it, the benefit of the Transaction Documents and any investments or other rights and interests created or acquired thereunder, as all of the same may vary from time to time;
- (l) VAT: apply to become part of any group for the purposes of Section 43 of the Value Added Tax Act 1994 with any other company or group of companies, or for the purposes of any act, regulation, order, statutory instrument or directive which, from time to time, may re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994, unless required to do so by law; or
- (m) Surrender of Group Relief: offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988 unless the Issuer first receives by way of consideration for such surrender the payment of an amount calculated by applying to the amount surrendered the rate of corporation tax applicable to the Issuer at the time of surrender.

## 5. Interest

### (a) *Payment Dates and Interest Periods*

Interest on the Notes shall be calculated and payable by reference to successive periods (each an “**Interest Period**”). The first Interest Period shall be the period from (and including) the Closing Date to (but excluding) the Payment Date (as defined below) falling on 14th February, 2001. Thereafter, each Interest Period shall commence on (and include) a Payment Date and shall end on (but exclude) the next succeeding Payment Date (or, if not a Business Day, the next succeeding day which is a Business Day).

Subject to Condition 5(g) (Deferral of Interest), interest on the Notes is payable in respect of each Interest Period on 14th February, 2001 and thereafter quarterly in arrears on the 14th day in May, August, November and February, or if such day is not a Business Day the next succeeding Business Day, commencing on 14th February, 2001 (each a “**Payment Date**”). Interest in respect of the first Interest Period shall be payable in respect of the period from and including the Closing Date to but excluding 14th February, 2001.

**(b) Period of Accrual**

Interest shall accrue on the Principal Amount Outstanding of a Note from (and including) the Closing Date to (but excluding) the due date for redemption unless, upon due presentation, payment of the principal due is improperly withheld or refused. In such circumstances, interest shall continue to accrue thereon at the rate from time to time applicable to the relevant Note from and including the date of such withholding or refusal to and including the date on which, upon further presentation, payment of the full amount payable is made or (if earlier) the seventh day after the monies in respect thereof have been received by the Trustee or the Paying Agent and notice to that effect is given in accordance with Condition 15 provided that, upon further presentation, such payment is actually made.

**(c) Rates of Interest**

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on the first day of each Interest Period (each a “**LIBOR Determination Date**”), determine the rates of interest applicable to, and calculate the amount of interest payable on, the Notes of each class (each an “**Interest Payment**”) for the Interest Period commencing on such LIBOR Determination Date. The rate of interest applicable to the Notes of each class for any Interest Period (a “**Note Interest Rate**”) will be equal to LIBOR (as determined in accordance with Condition 5(d)) plus:

- (i) in the case of the Class A Notes, a margin of 0.24 per cent. per annum for the period from the Closing Date up to but excluding the Payment Date in November 2007 (the “**Step-up Date**”) and thereafter a margin of 0.48 per cent. per annum;
- (ii) in the case of the Class B Notes, a margin of 0.48 per cent. per annum for the period from the Closing Date up to but excluding the Step-up Date and thereafter a margin of 0.96 per cent. per annum; and
- (iii) in the case of the Class C Notes, a margin of 1.35 per cent. per annum for the period from the Closing Date up to but excluding the Step-up Date and thereafter a margin of 2.35 per cent. per annum.

The Interest Payment in relation to a Note shall be calculated by applying the Note Interest Rate applicable to the Notes of that class to the Principal Amount Outstanding of each Note of that class, multiplying the product of such calculation by the sum of (i) the actual number of days elapsed in the relevant Interest Period falling in a non-leap year divided by 365 and (ii) the actual number of days elapsed in the relevant Interest Period falling in a leap year divided by 366, and rounding the resultant figure to the nearest penny (fractions of half a penny or more being rounded upwards and fractions otherwise being rounded downwards).

**(d) Determination of LIBOR**

For the purposes of determining the Note Interest Rate under Condition 5(c), LIBOR will be determined by the Reference Agent on the basis of the following provisions:

- (i) on each LIBOR Determination Date, the Reference Agent will determine the interest rate on sterling deposits for a period of three months (or, in the case of the first LIBOR Determination Date, the interest rate equivalent to the linear interpolation of three month and four month LIBOR on sterling deposits) quoted on the Dow Jones/Telerate Monitor Telerate Screen No. 3750 (or any other page on which the British Bankers’ Association Sterling LIBOR rates are for the time being posted) at or about 11.00 a.m. (London time) on the LIBOR Determination Date in question;
- (ii) if, on any LIBOR Determination Date, no British Bankers’ Association Sterling LIBOR rates are quoted on any screen at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and National Westminster Bank Plc, or any duly appointed substitute reference bank(s) as may be approved in writing by the Trustee (the “**Reference Banks**”), to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the LIBOR Determination Date in question. The Note Interest Rate for the relevant Interest Period shall be the arithmetic average (rounded upwards if necessary to the nearest 1/16 per cent.) of the offered quotations of those Reference Banks. If, on any such LIBOR Determination Date, two or three only of the

Reference Banks provide such offered quotations to the Reference Agent, the Note Interest Rate for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such LIBOR Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Note Interest Rate for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the rate of interest for the relevant Interest Period shall be the Note Interest Rate in effect for the last preceding Interest Period to which paragraph (i) or the foregoing provisions of this paragraph (ii) shall have applied.

**(e) Publication of Rates of Interest and Interest Payments**

The Reference Agent will cause the Note Interest Rate and the Interest Payments applicable to each class of Note for each Interest Period and the relevant Payment Date to be notified to the Issuer, the Trustee, the Paying Agent, the Administrator and, for so long as Notes of any class are listed on the London Stock Exchange, the London Stock Exchange (but only in respect of the listed class or classes) and will cause the same to be published in accordance with Condition 15 on or as soon as possible after the date of commencement of the relevant Interest Period. The Payment Dates and, the Interest Payments so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a lengthening or shortening of the Interest Period.

**(f) Determination or Calculation by Trustee**

If the Reference Agent at any time for any reason does not determine a Note Interest Rate or calculate the Interest Payment in accordance with Condition 5(c) above, the Trustee shall, subject to the terms of the Trust Deed, determine the relevant Note Interest Rate at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in Condition 5(d) above, but subject to the terms of the Trust Deed) it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the relevant Interest Payment in accordance with Condition 5(c) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent. The Trustee shall be under no duty to monitor the performance by the Reference Agent in determining a Note Interest Rate or calculating an Interest Payment and shall, in the absence of actual notice to the contrary, be entitled to assume that the Reference Agent has determined the Note Interest Rate and calculated the Interest Payment.

**(g) Deferral of Interest**

Interest on the Notes shall be payable in accordance with this Condition 5 and Condition 7, subject to the following terms of this sub-paragraph:

- (i) in the event that, whilst there are Class A Notes outstanding, the aggregate funds (if any) calculated in accordance with the Priority of Payments as being available to the Issuer on any Payment Date for application in or towards the payment of interest which is, subject to this Condition 5(g), due on the Class B Notes on such Payment Date (such aggregate available funds being referred to in this Condition 5(g) as the “**Class B Residual Amount**”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Condition 5(g), due on the Class B Notes on such Payment Date, there shall be payable on such Payment Date, by way of interest on each Class B Note, a *pro rata* share of the Class B Residual Amount; and
- (ii) in the event that, whilst there are Class A Notes and/or Class B Notes outstanding, the aggregate funds (if any) calculated in accordance with the Priority of Payments as being available to the Issuer on any Payment Date for application in or towards the payment of interest which is, subject to this Condition 5(g), due on the Class C Notes on such Payment Date (such aggregate available funds being referred to in this Condition 5(g) as the “**Class C Residual**”)

**Amount**”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Condition 5(g), due on the Class C Notes on such Payment Date, there shall be payable on such Payment Date, by way of interest on each Class C Note, a *pro rata* share of the Class C Residual Amount.

In the event that, by virtue of the provisions of paragraphs (i) and (ii), a *pro rata* share of the Class B Residual Amount or the Class C Residual Amount is paid to Noteholders of the relevant class in accordance with such provisions, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes or, as the case may be, the Class C Notes on any Payment Date in accordance with this Condition 5(g) falls short of the aggregate amount of interest payable on the relevant class of Notes on that date pursuant to the other provisions of this Condition 5. Such shortfall shall accrue interest at a rate for each Interest Period during which it is outstanding equal to the Note Interest Rate for the relevant class of Notes for such Interest Period, as applicable. A *pro rata* share of such shortfall plus any interest accrued thereon shall be aggregated with the amount of, and treated for the purpose of this Condition as if it were interest due, subject to this Condition 5(g), on each Class B Note or Class C Note, as the case may be, on the next succeeding Payment Date.

**(h) Reference Banks and Reference Agent**

The Issuer will procure that, so long as any of the Notes remain outstanding, there will at all times be at least four Reference Banks and a Reference Agent. The Issuer reserves the right at any time to terminate the appointment of the Reference Agent or of any Reference Bank, although any such termination shall be subject to the prior written approval of the Trustee. Notice of any such termination will be given to the Trustee in writing and to the Noteholders in accordance with Condition 15. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be), or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will appoint a successor Reference Bank or Reference Agent (as the case may be), approved in writing by the Trustee, to act as such in its place, provided that neither the resignation nor the removal of the Reference Agent shall take effect until a successor, previously approved in writing by the Trustee, has been appointed.

**6. Redemption and Purchase**

**(a) Mandatory Redemption of the Notes in part**

Prior to the enforcement of the Security, the Administrator shall, on the Calculation Date, determine the extent to which Available Principal Receipts will be sufficient to make the following payments and on each Payment Date other than any Payment Date on which the Notes are to be redeemed in full the Administrator, on behalf of the Issuer, shall apply the Available Principal Receipts in redeeming the Notes in the following order:

- (i) first, in redeeming, *pro rata*, Class A Notes up to the amount of their then Principal Amount Outstanding;
- (ii) second, in redeeming, *pro rata*, Class B Notes up to the amount of their then Principal Amount Outstanding; and
- (iii) third, in redeeming, *pro rata*, Class C Notes up to the amount of their then Principal Amount Outstanding.

The Administrator is responsible, pursuant to the Administration Agreement, as at the Calculation Date for determining the Available Principal Receipts as at the next following Payment Date and each determination so made shall (in the absence of wilful default, bad faith or manifest error) be final and binding on the Issuer, the Trustee and all Noteholders and no liability to the Noteholders shall attach to the Issuer, the Trustee, the Reference Agent, the Paying Agents or (in such absence as aforesaid) to the Administrator in connection therewith.

**(b) Calculation of Available Principal Receipts, Note Principal Payments, Pool Factor and Principal Amount Outstanding**

The principal amount redeemable (the “**Note Principal Payment**”) in respect of a class of Notes pursuant to Condition 6(a), on any Payment Date shall be the amount of the Available Principal Receipts on the Calculation Date immediately preceding that Payment Date to be applied in redemption of Notes of



that class divided by the number of Notes of that class outstanding on the relevant Payment Date which are to be redeemed in part on that date (rounded down to the nearest pound), provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

On each Calculation Date, the Issuer shall determine (or cause the Administrator to determine) (w) the Available Principal Receipts due on the Payment Date next following such Calculation Date; (x) the amount of any Note Principal Payment due on the Payment Date next following such Calculation Date, (y) the Principal Amount Outstanding of each Note and (z) the fraction expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Note (as referred to in (y) above) and the denominator is £100,000. Each determination by or on behalf of the Issuer of any Available Principal Receipts, Note Principal Payment, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Issuer or the Administrator on its behalf will cause each determination of Available Principal Receipts, a Note Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith, and in any event not later than 1.00 p.m. (London time) on the Calculation Date, to the Trustee, the Principal Paying Agent, any other Paying Agents, the Reference Agent, the Swap Counterparty and (for so long as the Notes are listed on one or more stock exchanges) the relevant stock exchanges, and will immediately cause notice of each determination of the Available Principal Receipts, the Note Principal Payment, the Principal Amount Outstanding and the Pool Factor to be given in accordance with Condition 15 of the Notes by not later than two Business Days prior to the relevant Payment Date in the case of Global Notes or as soon as reasonably practicable thereafter in the case of Notes in definitive form. If no Note Principal Payment is due to be made on the Notes on any Payment Date, a notice to this effect will be given to the Noteholders.

If the Issuer does not at any time for any reason determine (or cause the Administrator to determine), with respect to the Notes, a Note Principal Payment, the Available Principal Receipts, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this Condition 6(b), such determination shall be made by the Trustee in accordance with this Condition 6(b) and subparagraph (a) above (but based on such information as it has in its possession) and shall be deemed to have been made by the Issuer and shall (in the absence of manifest error) be binding upon the Issuer, the Administrator and the Noteholders.

**(c) Redemption for Taxation or Other Reasons**

If, immediately prior to giving the notice referred to below, the Issuer satisfies the Trustee that either:

- (i) on the next Payment Date the Issuer or the Paying Agent on its behalf would be required by reason of a change in law, or the interpretation or administration thereof to deduct or withhold from any payment of principal or interest on the Class A Notes and/or the Class B Notes and/or the Class C Notes (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political subdivision thereof or any authority thereof or therein or any other applicable taxing authority having jurisdiction; or
- (ii) the total amount payable in respect of interest in relation to any of the Mortgage Loans at their respective Mortgage Rates for the Interest Period ending on the next Payment Date ceases to be receivable (whether by reason of any Borrower being obliged to deduct or withhold any amount in respect of tax therefrom or otherwise, and whether or not actually received) by the Issuer during such Interest Period;

and, in either case, the Issuer will be in a position on the Payment Date on which the Notes are to be redeemed to discharge all its liabilities in respect of the Notes to be redeemed, and any amounts required under the Administration Agreement, the Liquidity Facility Agreement, the Swap Agreement or, as the case may be, the Deed of Charge to be paid in priority to the Notes then the Issuer may give, but shall not be obliged to do so, not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders (in accordance with Condition 15) ending on any subsequent Payment Date and shall on such Payment Date redeem:

- (A) all Class A Notes, to the extent of an amount equal to the then aggregate Principal Amount Outstanding of all Class A Notes then outstanding plus interest accrued and unpaid thereon; and
- (B) all Class B Notes, to the extent of an amount equal to the then aggregate Principal Amount Outstanding of all Class B Notes then outstanding plus interest accrued and unpaid thereon; and
- (C) all Class C Notes, to the extent of an amount equal to the then aggregate Principal Amount Outstanding of all Class C Notes then outstanding plus interest accrued and unpaid thereon.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any such Note other than by way of redemption pursuant to this Condition 6(c). Once redeemed to the full extent provided in this sub-paragraph, the Notes shall cease to bear interest.

**(d) *Optional redemption in full***

- (i) On any Payment Date on or after the date on which the aggregate Principal Amount Outstanding of all Notes (after taking account of any payment of principal on the Notes which, but for this sub-paragraph, would have been made on such Payment Date) would be 10 per cent. or less of their original aggregate Principal Amount Outstanding as at the date of issue of the Notes, the Issuer may upon having given not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders (in accordance with Condition 15), redeem all the Notes in the amounts set out below:
  - (A) the Class A Notes, to the extent of an amount equal to the then aggregate Principal Amount Outstanding of all Class A Notes then outstanding plus interest accrued and unpaid thereon; and
  - (B) the Class B Notes, to the extent of an amount equal to the then aggregate Principal Amount Outstanding of all Class B Notes then outstanding plus interest accrued and unpaid thereon; and
  - (C) the Class C Notes, to the extent of an amount equal to the then aggregate Principal Amount Outstanding of all Class C Notes then outstanding plus interest accrued and unpaid thereon.
- (ii) On the Step-up Date or on any Payment Date thereafter, and upon having given not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders (in accordance with Condition 15), the Issuer may redeem all (but not some only) of the Notes, at their then aggregate Principal Amount Outstanding plus interest accrued and unpaid thereon.

After giving notice of redemption pursuant to this sub-paragraph, provided the Trustee is satisfied that the Issuer will be in a position to discharge all its liabilities in respect of the Notes and any amounts required under the Administration Agreement or, as the case may be, the Deed of Charge to be paid in priority to the Notes, the Issuer shall be obliged to redeem all of the Notes. The Issuer shall not after giving notice of redemption make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any such Note other than by way of redemption pursuant to this Condition 6(d). Once redeemed to the full extent provided in this sub-paragraph, the Notes shall cease to bear interest.

**(e) *Redemption on maturity***

Subject to Condition 3, save to the extent otherwise redeemed in accordance with this Condition 6, the Issuer shall redeem the Class A Notes, the Class B Notes and the Class C Notes at their Principal Amount Outstanding plus interest accrued and unpaid on the Final Payment Date.

**(f) *Purchase***

The Issuer may not purchase Notes in the open market or otherwise.

**(g) *Cancellation***

All Notes redeemed in full pursuant to the foregoing paragraphs will be cancelled forthwith and may not be resold or reissued.

***(h) Notice of Redemption***

Any such notice as is referred to in paragraphs (c) or (d) above shall be irrevocable and upon the expiry of such notice, the Issuer shall be bound to redeem the Notes at their Principal Amount Outstanding.

***(i) Certification***

For the purposes of any redemption made pursuant to paragraphs (c) or (d) above, the Trustee may rely upon any certificate of two directors of the Issuer that the Issuer will be in a position to discharge all the liabilities it is required to discharge by the foregoing provisions and such certificate shall be conclusive and binding on the Trustee and the Noteholders.

***(j) Post Maturity Call Option***

Pursuant to an option granted by the Trustee (on behalf of the Noteholders) to Fosse Options No. 1 Limited (the “**Post Maturity Call Option Holder**”) under a Post Maturity Call Option Agreement between the Issuer, the Trustee and the Post Maturity Call Option Holder dated on or about the Closing Date, under which the Trustee has no personal liability, Noteholders are required, if so requested, by the Post Maturity Call Option Holder, to sell all (but not some only) of their holdings of Relevant Notes (as defined below) to the Post Maturity Call Option Holder for a consideration of £0.01 per Relevant Note in the event that the Security for the Notes is enforced and the Trustee determines that the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to the Notes and after the application of any such proceeds to the Notes under the Deed of Charge, to pay any further principal and/or interest and any other amounts whatsoever due in respect of the Notes (“**Relevant Notes**” being, for the purposes of this Condition 6(j), all Notes outstanding after such payment).

Furthermore, by purchasing any Note, each Noteholder acknowledges that the Trustee has the authority and the power to bind such Noteholder in accordance with the provisions set out in the Post Maturity Call Option Agreement and such Noteholder irrevocably agrees to be so bound.

**7. Payments**

***(a) Global Notes***

On and after the Exchange Date, no payments will be made on the Temporary Global Notes unless exchange for an interest in the relevant class of Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of any Global Note will be made only against presentation (and (i) in the case of final redemption of a Global Note or in circumstances where the unpaid principal amount of the relevant Global Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Global Note) surrender) of such Global Note at the specified office of the Paying Agent. A record of each payment so made, distinguishing (in the case of each class of Global Notes) between payments of principal and payments of interest and, in the case of partial payments, of the amount of each partial payment will be endorsed on the schedule to the relevant Global Note by or on behalf of the Paying Agent, which endorsement shall be prima facie evidence that such payment has been made.

Payments in respect of the Notes will be made in Sterling at the specified office of the Paying Agent by transfer to a Sterling account maintained by the payee with a bank in London.

***(b) Definitive Notes***

Payments of principal and interest (and (i) where, after such payment, the unpaid principal amount of the relevant class of Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Note) and (ii) in the case of the payment of interest due on a Payment Date, in which case the relevant payment of principal or interest, as the case may be, will be made against surrender of such Note or Coupon, as the case may be) in respect of each class of Definitive Notes will be made at the specified office of the Paying Agent, at the option of the holder, either by Sterling cheque drawn on a bank in London or by transfer to a Sterling account maintained by the payee with a bank in London.

***(c) Payments subject to applicable law***

Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.

**(d) Principal Paying Agent**

The initial Principal Paying Agent is Citibank, N.A., at its office at 5 Carmelite Street, London EC4Y 0PA.

At any time (with the prior written approval of the Trustee), the Issuer may vary or terminate the appointment of the Principal Paying Agent and appoint additional or other Paying Agents, provided that it will at all times until the Final Payment Date maintain a Principal Paying Agent having a specified office in London. Notice of any such termination or appointment and of any change in the office through which the Principal Paying Agent will act will be given in accordance with Condition 15.

**(e) Accrual of interest on late payments**

If payment of principal is improperly withheld or refused on or in respect of any class of Note or part thereof, the interest which continues to accrue in respect of such class of Note in accordance with Condition 5 will be paid against (in respect of the relevant Global Note) presentation of such Note at the specified office of the Paying Agent and (in respect of any the relevant Definitive Note) in accordance with this Condition 7.

Subject to Condition 5(g), if interest is not paid in respect of any class of Note when due and payable, such unpaid interest shall itself bear interest at the rate of interest applicable from time to time to such class of Note until such interest and interest thereon is paid or (if earlier) until the seventh day after monies in respect of such interest and interest thereon has been received by the Trustee or the Paying Agent and notice to that effect is published in accordance with Condition 15 provided that, upon further presentation, such payment is actually made.

If the due date for any payment of principal or interest in respect of any class of Note is not a Business Day, the holder thereof shall not be entitled to payment in such place of the amount due (and cheques in respect of such payments shall not be required to be issued) until the next succeeding Business Day, but no additional interest or other sums shall be payable in respect of such delay.

**(f) Payments in Sterling**

- (i) The Issuer may, without the consent of the Noteholders, on giving at least 30 days' prior notice to Noteholders, Euroclear, Clearstream, Luxembourg, the Trustee and the Paying Agents, designate a date for the redenomination of the Notes (a "**Redenomination Date**"), falling on or after the date on which the United Kingdom participates in the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community (the "**Treaty**") or otherwise participates in European Economic and Monetary Union in a manner with an effect similar to such third stage.

"**Euro**" means the currency to be introduced at the start of the third stage of economic and monetary union pursuant to the Treaty.

- (ii) With effect from the Redenomination Date, notwithstanding the other provisions of the Conditions:
  - (a) The Notes shall be deemed to be redenominated in Euro in the denomination of Euro 0.01 with a principal amount for each such Note equal to the principal amount of that Note in Sterling, converted into Euro at the rate for conversion of Sterling into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations) provided that, if the Issuer determines, with the agreement of the Trustee, that the then market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from the provision specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments.
  - (b) If Definitive Notes are required to be issued, they shall be issued at the expense of the Issuer in the denominations of Euro 0.01, Euro 1,000, Euro 10,000, Euro 100,000 and such other denominations as the Trustee shall determine and notify to the Noteholders.

- (c) All payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Sterling ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro. Such payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or by cheque.
  - (d) A Note of any class may only be presented for payment on a day on which commercial banks and foreign exchange markets are open for general business in the place of presentation and which is a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer System is open.
  - (e) The amount of interest in respect of each class of Notes will be calculated by reference to the aggregate principal amount of such class of Notes presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01.
  - (f) If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365).
- (iii) Following redenomination of the Notes pursuant to Condition 7(f)(i), the amount of interest due in respect of Notes represented by the Global Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest Euro 0.01.

## **8. Taxation**

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the Paying Agent is required by applicable law to make any payment in respect of the Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or the Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agent will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.

## **9. Prescription**

Claims for principal in respect of the Global Notes shall become void unless the relevant Global Notes are presented for payment made within a period of ten years from the relevant date in respect thereof. Claims for interest in respect of the Global Notes shall become void unless the relevant Global Notes are presented for payment made within a period of five years from the relevant date in respect thereof.

Claims for principal and interest in respect of the Definitive Notes shall become void unless made within a period of ten years, in the case of principal, and five years, in the case of interest, from the relevant date in respect thereof.

After the date on which a Note becomes void in its entirety, no claim may be made in respect thereof.

In this Condition 9, the “**relevant date**” means the date on which a payment first becomes due but, if the full amount of the monies due and payable on or before that date has not been duly received by the Paying Agent or the Trustee on or prior to such date, it means the date on which the full amount of such monies shall have been so received and notice to that effect shall have been duly given to Noteholders in accordance with Condition 15.

## 10. Events of Default

If any of the events mentioned in (i) to (v) inclusive below shall occur (each such event being an “**Event of Default**”), the Trustee at its discretion may and if so directed by an Extraordinary Resolution of, or requested in writing by 25 per cent. in aggregate Principal Amount Outstanding of “**Eligible Noteholders**” being:

- (1) the holders of the Class A Notes then outstanding; or
- (2) if there are no Class A Notes outstanding, the holders of the Class B Notes then outstanding; or
- (3) if there are no Class A Notes or Class B Notes outstanding, the holders of the Class C Notes then outstanding,

(subject to being indemnified and/or secured to its satisfaction) shall give notice (an “**Enforcement Notice**”) in writing to the Issuer that the Notes are, and shall immediately become, due and repayable at their Principal Amount Outstanding plus accrued but unpaid interest and the security under the Deed of Charge is and shall become enforceable at any time after the happening and during the subsistence of any of the following events (each an “**Event of Default**”):

- (i) default is made for a period of seven days or more in the payment of any principal due, or for a period of fifteen days or more in the payment of any interest due, upon any of the Class A Notes or, if there are no Class A Notes outstanding, Class B Notes or, if there are no Class B Notes outstanding, Class C Notes when and as the same fall due to be paid in accordance with these Conditions provided that a deferral of interest in accordance with Condition 5(g) shall not constitute a default in the payment of such interest for the purposes of this Condition 10; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer, except a winding up for the purpose of a merger, reconstruction or amalgamation the terms of which have been previously approved either in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders or, if there are no Class A Notes outstanding, of the Class B Noteholders or, if there are no Class B Notes outstanding, of the Class C Noteholders; or
- (iii) proceedings are otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, for the avoidance of doubt, but not limited to, presentation to the court of an application for an administration order) or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress or execution or diligence or other process is levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it is not discharged within 14 days; or if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally; or
- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it, or the Issuer breaches any covenant, warranty or representation made by it, under the Notes of any class or the Trust Deed, the Deed of Charge or any other Transaction Document (other than any obligation for the payment of any principal or interest on the Notes of any class) and if, in the opinion of the Trustee, such default or breach is capable of remedy, it is not remedied within 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended) or becomes unable to pay its debts within the meaning of Section 123(2) of the Insolvency Act 1986 (as that section may be amended).

Provided that in the case of each of the events described in sub-paragraphs (ii), (iii), (iv) or (v) of Condition 10, the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the holders of all classes of Notes.

#### **11. Enforcement of the Notes**

At any time after giving an Enforcement Notice the Trustee may, at its discretion and without further notice, subject to its being indemnified to its satisfaction, take such steps and/or institute such proceedings as it may think fit to enforce the Security for the Notes as provided in the Deed of Charge and to enforce repayment of the Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless it shall have been so directed by an Extraordinary Resolution of Eligible Noteholders or so requested in writing by 25 per cent. in aggregate Principal Amount Outstanding of Eligible Noteholders and it shall have been indemnified to its satisfaction.

Notwithstanding the foregoing, if the Notes have become due pursuant to Condition 10 otherwise than by reason of a default in payment of any amount due on any of the Notes, the Trustee will not be entitled to dispose of the Charged Assets or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the holders of the then highest class of Notes outstanding or the Trustee is of the opinion which shall be binding on the Noteholders and the Other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to such holders or the Trustee considers, in its discretion, that not to effect such disposal would place the Charged Assets in jeopardy. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing, provided that no Class B Noteholder shall be entitled to take such proceedings as long as there are Class A Notes outstanding and no Class C Noteholder shall be entitled to take such proceedings as long as there are Class A Notes or Class B Notes outstanding.

#### **12. Replacement of Notes**

If any Global Note, Definitive Note or Coupon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. On payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer and the Paying Agent may reasonably require. Mutilated or defaced Global Notes, Definitive Notes or Coupons must be surrendered before replacements will be issued.

#### **13. Meetings of Noteholders; Modifications and Waiver**

##### **(a) Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders the effect of which is described below. The provisions described below are expressed in the Trust Deed to apply *mutatis mutandis* to any meeting of one or more classes of Noteholders. Meetings of the Noteholders may be convened to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Noteholders of a modification of the Notes (including the Conditions) or the provisions of any of the Transaction Documents, provided that, save as provided in the next sentence, no modification of certain terms including, *inter alia*, the date of maturity of the Notes or a modification which would have the effect of postponing any day for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect thereof or altering the currency of payment thereof, or any alteration of paragraph 7(b) of the Fifth Schedule of the Trust Deed or of the majority required to pass an Extraordinary Resolution (any such modification being referred to below as a “**Basic Terms Modification**”) shall be effective. If the Trustee is of the opinion that a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by an Extraordinary Resolution of the Noteholders.

The quorum at any meeting of Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50 per cent. of the aggregate Principal Amount Outstanding of the Notes or, at any adjourned meeting, two or more persons being or representing the Noteholders

whatever the aggregate Principal Amount Outstanding of the Notes except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75 per cent., or at any adjourned such meeting 25 per cent., or more of the aggregate Principal Amount Outstanding of the Notes. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all Noteholders, whether or not they are present at the meeting. The majority required for an Extraordinary Resolution shall be 75 per cent. of the votes cast on that Extraordinary Resolution.

For so long as all the Notes (whether being Definitive Notes or represented by a Global Note) are held by one party, such party (which in the case of Notes represented by a Global Note, shall refer to the Accountholder and not the Common Depositary), shall constitute two persons for the purposes of forming a quorum for meetings. Furthermore, a proxy for the holder of a Global Note will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders.

**(b) Modifications and Waiver**

The Trustee may agree, without the consent of the holders of Notes (or the Notes of any class) (i) to any modification (except a Basic Terms Modification) of such Notes (including the Conditions insofar as they relate to such Notes) or any of the Transaction Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of any such Noteholders or (ii) to any modification of such Notes (including the Conditions insofar as they relate to such Notes) or any of the Transaction Documents which, in the Trustee's opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the holders of the Notes (or the Notes of any class) but only if and insofar as in its opinion the interests of the holders of the Notes of the relevant class will not be materially prejudiced thereby, agree to the waiver or authorisation of any breach or proposed breach of such Notes (including the Conditions insofar as they relate to such Notes) or any of the Transaction Documents or determine that any Event of Default shall not, or shall not subject to specified conditions, be treated as such, provided always that the Trustee shall not exercise such powers of waiver or determination in contravention of any express direction given by 25 per cent. in aggregate Principal Amount Outstanding of the Eligible Noteholders or by an Extraordinary Resolution of the Eligible Noteholders (but so that no such direction shall affect any authorisation, waiver or determination previously given or made). Any such modification, waiver, authorisation or determination shall be binding on the Noteholders (or the Noteholders of the relevant class) and, unless the Trustee agrees otherwise, any such modification shall be notified to such Noteholders in accordance with Condition 15 as soon as practicable thereafter.

The Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, that such exercise will not be materially prejudicial to the interests of any Noteholders if the Rating Agencies have confirmed that the ratings of the relevant Notes would not be adversely affected by such exercise.

**(c) Powers of Noteholders to affect other Noteholders**

- (i) The Trust Deed contains provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except as set out herein, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on all other Noteholders irrespective of the effect thereof on their interests.
- (ii) In the event that no Class A Notes are outstanding, the Trust Deed contains provisions limiting the powers of the Class C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class B Noteholders. Except as set out herein, the Trust Deed imposes no such limitations on the powers of the Class B Noteholders, the exercise of which will be binding on the Class C Noteholders, irrespective of the effect thereof on their interests.

**14. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce or realise the Security and to obtain repayment of the Notes unless indemnified to its satisfaction. The Trustee is entitled to enter



into business transactions with the Issuer, Alliance & Leicester or any company in the same group as Alliance & Leicester without accounting for any profit resulting from such transaction. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

The Trustee has no responsibility for the validity, enforceability or sufficiency of the Security or the Charged Assets nor for taking any steps to perfect (including by registration) the same.

#### **15. Notices**

All notices, other than notices given in accordance with the next following paragraphs, to Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the Financial Times) or, if this is not practicable, in another leading English language newspaper previously approved in writing by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above.

Any notice specifying a Payment Date, a rate of interest, an Interest Payment, Available Principal Receipts, a Note Principal Payment, a Pool Factor or a Principal Amount Outstanding shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen or such other medium for the electronic display of data as may be approved in writing by the Trustee and notified to Noteholders. Any such notice shall be deemed to have been given on the first date on which such information appeared on the relevant screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this paragraph shall be given in accordance with the preceding paragraph.

For so long as all of the Notes are represented by Global Notes and such Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear (as the case may be) for communication to the relevant Accountholders rather than by publication as required by this Condition 15 provided that, so long as the Notes are admitted to the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange, the competent authority so agrees. Any such notice shall be deemed to have been given to the relevant class of Noteholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

#### **16. Notifications and other matters to be final**

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Notes, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Reference Agent, the Trustee, the Administrator, the Paying Agent and all Noteholders and (subject as aforesaid) no liability to the Noteholders shall attach to the Reference Banks, the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

#### **17. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

#### **18. Governing Law**

The Notes, the Trust Deed, the Deed of Charge and the other Transaction Documents are governed by, and shall be construed in accordance with, English law (other than (i) those Transaction Documents and aspects of the Transaction Documents specific to the Scottish Mortgage Loans, which are governed by,

and shall be construed in accordance with, Scots law and those specific to Northern Irish Mortgage Loans, which are governed by and shall be construed in accordance with Northern Irish law and (ii) the Swap Guarantee, which is governed by and shall be construed in accordance with New York law).

## 19. Definitions

Unless otherwise defined in these Conditions and unless the context otherwise requires, in these Conditions the following words and expressions shall have the following meanings and any other capitalised term used in these Conditions shall have the meaning ascribed to it in the Master Definitions Schedule:

**“Administration Agreement”** means the agreement entered into on the Closing Date between Alliance & Leicester, the Issuer, the Trustee and the Administrator pursuant to the terms of which the Administrator has agreed to provide administration services to the Issuer and the Trustee in relation to the Mortgage Loans, Mortgages and the Related Security and includes any other agreement under which a substitute administrator is appointed to render services of the nature referred to in that agreement;

**“Administration Fee”** on any Payment Date means:

- (i) for so long as Alliance & Leicester serves as Administrator under the Administration Agreement, 0.15 per cent. per annum (inclusive of any VAT); and
- (ii) at any other time, such fee as is agreed between the substitute administrator, the Issuer, the Trustee and the Rating Agencies;

**“Administrator”** means Alliance & Leicester plc (registered number 3263713) whose registered office is at Carlton Park, Narborough, Leicester, Leicestershire LE9 5XX or such other person or persons for the time being exercising the rights and performing the obligations of the Administrator under the Administration Agreement;

**“Available Funds”** means Available Principal Receipts and Available Revenue Receipts;

**“Available Principal Receipts”** means an amount equal to the aggregate of:

- (i) Mortgage Principal Receipts (as defined in the Master Definitions Schedule) received by the Issuer during the preceding Determination Period (which for the avoidance of doubt in the case of the first Determination Period shall include all sums of principal due and payable but not yet paid as at the Closing Date); and
- (ii) the amount, if any, transferred in respect of debit balances on the Principal Deficiency Ledger pursuant to items (f), (h) and (j) of the Pre-Enforcement Revenue Priority of Payments; and
- (iii) principal received by the Issuer on repurchased Mortgage Loans;

less the aggregate of:

- (iv) the aggregate of all Principal Permitted Withdrawal Amounts debited from the Principal Ledger (each as defined in the Master Definitions Schedule) by the Administrator in the preceding Determination Period; and
- (v) the amount (if any) as will be required on the next Payment Date to fund any amount by which the aggregate of the payments and provisions required to be met in priority to item (j) (or, if the debit balance of the C Principal Deficiency Ledger is at the C Note Principal Deficiency Limit, item (h), or, if the debit balance of the B Principal Deficiency Ledger is at the B Note Principal Deficiency Limit, item (f) (but excluding in all cases items (f) and (h))) in the Pre-Enforcement Revenue Priority of Payments exceeds Available Revenue Receipts on the relevant Determination Date;

**“Available Revenue Receipts”** means an amount equal to the aggregate of:

- (i) Mortgage Revenue Receipts (as defined in the Master Definitions Schedule) received by the Issuer during the previous Determination Period; and

- (ii) other net income of the Issuer including amounts received, or to be received, by the Issuer under the Swap Agreement and interest paid or to be paid to the Issuer on the Transaction GIC Account and the investment income paid or due from the Authorised Investments during the period from (but excluding) the preceding Payment Date (or in the case of the first Payment Date the Closing Date) to (but including) the immediately following Payment Date; and
  - (iii) the amounts standing to the credit of the Cash Reserve Fund; and
  - (iv) accrued interest received by the Issuer on repurchased Mortgage Loans during the preceding Determination Period;
- less
- (v) the aggregate of all Revenue Permitted Withdrawal amounts debited from the Revenue Ledger (each as defined in the Master Definitions Schedule) by the Administrator in the preceding Determination Period;

“**Authorised Investments**” means (i) sterling gilt-edged securities, and (ii) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) (which may include deposits into any account which earns a rate of interest related to LIBOR) provided that in all cases such investments have a maturity date of 90 days or less and mature on or before the next Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Banking Act 1987) are rated F-1+ by Fitch and P-1 by Moody’s or which are otherwise acceptable to the Rating Agencies (if they are notified in advance) to maintain the then current ratings of the Notes;

“**Business Day**” means a day (other than a Saturday or Sunday or public holiday) on which banks are open for business in London;

“**Cash Reserve Fund**” means the fund established using a drawing under the second tranche of the Subordinated Loan Facility in the sum of £3,750,000;

“**Cash Reserve Scheduled Maximum Amount**” means 1.50 per cent. of the aggregate Initial Principal Amount of the Notes;

“**Current Balance**” means the principal amounts advanced to the Borrower plus all arrears charged pursuant to the Mortgage Conditions less all amounts representing payments applied in reduction of the Borrower’s loan account;

“**Deed of Charge**” means the deed of charge and assignment entered into on the Closing Date between, *inter alios*, the Issuer, the Trustee, Alliance & Leicester in its capacity as Originator and Administrator, the Liquidity Facility Provider and the Swap Counterparty creating security for the obligations of the Issuer under, *inter alia*, the Trust Deed, the Notes and the Conditions, the Deed of Charge, the Scottish Declaration of Trust, the Mortgage Sale Agreement, the Administration Agreement, the Liquidity Facility Agreement and the Swap Agreement and specifying the priority of payments by the Issuer following enforcement thereof, including any deed supplemental to the Deed of Charge;

“**Determination Date**” means the first Business Day of any month which includes a Payment Date;

“**Determination Period**” means the period from (and including) the preceding Determination Date (or, in the case of the first Determination Period, the Closing Date) to (but excluding) the Determination Date in question;

“**Euroclear**” means Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System;

“**Final Payment Date**” means the Payment Date falling in November 2032;

“**Initial Principal Amount**” means the aggregate Principal Amount Outstanding of the Notes as at the Closing Date;

“**Liquidity Facility Agreement**” means the liquidity facility agreement entered into on the Closing Date by, *inter alios*, the Issuer and the Liquidity Facility Provider;

“**Liquidity Facility Commitment**” means £7,500,000, to the extent not cancelled or reduced under the Liquidity Facility Agreement;

“**Master Definitions Schedule**” means the master definitions agreement entered into on the Closing Date between, *inter alios*, the Issuer, Alliance & Leicester and the Trustee;

“**Mortgage**” means, in relation to a Mortgage Loan, the charge by way of legal mortgage or standard security which secures the repayment of such Mortgage Loan including, unless the context otherwise requires, the Mortgage Conditions applicable thereto and the offer of loan incorporated therein;

“**Mortgage Loan**” means a loan (including any Further Advance) purchased by the Issuer, from time to time, under the Mortgage Sale Agreement;

“**Notional Outstanding on the Mortgage Loans**” means at any time the difference between:

- (a) the aggregate of the Current Balance of all Mortgage Loans comprised in the Mortgage Portfolio on the Closing Date; and
- (b) the aggregate of all Mortgage Principal Receipts (excluding amounts recovered pursuant to any enforcement proceedings) and the Current Balances of all Mortgage Loans which have been repossessed and where recovery proceedings have been completed;

“**Overpayment**” means each payment by a Borrower in excess of that required under the terms of the relevant Mortgage Loan which is not identified by the Borrower as a principal payment or payment of amounts in arrears;

“**Paying Agency Agreement**” means the agreement entered into on the Closing Date between, *inter alios*, the Issuer, the Paying Agent, the Reference Agent and the Trustee;

“**Paying Agent**” means Citibank, N.A., in its capacity as Paying Agent at its office at 5 Carmelite Street, London EC4Y 0PA;

“**Paying Agents**” means the Paying Agent at its specified office and/or such other or further Paying Agents for the Notes as may from time to time be appointed by the Issuer with the prior written approval of, and on terms previously approved in writing by, the Trustee (save where the Trustee is a party to the agreement appointing the relevant Paying Agent), and/or such other or further specified offices as may from time to time be nominated by the Issuer with the prior written approval of the Trustee (unless within the same city as those for which they are substituted) and notice of whose appointment or of which nomination is given to the Noteholders in accordance with the Conditions;

“**Priority of Payments**” means the Pre-Enforcement Revenue Priority of Payments and the Post-Enforcement Priority of Payments;

“**Principal Amount Outstanding**” means on any date in relation to a Note, the principal amount outstanding of that Note as at the Closing Date less the aggregate of all Note Principal Payments paid in respect of that Note prior to that date;

“**Rating Agencies**” means Fitch Ratings Limited and Moody’s Investors Service Limited and includes any successors to either of their rating businesses;

“**Reference Agent**” means Citibank, N.A. acting in its capacity as Reference Agent or such other Reference Agent for the Notes as may from time to time be appointed by the Issuer with the prior written approval of, and on terms previously approved in writing by, the Trustee (save where the Trustee is a party to the agreement appointing the relevant Reference Agent) and notice of whose appointment is given to the Noteholders in accordance with these Conditions;

“**Related Security**” means, in relation to any Mortgage Loan, the Mortgage and all other documents and things which constitute all or part of the security for the payment of all sums due in respect of that Mortgage Loan including for the avoidance of doubt the benefit of the Insurance Contracts (as defined in the Master Definitions Schedule) insofar as they relate to the Mortgages;

“**Reserve GIC Account**” means the account in the name of the Issuer at Barclays Bank PLC designated as such (or such other account at such other bank as may become the Reserve GIC Account in accordance with the Transaction Documents);

“**Securities Act**” means the United States Securities Act of 1933, as amended;

“**Senior Liabilities**” are:

- (i) the items listed in paragraphs (a) through (i) (but excluding the items listed in paragraphs (f) and (h)) of the Pre-Enforcement Revenue Priority of Payments; or

- (ii) if as at the preceding Calculation Date the balance of the C Principal Deficiency Ledger is greater than or equal to 20 per cent. of the Principal Amount Outstanding of the Class C Notes, the items listed in paragraphs (a) through (g) (but excluding the item listed in paragraph (f)) of the Pre-Enforcement Revenue Priority of Payments; or
- (iii) if notwithstanding (ii) above as at the preceding Calculation Date the balance of the B Principal Deficiency Ledger is greater than or equal to 50 per cent. of the Principal Amount Outstanding of the Class B Notes, the items listed in paragraphs (a) through (e) of the Pre-Enforcement Revenue Priority of Payments;

“**Subordinated Loan Agreement**” means the subordinated loan agreement to be entered into on the Closing Date between *inter alios*, Alliance & Leicester and the Issuer;

“**Swap Trigger**” means an Early Termination Date (as defined in the Swap Agreement) has been designated by the Issuer as a result of the occurrence of an Event of Default (as defined in the Swap Agreement) where the Swap Counterparty is the Defaulting Party (as defined in the Swap Agreement);

“**Transaction Documents**” include:

- (i) the Mortgage Sale Agreement;
- (ii) the Administration Agreement;
- (iii) the Deed of Charge;
- (iv) the Scottish Declaration of Trust;
- (v) the Bank Agreement;
- (vi) the Corporate Services Agreement;
- (vii) the Subscription Agreement;
- (viii) the Transaction GIC Agreement;
- (ix) the Reserve GIC Agreement;
- (x) the Liquidity Facility Agreement;
- (xi) the Swap Agreement;
- (xii) the Swap Guarantee;
- (xiii) the Subordinated Loan Agreement;
- (xiv) the Trust Deed;
- (xv) the Paying Agency Agreement;
- (xvi) the Post Maturity Call Option Agreement;
- (xvii) the Master Definitions Schedule; and
- (xviii) all other documents from time to time comprised in or relating to the Charged Assets; and

“**Transaction GIC Account**” means the account in the name of the Issuer at ALGT, designated as such (or such other account at such other bank as may become the Transaction GIC Account in accordance with the Transaction Documents).

## **USE OF NOTE PROCEEDS**

The net proceeds from the issue of the Notes will be £250,000,000 less management and underwriting fees and selling commissions. The net proceeds of the issue of the Notes will be applied, together with Tranche A of the Subordinated Loan, towards payment of the initial consideration payable by the Issuer for the Mortgage Portfolio to be acquired from Alliance & Leicester on the Closing Date and towards the payment of the costs and expenses, not including management and underwriting fees and selling commissions, arising in relation to the issue of the Notes.

## ADMINISTRATION OF THE MORTGAGE PORTFOLIO

### **Mortgage Administration**

#### *The Administrator*

The Administrator will be appointed by the Issuer under the Administration Agreement to exercise their respective rights, powers and discretions and perform their respective duties in relation to the Mortgage Loans and the Related Security and to manage certain aspects of the business and administer the assets of the Issuer, all in accordance with the Administration Agreement.

The Administrator will continue to administer mortgage loans other than the Mortgage Loans.

The appointment of the Administrator may be terminated by the Issuer and/or the Trustee on the occurrence of certain events of default, including non-performance of its obligations under the Administration Agreement or if insolvency or similar events occur in relation to the Administrator. Upon termination of the Administrator's appointment a substitute administrator shall be appointed by the Issuer and the Trustee (or in the case of failure to agree such appointment, solely by the Trustee). Such substitute administrator must, if possible, have experience of administering mortgage loans secured on properties in Northern Ireland, Scotland and England & Wales and agree to enter into an agreement with the Issuer and the Trustee on substantially the same terms as the Administration Agreement.

#### *Collection of Payments*

The Administrator is responsible for procuring that all payments attributable to the Mortgage Loans will be made (by the relevant Borrower) to one of the Collection Accounts held in the name of the Administrator and then transferred to the Transaction GIC Account. Any amount credited to the Collection Accounts shall be transferred from the relevant Collection Account to the Transaction GIC Account within the following time limits save in circumstances beyond the Administrator's control:

- (a) in the case of direct debit payments, by close of business on the Business Day immediately after the day on which such amounts are received or credited to the Collection Account; and
- (b) in the case of standing orders, by close of business on the Business Day following the day on which such amounts are received or credited to the Collection Account; and
- (c) in the case of payments by cash, transfer payments from other Alliance & Leicester accounts or cheque where reference to the relevant Borrower is provided or payments made by way of paying-in book, by close of business on the Business Day immediately after the day on which such amounts are received or credited, and in the case of payments by cheque where a reference to the relevant Borrower is not provided, by close of business on the next Business Day after notification from the Operating Banks (as defined below) of the identity of the Borrower.

Payments from borrowers under mortgage loans originated by Alliance & Leicester which have not been sold to the Issuer also flow through the Collection Accounts.

All amounts credited to the Collection Accounts are held on trust, express or implied, by the Administrator for relevant beneficiaries including the Issuer and the Trustee. The trusts in favour of the Issuer are in respect of all amounts credited to the Collection Accounts which represent receipts in respect of Mortgage Loans within the Mortgage Portfolio.

The Collection Accounts must be held with a bank whose short term, unsecured, unguaranteed and unsubordinated debt is rated, by each Rating Agency, the highest rating attributable to short term debt by such Rating Agency or is otherwise acceptable to such Rating Agency.

The Collection Accounts will be operated by the Administrator in accordance with the Bank Agreement. Under the Bank Agreement, the Transaction GIC Agreement and the Reserve GIC Agreement, until Girobank plc, ALGT and Barclays Bank PLC (together, the "**Operating Banks**") receive notice from the Trustee that an Enforcement Notice has been served or that the appointment of the Administrator as administrator has been terminated, the Operating Banks will operate the Collection Accounts, the Transaction GIC Account and the Reserve GIC Account in accordance with the instructions of the Administrator.

Amounts standing to the credit of the Transaction GIC Account will (at the Administrator's option) be left standing to the credit of the Transaction GIC Account or, invested (subject to retaining a minimum balance of £1 in such account) on a weekly basis by the Administrator in Authorised Investments provided that the yield expressed as an annual percentage rate of return on such investments shall not be less than the interest rate on the Transaction GIC Account at the time the investment decision is made.

## **Variable Mortgage Rates**

### ***Responsibility***

The Administrator will set the standard variable rate for the Mortgage Loans on behalf of the Issuer, except in certain limited circumstances as set out in the Administration Agreement (and described in the section "Trustee Discretion" below) when the Trustee will be entitled to do so. As at the Closing Date, interest is calculated by reference to the Current Balance (including capitalised interest, fees and expenses) of each Mortgage Loan. On 1st January, 2001 and thereafter interest will be calculated on an annual rest basis, by reference to the capital balance owing on the relevant Mortgage Loan at the end of the preceding year (specifically, as at 31st December). Adjustments to the interest bearing balance will only occur during a year if a Borrower makes a payment greater than their normal monthly payment and the amount of the payment exceeds a threshold set by Alliance & Leicester.

The Administrator will undertake to each of the other parties to the Administration Agreement that it will not at any time, without the prior consent of the Trustee, set or maintain the standard variable rate for the relevant Mortgage Loans (before taking into account any discount or addition relevant to any particular Mortgage Loan) at a rate which is higher than the then prevailing Alliance & Leicester standard variable rate which applies to mortgages beneficially owned by Alliance & Leicester. The Administrator will have responsibility to bring each change in the standard variable rate for the Mortgage Loans to the attention of the relevant Borrowers.

### ***Trustee Discretion***

The Administrator shall determine on each Determination Date, having regard to:

- (i) the income which the Issuer would expect to receive during the next succeeding Interest Period; and
- (ii) the standard variable rate for the Mortgage Loans which the Administrator proposes to set under the Administration Agreement; and
- (iii) the other resources available to the Issuer including the Swap Agreement, the Swap Guarantee, the Liquidity Facility Agreement and the Cash Reserve Fund,

whether the Issuer would receive an amount of income during that Interest Period which is less than the amount which is the aggregate of the amount of interest which will be payable in respect of the Class A Notes on the Payment Date falling at the end of such Interest Period and amounts which rank in priority thereto under the Pre-Enforcement Revenue Priority of Payments (the amount by which it is less being the "Shortfall"). If the Administrator determines that there will be a Shortfall, it will give written notice thereof to the Trustee within one Business Day of such determination recommending to the Trustee the standard variable rate which would, in the Administrator's opinion, need to be set in relation to the Mortgage Loans in order for no shortfall to arise, having regard to the obligations of the Issuer, and if the Trustee agrees that the standard variable rate should be increased in respect of the relevant Mortgage Loans, the Administrator, as agent on behalf of the Issuer, shall take all steps which are necessary, including publishing any notice which is required in accordance with the Mortgage Conditions, to effect such change in the standard variable rate for the Mortgage Loans, including to the extent necessary, the Issuer's and the Trustee's power to set Alliance & Leicester's standard variable mortgage rate.

## **Fixed Mortgage Rates**

Interest on the Fixed Rate Mortgages and, to the extent a fixed rate applies to any Discount/Fixed Mortgages, Capped Rate Mortgages and Base Rate Tracker Mortgages, will continue to be charged at the relevant fixed rate until the expiry of the relevant fixed rate period in accordance with the relevant offer of



loan. At the end of the fixed rate period, the interest rate on the loan reverts to the standard variable mortgage rate of Alliance & Leicester or to the Bank of England base rate plus a pre-determined fixed percentage margin per annum.

### **Arrears and Default Procedures**

The Administrator will endeavour to collect all payments due under or in connection with the Mortgage Loans in accordance with procedures set out in Alliance & Leicester's procedures manual but having regard to the circumstances of the relevant Borrower in each case. The procedures may include taking legal action for possession of the relevant Property and the subsequent sale of that Property. On average, the equivalent of ten monthly payments may have been missed prior to Alliance & Leicester obtaining possession (assuming no prior mortgage or the imposition of defences). The average period between Alliance & Leicester obtaining possession and sale of the Property is five months, however there can be significant variations in the time taken to sell repossessed Properties. The Court has discretion as to whether, on application by the lender, it will order the Borrower to vacate the Property pursuant to a possession order, after a default. A lender will usually apply for such an order so that it can sell the Property with vacant possession. Broadly, the net proceeds of sale of the Property (after payment of the costs and expenses of the sale) would be applied against the sums owing from the Borrower to the extent necessary to discharge the Mortgage Loan.

The Administrator may pursue the Borrower to the extent of any shortfall from the sale to the extent that it is cost-effective to do so. Alliance & Leicester usually pursues repayment of residual debt by seeking to obtain arrangements with the relevant Borrower, often for a discounted amount of the total sum owing.

### **Investment of Income**

The Issuer will, in the Administration Agreement, authorise the Administrator to invest certain sums held to the credit of the Transaction GIC Account in Authorised Investments (as defined below). Such investments and deposits must always mature on or before the next Payment Date. The Authorised Investments will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes.

“**Authorised Investments**” means (i) sterling gilt-edged securities and (ii) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) (which may include deposits into any account which earns a rate of interest related to LIBOR) provided that in all cases such investments have a maturity date of 90 days or less and mature on or before the next Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Banking Act 1987) are, when the Authorised Investments are made, rated F-1+ by Fitch and P-1 by Moody's or which are otherwise acceptable to the Rating Agencies (if they are notified in advance) to maintain the then current ratings of the Notes.

In addition, the yield, expressed as an annual percentage rate of return, on the Authorised Investments must not be less than the interest rate on the Transaction GIC Account at the time the Authorised Investment is made.

### **Delegation by the Administrator**

The Administrator is permitted in specified circumstances, or with the prior written consent of the Issuer and the Trustee, to sub-contract or delegate its obligations under the Administration Agreement.

### **Administration Fees**

The Administration Agreement makes provision for payments to be made to the Administrator. On each Payment Date, the Issuer will pay to the Administrator on each Payment Date an administration fee of, for so long as Alliance & Leicester serves as Administrator under the Administration Agreement, 0.15 per cent. per annum (inclusive of any VAT), and at any other time up to an administration fee agreed between the substitute administrator, the Issuer, the Trustee and the Rating Agencies.

The Administrator will be entitled to receive (to the extent not due to Alliance & Leicester) from the Issuer for its own account any commissions from insurers out of premiums paid by Borrowers to the Issuer as a result of the Administrator having placed buildings insurance in relation to the Mortgage Loans with such insurers.

The Administration Fee, any Subordinated Administration Fee and certain costs and expenses of the Administrator or any substitute administrator and the aforesaid commission are to be paid as provided in the Pre-Enforcement Revenue Priority of Payments. This order of priority has been agreed with a view to procuring the continuing performance by the Administrator of its duties in relation to the Issuer, the Trustee, the Mortgage Loans and the Notes.

### **Redemption**

Under the Administration Agreement, the Administrator will be responsible for handling the procedures connected with the redemption of Mortgage Loans and is authorised by the Trustee and the Issuer to release the relevant Mortgage Loan documents to the person or persons entitled thereto upon redemption.

### **Information and Reporting**

The Administrator is, under the Administration Agreement, responsible for keeping and maintaining records, on a Mortgage Loan by Mortgage Loan basis, and shall prepare quarterly management accounts for the Issuer and the Trustee, to be delivered to the Issuer, the Trustee and, if requested by the Rating Agencies, the Rating Agencies, within thirty days of the end of each three-month period. The Administrator shall also, prior to the end of each month following each Payment Date, deliver to the Issuer, the Rating Agencies and the Trustee the form of quarterly report prescribed by the Administration Agreement.

In addition, the Administrator shall give notice to the Rating Agencies and the Trustee of, *inter alia*, the Notes being repaid in full, any repurchase of any Mortgage Loan by Alliance & Leicester pursuant to the Mortgage Sale Agreement and the occurrence of any event of default under the Notes.

## THE ISSUER

### Introduction

The Issuer was incorporated in England & Wales as a public company limited by shares under the Companies Act 1985 with number 3900287 on 31st December, 1999. The registered office and head office of the Issuer is at Blackwell House, Guildhall Yard, London EC2V 5AE.

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and permit the Issuer, *inter alia*, to invest in mortgage loans secured on residential or other properties, to manage and administer mortgage loan portfolios, to lend money and give credit, secured or unsecured, to borrow or raise money and secure the payment of money and to grant security over its property for the performance of its obligations or the payment of money. It was established to acquire the Mortgage Portfolio. The consideration payable by the Issuer on the Closing Date for the acquisition of the Mortgage Portfolio will be financed by the issue of the Notes and the borrowing of Tranche A of the Subordinated Loan. There will also be deferred consideration payable in respect of the acquisition of the Mortgage Portfolio.

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its registration as a public company under the Companies Act 1985, the authorisation and issue of the Notes, the acquisition of a beneficial interest in the Mortgage Loans, the matters contemplated in this Offering Circular, applying for a standard licence under the Act, applying for registration under the Data Protection Act 1984 and the authorisation of the other documents referred to in this Offering Circular or in connection with the issue of the Notes.

The Issuer's entire issued share capital of £50,000 (of which £12,501.50 is paid up) is held by or for the benefit of Holdings, the entire issued share capital of which is held by SFM Corporate Services Limited under the terms of a trust for the benefit of charitable institutions, in respect of capital and income, and for the benefit of the holders of the Notes, in respect of the voting rights of such shares.

### Directors and Secretary

The Directors of the Issuer and their respective business addresses and principal activities are:

<i>Name</i>	<i>Business Address</i>	<i>Principal activities</i>
SFM Directors Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of independent directors to the structured finance industry
SFM Directors (No. 2) Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of independent directors to the structured finance industry
Christopher Rhodes	Alliance & Leicester plc, Carlton Park, Narborough, Leicester LE9 5XX	Director of Operations

The Directors of SFM Directors Limited and their respective business addresses and principal activities are:

<i>Name</i>	<i>Business Address</i>	<i>Principal activities</i>
Jonathan Eden Keighley	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of independent directors to the structured finance industry
James Garner Smith Macdonald	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of independent directors to the structured finance industry

The Directors of SFM Directors (No. 2) Limited and their respective business addresses and principal activities are:

<i>Name</i>	<i>Business Address</i>	<i>Principal activities</i>
Jonathan Eden Keighley	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of independent directors to the structured finance industry
James Garner Smith Macdonald	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of independent directors to the structured finance industry

The Chairman of the Issuer is Christopher Rhodes. The Secretary of the Issuer is Alliance & Leicester plc. The Issuer has no employees.

In accordance with the Corporate Services Agreement, Alliance & Leicester and the Corporate Services Provider will each provide directors and other corporate services for the Issuer in consideration for the payment of an annual fee to the Corporate Services Provider and Alliance & Leicester.

The Issuer's activities will principally comprise the issue of the Notes, the purchase of the Mortgage Loans, the entering into of all documents relating to such issue and such purchase to which it is expressed to be a party and the exercise of related rights and powers and other activities reasonably incidental thereto.

Pursuant to the Administration Agreement, the Administrator has undertaken to conduct the day-to-day management and administration of the business of the Issuer.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in Condition 4. No shares or debentures of the Issuer are under option, or agreed conditionally or unconditionally to be put under option, by the Issuer.

## Capitalisation

The unaudited capitalisation and indebtedness of the Issuer as at 25th October, 2000 adjusted for the issue of the Notes and the drawing of the Subordinated Loan is as follows:

	£
<b>Share Capital</b>	
Authorised	
50,000 Ordinary Shares of £1 each .....	50,000.00
Issued	
49,998 Issued Ordinary Shares of £1 each (partly paid up as to 25%) .....	12,499.50
2 Issued Ordinary Shares of £1 each (fully paid up) .....	2.00
<b>Borrowings</b>	
Class A Notes (now being issued).....	235,000,000
Class B Notes (now being issued) .....	5,000,000
Class C Notes (now being issued).....	10,000,000
Subordinated Loan .....	5,320,000
<b>Total Capitalisation</b> .....	<b>255,332,501.50</b>

As at 25th October, 2000, save as disclosed herein, the Issuer has no loan capital outstanding or created but unissued, no term loans outstanding and no other borrowings or indebtedness in the nature of borrowing nor any contingent liabilities or guarantees.

The current financial period of the Issuer will end on 31st December 2000.

## THE ALLIANCE & LEICESTER GROUP

Alliance & Leicester plc is the holding and principal operating company of the Alliance & Leicester Group (the “**Group**”).

Alliance & Leicester plc (“**Alliance & Leicester**”) is an authorised bank, listed on the London Stock Exchange. Alliance & Leicester, which is supervised by the Financial Services Authority, is a public limited company, with its issued share capital owned by retail and institutional investors. The principal business of Alliance & Leicester is the provision of first mortgage loans for residential purposes, funded largely from retail savings accounts.

In recent years, the Group has expanded its role, becoming a broadly-based provider of personal financial services. Its commercial banking subsidiary, Girobank plc (“**Girobank**”), a subsidiary of Alliance & Leicester, is a market leader in U.K. cash handling services. Another subsidiary of Alliance & Leicester, Alliance & Leicester Personal Finance Limited (“**ALPF**”), is a provider of unsecured personal loans. In 1999, approximately 45 per cent. of the Group’s consolidated pre-tax profits came from non-traditional business, representing a diversification which reduces Alliance & Leicester’s reliance on the residential mortgage market.

Alliance & Leicester’s business comprises three personal banking segments providing retail savings and residential mortgage lending, current accounts, credit and debit cards and unsecured personal finance and two business banking segments providing a range of banking services to business and public sector customers, including cash and cheque handling and the processing of debit and credit card transactions. These areas are supported by business units responsible for manufacturing and operations, distribution, shared services (finance, IT, personnel) and marketing.

The Group’s treasury activities are conducted through a specialist subsidiary company, Alliance & Leicester Group Treasury plc (“**ALGT**”). ALGT is also an authorised bank. ALGT is wholly owned and has no subsidiaries, and its obligations are guaranteed, by Alliance & Leicester.

A private members bill was lodged before Parliament in the 1999-2000 Session by Alliance & Leicester for an Act under the name or short title “Alliance & Leicester Group Treasury plc (Transfer) Bill”, the purposes of which in summary are to provide for the vesting in Alliance & Leicester of the undertaking of ALGT, for such vesting to take place on a date to be determined by the directors of Alliance & Leicester in relation to all property, rights and liabilities of, or held by, ALGT; the validation of references in deeds and other instruments; the saving of contracts, statutory provisions and other documents, powers, authorities, negotiable instruments, bailment, securities and proceedings and the provisions of the Bankers’ Books Evidence Act 1879; the continuance of accounts and of interests in land; and to make further provision supplementary to or consequential upon those purposes, including the application of the intended Act to Scotland and Northern Ireland.

A copy of the Bill may be inspected and copies obtained at the price of £1 each at the head office of Alliance & Leicester plc at 49 Park Lane, London; at Alliance & Leicester plc, Scottish Regional Office, 2nd Floor, 27 Frederick Street, Edinburgh; and at Alliance & Leicester plc, Regional Office, 63 Royal Avenue, Belfast.

The Bill passed its second reading in the House of Lords on 22nd February, 2000 and no opposition was raised. A resolution seeking the approval of shareholders of Alliance & Leicester was passed by its shareholders at the company’s Annual General Meeting held on 2nd May, 2000. A similar resolution was put to the Annual General Meeting of ALGT on 15th May, 2000 which was also approved. Such approvals are required to comply with Parliamentary Standing Orders. The Bill to be has now progressed to the House of Commons for approval before being passed to receive Royal Assent. Once the Bill has received Royal Assent, treasury activities for the Group will become the responsibility of Alliance & Leicester.

## SWAP COUNTERPARTY AND SWAP GUARANTOR

### **Banque AIG and American International Group, Inc.**

*The information set out below has been provided by the Swap Counterparty. The Swap Counterparty has not been involved in the preparation of, and does not take responsibility for, this Offering Circular as a whole.*

The Swap Counterparty, Banque AIG, is a French bank, acting through its London Branch, and is a subsidiary of AIG Financial Products Corp. (“**AIG-FP**”). AIG-FP is a wholly-owned subsidiary of American International Group, Inc. (the “**Swap Guarantor**”). Banque AIG’s activities include the conduct, primarily as principal, of an interest-rate, currency, equity and credit-derivative products business. Banque AIG also enters into long-dated foreign exchange contracts, option and benefit-responsive option transactions, liquidity facilities, investment contracts and other structured transactions, and invests in a diversified portfolio of securities. In the course of conducting its business, Banque AIG also engages in a variety of other related transactions. Banque AIG’s London office is at 5th Floor, One Curzon Street, London W1J 5RT.

The Swap Guarantor, a Delaware corporation, is a holding company which through its subsidiaries is primarily engaged in a broad range of insurance and insurance-related activities and financial services in the United States and abroad. Reports, proxy statements and other information (which do not form part of this Offering Circular) filed by the Swap Guarantor with the United States Securities and Exchange Commission (the “**Commission**”) pursuant to the informational requirements of the United States Securities Exchange Act of 1934, as amended, can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington D.C. 20549, and at the following regional offices of the Commission: Northeast Regional Office, 7 World Trade Center, Suite 1300, New York, New York 10048; Pacific Regional Office, 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036-3648; and Midwest Regional Office, Citicorp Center, Suite 1400, 500 West Madison Street, Chicago, Illinois 60661. Copies of such material can be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates. The Commission also maintains a website at <http://www.sec.gov> which contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. The Swap Guarantor’s Common Stock is listed on the New York Stock Exchange and reports, proxy statements and other information can also be inspected at the Information Center of New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

The information in the preceding three paragraphs has been provided by Banque AIG for use in this Offering Circular. Banque AIG (except for the foregoing three paragraphs), the Swap Guarantor and their respective affiliates have not been involved in the preparation of, and do not accept responsibility for, this Offering Circular as a whole.

## THE MORTGAGES

### Introduction

The Mortgage Portfolio owned by the Issuer from time to time will comprise the Initial Mortgage Portfolio, together with each BoW Substitute Mortgage Loan, ARR Substitute Mortgage Loan and Further Advance acquired by the Issuer in accordance with the provisions of the Mortgage Sale Agreement, other than:

- (a) any Mortgage Loans which have been repaid in full; and
- (b) Mortgage Loans which have been repurchased by Alliance & Leicester pursuant to the Mortgage Sale Agreement (as to which see “Sale of the Mortgage Portfolio – Repurchase by Alliance & Leicester”).

The Mortgage Loans in the Initial Mortgage Portfolio will be randomly selected by Alliance & Leicester from the Provisional Mortgage Portfolio which has the characteristics described below. All the statistical and other information contained in this Offering Circular, unless otherwise stated, relates to the Provisional Mortgage Portfolio. All Mortgage Loans are subject to the laws of (1) Northern Ireland, (2) Scotland or (3) England and Wales, as applicable.

### Characteristics of the Mortgage Loans

Each Mortgage Loan in the Mortgage Portfolio will have the following characteristics:

#### (a) Loan Status

Each Mortgage Loan in the Mortgage Portfolio was fully performing as at 31st August, 2000 (the “Cut-Off Date”) and has not been in arrears on any occasion in the last 12 months.

#### (b) Interest Payment Status

Each Mortgage Loan accrues interest at a rate (the “Mortgage Rate”): (i) equal to or at a fixed margin above or discount to Alliance & Leicester’s standard variable mortgage rate; (ii) at a fixed rate; (iii) at the Bank of England Base Rate Tracker Rate; (iv) at a combination of the above rates, each for a set period of time, at the end of which the interest rate on such loan reverts either to Alliance & Leicester’s standard variable mortgage rate or to the Bank of England Base Rate Tracker Rate.

#### (c) Repayment Status

A Mortgage Loan may also be categorised by the means pursuant to which it is intended that the Borrower repays the principal amount of the advance:

“**Repayment Loan**”: a Mortgage Loan in respect of which the Borrower is under an obligation to the mortgagee to make monthly payments of principal so that the whole principal (in addition to interest) is repaid by the stated maturity date for that Mortgage Loan;

“**Policy Backed Loan**”: a Mortgage Loan in respect of which the Borrower is not obliged to pay the principal amount before maturity and which requires the Borrower to have a policy-backed vehicle to repay the Mortgage Loan at maturity, for example a policy of endowment insurance with a sum assured and a guaranteed death benefit equal to the initial amount of the loan. Alliance & Leicester reminds these Borrowers to check the level of their premium contributions periodically, but it does not take any security over the policy concerned;

“**Interest Only Loan**”: a Mortgage Loan, other than a Policy Backed Mortgage Loan, in respect of which the Borrower is obliged to pay interest only during the term of that Mortgage Loan with the entire principal amount being payable on the maturity of the relevant Mortgage Loan;

“**Part and Part Loan**”: a Mortgage Loan part of which is treated as a Repayment Loan, the other part as an Interest Only Loan or a Policy Backed Mortgage Loan.

### Monthly Payment Dates

The Mortgage Loan Conditions require that all Borrowers make scheduled monthly payments of interest and, if applicable, principal in respect of their Mortgage Loan (each a “Monthly Payment”) on a day notified to them by the Administrator being the anniversary of the day on which their loan was



originally completed or such other date requested by the Borrower and agreed by the Administrator, but subject to an end date of the 28th day of a month (each a “**Monthly Payment Date**”). For instance, if a loan were completed on the 4th working day, the Borrower would be required to commence their monthly payments on the 4th working day of the following month and on the same day in each month thereafter. If a loan were completed on the 29th day of a month, the Borrower would be required to commence their monthly payments on the 28th day of the following month and on the same day in each month thereafter. Requests from any Borrower to change his Monthly Payment Date following completion of the relevant Mortgage Loan may also be agreed by the Administrator.

### **Mortgage Loans Regulated under the Act**

Alliance & Leicester plc currently holds a valid licence issued under the Act, and the Issuer is applying for a licence under the Act, but Alliance & Leicester will warrant under the Mortgage Sale Agreement that none of Mortgage Loans are regulated by the Act.

### **Lending Criteria**

Alliance & Leicester will warrant to the Issuer and the Trustee in the Mortgage Sale Agreement, *inter alia*, (i) that it either complied in all material respects with the lending criteria applicable to the relevant Mortgage Loans, or (ii) that the appropriate exceptions approval procedure was followed in respect of any Mortgage Loan in respect of which the lending criteria were not satisfied, (iii) it carried out or procured the carrying out of certain steps following the underwriting processes to perfect the vesting of the full legal and beneficial title to the relevant Mortgage Loan and its related Mortgage in Alliance & Leicester and (iv) that, immediately prior to the execution of the Mortgage Sale Agreement, such legal and beneficial title to each Mortgage Loan was vested absolutely in Alliance & Leicester.

#### *General*

To proceed with obtaining a Mortgage Loan, each prospective Borrower completes an application form which includes information with respect to the applicant’s income from all sources, current employment details, bank account information (where the Borrower has a bank account), current mortgage information (if applicable) and certain other personal information. A credit reference agency search is made against each Borrower at their current address in all cases which will give details of any county court judgments and, where possible, default data.

#### *Employment details*

The methods for validating income have changed over the years, but general criteria for establishing proof of income for Borrowers is set out in this section.

Alliance & Leicester categorises Borrowers as either “**Employed**” or “**Self-employed**”.

Proof of Income for Employed Borrowers is established by:

- (a) Prior to May 1997 – An employer’s reference covering the preceding twelve months; or
- (b) With effect from May 1997 – Payslips for the preceding three months for loans of up to 85 per cent. LTV. For loans of over 85 per cent. LTV or where the advance exceeded £200,000, an employer’s reference; or
- (c) With effect from April 1998 – Payslips for the preceding three months.

Proof of income for Self-employed Borrowers is established by a letter from the borrower’s accountant or audited accounts covering a period of 3 years (with a minimum of 2 years actual figures and allowances for 1 year’s projection).

### *Income Capacity*

The following maximum income multiples are applied in determining the amount of the advance:

	<i>First time buyer</i>	<i>Next time buyer</i>	<i>Existing Customer</i>
0-50% LTV	4 (3.25)	4 (3.25)	4 (3.25)
50.1%-75% LTV	3.5 (3)	4 (3.25)	4 (3.25)
75.1%-85% LTV	3.5 (3)	3.5 (3)	3.5 (3)
85.1%-95% LTV	3.3 (2.75)	3.3 (2.75)	3.3 (2.75)

(Figures in Brackets relate to the joint multiple calculation.)

With the exception of 85.1%-95% LTV, income multiple policy has been set at or below these limits. For 85%-95% LTV the policy has been tightened, however historically the maximum income multiple was set at 3.5(3).

The allowable income figure used in the income multiple calculation to assess an individual's ability to repay a mortgage is reduced by the annual aggregate sum of any continuing financial commitments for other outstanding loans.

### *Credit scoring*

Credit scoring is used in the underwriting process when considering a mortgage application. It is based on a system which predicts the future conduct of an account based on the past performance of similar accounts. All credit scoring systems are checked regularly to ensure accuracy and effectiveness. Credit scoring has been used in relation to mortgage lending by Alliance & Leicester since May 1994.

### *Valuation*

Alliance & Leicester requires that a valuation of the Property be obtained either from its in-house Valuation Department or from an independent valuer selected from a panel of approved valuers and details of indemnity insurance held by panel valuers are kept by Alliance & Leicester. When a Property is newly built, a site valuation, rather than a valuation resulting from a physical inspection of the property, may be applied. All valuations of Properties are reviewed by the person underwriting the Mortgage Loan.

### *Property Types*

Alliance & Leicester applies the criteria set out below in determining the eligibility of Properties to serve as security for Mortgage Loans. Under these criteria, eligible property types include marketable, habitable and insurable freehold, leasehold and feudal properties in England, Wales, Scotland and Northern Ireland. In the case of a Mortgage Loan secured by a leasehold property, Alliance & Leicester requires that the unexpired term of the lease be at least 50 years on commencement of the mortgage and at least 30 years at the end of the mortgage repayment term.

However, certain property types will not be considered for the purposes of providing security for a Mortgage Loan. Types of property falling within this category are (but are not limited to) freehold flats and maisonettes, prefabricated buildings, Grade 1 listed buildings and live/work units.

### *Loan Amount*

There is generally no maximum loan amount for a Mortgage Loan, however, Alliance & Leicester have put in place a policy for the approval of loans over £500,000 by the Group Board or a delegate or sub-delegate thereof, depending on the amount in question.

### *Term*

Repayment Loans and Interest Only Loans are subject to a maximum term of 40 years and pension-backed Policy Backed Loans are subject to a term of 50 years.

### *Maximum Loan to Value*

For Mortgage Loans up to £150,000 the maximum LTV ratio permitted is 95 per cent. of the current market value of the property determined by the valuation. For Mortgage Loans of over £150,000 and up to £200,000 the maximum LTV ratio permitted is 90 per cent. of the current market value of the property

determined by the valuation. For Mortgage Loans of over £200,000 and up to £250,000 the maximum LTV ratio permitted is 85 per cent. of the current market value of the property determined by the valuation. For Mortgage Loans of over £250,000 the maximum LTV ratio permitted is 75 per cent. of the current market value of the property determined by the valuation.

#### *Discretion to lend outside Lending Criteria*

On a case-by-case basis Alliance & Leicester may have determined that, based upon compensating factors, a prospective Borrower who did not strictly qualify under its lending criteria warranted an underwriting exception. Compensating factors may include, but are not limited to, a low LTV ratio, stable employment and time in residence at the applicant's current residence.

#### **MIG**

Where a Mortgage Loan was originated and the LTV ratio exceeded 75 per cent., Alliance & Leicester obtained mortgage indemnity guarantees under block policy arrangements. Such insurance provides limited cover in the event of losses being incurred following repossession and sale of a Property from a Borrower in default. The indemnity insurance covers only a portion of the relevant loss. The Issuer will not, however, have the benefit of any such mortgage indemnity insurance nor will it be entitled to the proceeds of any claim under the insurance (the proceeds will be entirely for the benefit of Alliance & Leicester).

#### **Buildings Insurance**

It is a condition of each Mortgage Loan that Borrowers take out buildings insurance at the Borrower's cost, primarily on a full replacement value basis, in respect of each Property that is the subject of a Mortgage. Borrowers who arrange their own buildings insurance are required to sign a declaration that they will maintain appropriate buildings insurance cover. They are also asked to have Alliance & Leicester's interest noted on such insurance but no verification of such notation is made.

Borrowers who are covered by policies arranged by Alliance & Leicester may at any time substitute their own cover with a different insurance company subject to payment of a small administration fee to Alliance & Leicester.

Alliance & Leicester and the Issuer as co-insured will be noted as having an interest in each of the Properties covered by building insurance policies in respect of the Mortgage Loans arranged through Alliance & Leicester. Such insurance is underwritten by Eagle Star Insurance (as to 80 per cent.) and Alliance & Leicester General Insurance (as to 20 per cent.).

Alliance & Leicester is not itself insured under any buildings insurance policy applicable to any of the other Properties, nor has it the benefit of any security over such policies and the Issuer will therefore have no interest therein. See "Special Considerations – Buildings Insurance".

#### **Arrears Capitalisation**

From time to time, Alliance & Leicester may agree with a Borrower to capitalise arrears of mortgage interest to the capital balance of the Mortgage Loan and reschedule the relevant Monthly Payment accordingly.

Mortgage arrears will only be capitalised in accordance with the requirements of the industry regulators and Alliance & Leicester is committed to adhering to follow best industry practice. In all arrears capitalisation cases, Alliance & Leicester investigates the circumstances and requires to be satisfied that the relevant Borrower will be able to pay the increased Monthly Payment before capitalising the arrears.

#### **Scottish Mortgages**

Certain of the Mortgage Loans are secured or partially secured over Scottish Properties by way of first-ranking standard security (the "**Scottish Mortgages**"), being the only means of creating a fixed charge or security over heritable or long leasehold property in Scotland. In respect of the Scottish Mortgages, references herein to a "**mortgage**" and a "**mortgagee**" (or the "**legal owner**" of a Mortgage) are to be read as references to such a standard security and the heritable creditor thereunder respectively.

A statutory set of “**Standard Conditions**” is automatically imported into all standard securities, including the Scottish Mortgages; however, the majority of these Standard Conditions may be varied by agreement between the parties. The Standard Conditions as so varied will accordingly form part of the mortgage conditions relative to any Scottish Mortgage.

The main provisions of the Standard Conditions which cannot be varied by agreement relate to enforcement. Generally, where a breach by a borrower entitles the lender to enforce the security an appropriate statutory notice must first be served. First, the lender may serve a “calling-up notice” requiring repayment, in which event the borrower has two months to comply and in default the lender may enforce its rights under the standard security by sale, entry into possession or the other remedies provided by statute (court application only being necessary where the borrower fails to vacate the property). Alternatively, in the case of remediable breaches, the lender may serve a “**notice of default**”, in which event the borrower has only one month in which to comply, but also has the right to object to the notice by court application within 14 days of the date of service. In addition, the lender may in certain circumstances make direct application to the court without the requirement of a preliminary notice. The appropriate steps for enforcement will therefore depend on the circumstances of each case, and the Administrator (where appropriate, at the direction of the Trustee) will in practice proceed with the remedy most likely to be effective in enforcing or protecting the security.

Pursuant to the Mortgage Sale Agreement and as described in “Title to the Mortgage Portfolio”, Alliance & Leicester will sell the Scottish Mortgages to the Issuer pursuant to specific Scots law assignments. Pursuant to the Deed of Charge, the Issuer will grant to the Trustee a standard security over the Scottish Mortgages (the “**Scottish Security**”).

### **The Provisional Mortgage Portfolio**

The Provisional Mortgage Portfolio comprises the 6,474 Mortgage Loans described below which have aggregate balances of £348,896,370.14 as at the Cut-Off Date. Mortgage Loans may be withdrawn from the Provisional Mortgage Portfolio to the extent that those Mortgage Loans do not comply with the representations and warranties to be given by Alliance & Leicester (as the case may be) on the Closing Date pursuant to the Mortgage Sale Agreement. All of the Mortgage Loans forming part of the Provisional Mortgage Portfolio were originated between October 1994 and August 1999. The latest scheduled maturity of any Mortgage Loan in the Provisional Mortgage Portfolio is not later than February 2030.

76 per cent. of the Mortgage Loans are Variable Rate Mortgages (or Base Rate Tracker Mortgages or Discount/Fixed Mortgages currently subject to a variable rate of interest), 10 per cent. of the Mortgage Loans are Capped Rate Mortgages and 14 per cent. of the Mortgage Loans are Fixed Rate Mortgages (or Discount/Fixed Mortgages currently subject to fixed rate of interest).

The following sets forth in tabular format certain information with respect to the Mortgage Loans as at the Cut-Off Date. Columns stating percentage amounts may not add up to 100 per cent. due to rounding.

## Outstanding Principal Balance

<i>Outstanding Principal Balance</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>
£0 – £ 24,999	11,551,658.68	3.31	556	20,776.36
£25,000 – £ 49,999	116,746,815.11	33.46	3,116	37,466.89
£50,000 – £ 74,999	102,689,469.76	29.43	1,698	60,476.72
£75,000 – £ 99,999	56,145,145.70	16.09	660	85,068.40
£100,000 – £124,999	24,599,236.45	7.05	223	110,310.48
£125,000 – £149,999	14,211,962.14	4.07	104	136,653.48
£150,000 – £174,999	7,087,159.85	2.03	44	161,071.81
£175,000 – £199,999	5,877,398.98	1.68	32	183,668.72
£200,000 – £224,999	3,773,660.93	1.08	18	209,647.83
£225,000 – £249,999	1,654,696.74	0.47	7	236,385.25
£250,000 – £299,999	3,573,670.70	1.02	13	274,897.75
£300,000 – £ 349,999	985,495.10	0.28	3	328,498.37
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>

Minimum Outstanding Principal Balance: £15,002  
Maximum Outstanding Principal Balance: £347,193  
Average Outstanding Principal Balance: £53,892

## Loan to Value at Completion

<i>Loan to Value %</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>	<i>Maximum Principal Balance £</i>
>=5 and <10	91,873.80	0.03	3	30,624.60	36,601.80
>=10 and <15	550,707.00	0.16	17	32,394.53	66,915.70
>=15 and <20	953,308.52	0.27	31	30,751.89	132,925.00
>=20 and <25	1,881,180.70	0.54	58	32,434.15	93,995.60
>=25 and <30	4,350,330.28	1.25	108	40,280.84	259,150.20
>=30 and <35	4,358,397.54	1.25	124	35,148.37	199,987.00
>=35 and <40	6,578,446.14	1.89	163	40,358.57	110,026.00
>=40 and <45	10,363,499.18	2.97	234	44,288.46	219,670.00
>=45 and <50	10,903,544.98	3.13	222	49,115.07	240,026.00
>=50 and <55	15,008,193.12	4.30	319	47,047.63	239,646.70
>=55 and <60	17,719,440.15	5.08	341	51,963.17	300,140.80
>=60 and <65	19,466,328.97	5.58	372	52,328.84	259,002.90
>=65 and <70	23,236,449.58	6.66	437	53,172.65	219,234.00
>=70 and <75	32,431,032.54	9.30	549	59,072.92	299,380.10
>=75 and <80	28,864,082.81	8.27	470	61,412.94	338,161.50
>=80 and <85	31,714,963.71	9.09	504	62,926.52	288,460.20
>=85 and <90	36,308,000.71	10.41	597	60,817.42	273,091.20
>=90 and <95	44,832,535.45	12.85	803	55,831.30	347,192.80
>=95 and <100	59,115,248.79	16.94	1,119	52,828.64	211,219.00
=100	168,806.17	0.05	3	56,268.72	57,416.07
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>	<b>347,192.80</b>

Minimum Loan to Value at Completion: 5.23%  
Maximum Loan to Value at Completion: 100.00%  
Weighted Average Loan to Value at Completion: 75.41%

### Current Mortgage Rate

<i>Mortgage rate</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>	<i>Maximum Principal Balance £</i>
>=3.5 and <4.0	7,947,603.90	2.28	102	77,917.69	296,273.00
>=4.0 and <4.5	1,838,401.76	0.53	21	87,542.94	300,140.80
>=4.5 and <5.0	21,534,358.73	6.17	387	55,644.34	276,919.80
>=5.0 and <5.5	28,225,999.51	8.09	524	53,866.41	347,192.80
>=5.5 and <6.5	34,433,651.58	9.87	536	64,241.89	265,650.00
>=6.0 and <6.5	51,054,199.91	14.63	868	58,818.20	259,002.90
>=6.5 and <7.0	38,852,145.06	11.14	711	54,644.37	299,380.10
>=7.0 and <7.5	3,781,085.53	1.08	57	66,334.83	288,939.00
>=7.5 and <8.0	161,094,752.36	46.17	3,264	49,355.01	338,161.50
>=8.0	134,171.80	0.04	4	33,542.95	46,243.50
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>	<b>347,192.80</b>

Includes Floating and Currently Fixed and Capped Rate mortgages

Minimum Mortgage Rate: 3.99%

Maximum Mortgage Rate: 9.15%

Weighted Average Mortgage Rate: 6.74%

### Remaining Time to Maturity

<i>Remaining Time to Maturity (Years)</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>	<i>Maximum Principal Balance £</i>
>= 5 and <10	23,355,950.35	6.69	556	42,007.10	288,460.20
>=10 and <15	74,334,748.40	21.31	1,440	51,621.35	338,161.50
>=15 and <20	114,591,091.53	32.84	2,047	55,980.02	347,192.80
>=20 and <25	134,241,455.59	38.48	2,391	56,144.48	296,273.00
>=25 and <30	2,373,124.27	0.68	40	59,328.11	219,003.20
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>	<b>347,192.80</b>

Minimum Time to Maturity: 5.2 Years

Maximum Time to Maturity: 29.49 Years

Weighted Average Time to Maturity: 17.94 Years

## Seasoning

<i>Age of Loan (Years)</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>	<i>Maximum Principal Balance £</i>
>=1.0 and <1.5	58,553,706.32	16.78	956	61,248.65	347,192.80
>=1.5 and <2.0	56,486,787.65	16.19	974	57,994.65	295,025.00
>=2.0 and <2.5	62,123,158.37	17.81	1,093	56,837.29	338,161.50
>=2.5 and <3.0	31,787,117.99	9.11	571	55,669.21	253,703.00
>=3.0 and <3.5	38,420,239.31	11.01	722	53,213.63	273,091.20
>=3.5 and <4.0	28,673,451.96	8.22	587	48,847.45	213,332.30
>=4.0 and <4.5	18,062,340.70	5.18	391	46,195.24	187,022.00
>=4.5 and <5.0	15,940,312.90	4.57	353	45,156.69	299,380.10
>=5.0 and <5.5	23,611,773.78	6.77	507	46,571.55	161,301.89
>=5.5 and <6.0	15,237,481.16	4.37	320	47,617.13	182,678.00
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>	<b>347,192.80</b>

Minimum Seasoning: 1.09 Years

Maximum Seasoning: 5.89 Years

Weighted Average Seasoning: 2.84 Years

## Tenure

<i>Tenure</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>	<i>Maximum Principal Balance £</i>
Freehold	253,337,071.17	72.61	4,489	56,435.08	338,161.50
Feudal	44,639,850.05	12.79	944	47,287.98	200,024.00
Leasehold	50,919,448.92	14.59	1,041	48,913.98	347,192.80
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>	<b>347,192.80</b>

**Property Type**

<i>Property Type</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>
Converted Flat	10,734,726.74	3.08	180	59,637.37
Council House or Bungalow	3,141,484.03	0.90	105	29,918.90
Council Flat or Maisonette	319,667.71	0.09	14	22,833.41
Purpose Built Flat	18,877,785.23	5.41	437	43,198.59
Maisonette	3,498,624.78	1.00	76	46,034.54
Bungalow - Detached	22,051,958.67	6.32	425	51,886.96
Bungalow - Semi-Detached	7,891,380.84	2.26	182	43,359.24
Bungalow - Terraced	374,609.00	0.11	11	34,055.36
House - Detached	113,189,610.80	32.44	1,579	71,684.36
House - Semi Detached	98,046,798.14	28.10	1,912	51,279.71
House - Terraced	69,865,693.39	20.02	1,538	45,426.33
Other Residential Property	904,030.81	0.26	15	60,268.72
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>

**Repayment Method**

<i>Repayment Method</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>
Interest Only/ Policy Backed	268,034,277.05	76.82	4,841	55,367.54
Repayment	80,862,093.09	23.18	1,633	49,517.51
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>



## Geographic Spread

<i>Region</i>	<i>Aggregate Principal Balance £</i>	<i>% of Total</i>	<i>Number of Loans</i>	<i>Average Principal Balance £</i>	<i>Maximum Principal Balance £</i>
East Anglia	13,126,251.32	3.76	271	48,436.35	229,626.00
East Midlands	23,700,026.26	6.79	506	46,838.00	299,380.10
London	19,696,688.15	5.65	253	77,852.52	347,192.80
N Ireland	25,812,168.17	7.40	575	44,890.73	140,716.00
North	9,357,956.97	2.68	207	45,207.52	142,537.00
North West	29,043,402.84	8.32	586	49,562.12	258,039.00
Scotland	44,782,372.25	12.84	947	47,228.67	200,024.00
SouthEast	99,999,222.58	28.66	1,468	68,119.36	300,140.80
SouthWest	31,406,219.72	9.00	585	53,685.85	338,161.50
Wales	15,278,816.75	4.38	340	44,937.70	187,022.00
West Midlands	17,987,972.84	5.16	336	53,535.63	211,219.00
Yorkshire	18,705,272.29	5.36	400	46,763.18	203,909.00
<b>Total</b>	<b>348,896,370.14</b>	<b>100.00</b>	<b>6,474</b>	<b>53,891.93</b>	<b>347,192.80</b>

## TITLE TO THE MORTGAGE PORTFOLIO

### Alliance & Leicester Title

Alliance & Leicester is the legal and beneficial owner of all the Mortgage Loans and is the legal and beneficial owner of all Mortgages relating to the Mortgage Loans over land located in Northern Ireland, Scotland and England & Wales, other than those Mortgages which are still in the course of registration or recording of the relevant transfers, deeds and documents that are necessary to register or record Alliance & Leicester's interests at H.M. Land Registry, the Register of Sasines, The Land Register of Scotland, or the Land Registry of Northern Ireland, as applicable.

### Issuer Title

In relation to Mortgages of registered land, until such time as transfers of such Mortgages in favour of the Issuer have been completed and registered or recorded at HM Land Registry, the Register of Sasines, the Land Register of Scotland, or the Land Registry of Northern Ireland, as applicable, the transfer to the Issuer will take effect in relation to English and Northern Irish Mortgages, in equity and transfer beneficial title only, and in relation to Scottish Mortgages by way of declaration of trust. Neither Alliance & Leicester nor the Issuer currently intends to require the execution and completion of such transfers or to apply to HM Land Registry, the Register of Sasines, the Land Register of Scotland, or the Land Registry of Northern Ireland, as applicable, to register or record those transfers. In relation to Mortgages of unregistered land, in order for legal title to pass to the Issuer, conveyances of the relevant Mortgages would have to be completed in favour of the Issuer. Neither Alliance & Leicester nor the Issuer currently intends to require the execution and completion of such conveyances. Legal title to the Mortgages taken as security for repayment of the Mortgage Loans will therefore remain with Alliance & Leicester and the Issuer will charge to the Trustee, for the benefit of Noteholders, its beneficial entitlement only.

In relation to the Scottish Mortgages, Alliance & Leicester will in addition on the Closing Date declare a trust (the "**Scottish Trust**") over the Scottish Mortgages and their Related Security in favour of the Issuer in order to protect the beneficial title of the Issuer thereto pending completion of legal title as detailed above. On completion of the Issuer's legal title to the Scottish Mortgages and their Related Security the Scottish Trust will automatically determine. Each Further Advance relating to a Scottish Mortgage acquired by the Issuer from Alliance and Leicester will be covered by the Scottish Trust. Each Substitute Mortgage Loan which is a Scottish Mortgage will be covered by a further declaration of trust.

Unless and until the occurrence of a Relevant Event (as defined below), none of Alliance & Leicester, the Issuer or the Trustee may give notice to Borrowers of the sale of the Mortgage Loans to the Issuer and/or the creation of the security interests in such Mortgage Loans in favour of the Trustee.

As a consequence of neither the Issuer nor the Trustee obtaining legal title to the Mortgages and not registering or recording their respective interest in HM Land Registry, the Register of Sasines, the Land Register of Scotland, or the Land Registry of Northern Ireland, as applicable:

- (a) the Issuer's interest in that Mortgage Loan may become subject to interests of third parties, for example, the interest of a bona fide purchaser created after the creation of that person's interest in that Mortgage Loan;
- (b) the holder of the legal title must be joined as a party to any legal proceedings which need to be taken or which the Issuer (or the Administrator on its behalf) may want to take against the relevant Borrower in relation to the enforcement of that Mortgage Loan. In this regard, Alliance & Leicester will undertake in the Mortgage Sale Agreement for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings for the enforcement of any Mortgage Loan sold to the Issuer; and
- (c) the rights of the Issuer may be subject to certain rights of set-off which arise between the Borrower and Alliance & Leicester and to which the Issuer would not be subject if it held legal title, including *inter alia*, rights of set off which arise in relation to transactions (excluding the Mortgage Loans) or deposits made between certain Borrowers and Alliance & Leicester. These rights may result in the Issuer receiving less monies than anticipated from the Mortgage Loans. Alliance & Leicester will, however, undertake in the Mortgage Sale Agreement to indemnify the Issuer in respect of any amounts relating to such transactions and deposits which are set off

against any sum to which the Issuer is entitled under the Mortgage Sale Agreement. Under the Mortgage Sale Agreement, Alliance & Leicester will be obliged to give notice of the transfer of the interest in the Mortgage Loans to the Borrowers at the request of the Trustee made at any time after Alliance & Leicester ceases to have a long term unsecured, unsubordinated and unguaranteed debt rating by Fitch of at least BBB+ or by Moody's of at least Baa2 (unless the Rating Agencies confirm that the then current ratings of the Notes will not be adversely affected).

See "Perfection of Title" below for a description of the circumstances in which it is likely that a transfer of legal title to the Mortgages and/or the giving of notice to Borrowers may be required.

Alliance & Leicester will grant a security power of attorney to permit each of the Issuer, the Administrator and the Trustee to undertake singly all acts and things on behalf of Alliance & Leicester which are necessary in order to transfer the legal title in the Mortgage Loans to the Issuer and serve notice of the Issuer's and Trustee's respective interests in the circumstances described in "Perfection of Title" below and to administer and enforce the Mortgage Loans.

### **Enforcement**

In order to exercise its power of sale in respect of the relevant Property, the relevant mortgagee (be it the legal owner (Alliance & Leicester), the beneficial owner (the Issuer), the beneficiary under the Scottish Declaration of Trust and under any further declaration of trust in relation to a Substitute Mortgage Loan which is a Scottish Mortgage (the Issuer) or the Trustee (if the Trustee has taken enforcement action against the Issuer)) must obtain possession of the Property. Although in certain circumstances it may be possible for possession to be obtained without a court order, it is Alliance & Leicester's standard procedure to obtain a court order in every case before taking possession where the Property is not voluntarily surrendered or abandoned by the Borrower.

Actions for possession are regulated by statute and the courts have certain powers to adjourn possession proceedings, to stay any possession order or postpone the date for delivery of possession. The court will exercise such powers in favour of a Borrower, broadly, where it appears to the court that such Borrower is likely to be able, within a reasonable period, to pay any sums due under the Mortgage Loan or to remedy any default consisting of a breach of any other obligation arising under or by virtue of the Mortgage Loan or its Related Security.

The court has a very wide discretion and may adopt a sympathetic attitude towards a Borrower faced with eviction. If a possession order in favour of the relevant mortgagee is granted, it may be suspended to allow the Borrower more time to pay.

Once possession of the Property has been obtained, the relevant mortgagee has a duty to the Borrower to take reasonable care to obtain a proper price for the Property. Any failure to do so will put the relevant mortgagee at risk of an action by the Borrower for breach of such duty, although it is for the Borrower to prove breach of such duty. There is also a risk that a Borrower may also take court action to force the relevant mortgagee to sell the Property within a reasonable time.

### **Title Deeds**

From the Closing Date, all the files and title deeds relating to the Mortgage Portfolio will be held to the order of the Trustee. The Administrator will keep, or cause to be kept, the files and title deeds relating to each Mortgage Loan and each Property in safe custody and shall not part with possession, custody or control of them except in the limited circumstances specified in the Administration Agreement and on terms that any person to whom they are released shall have the same obligations as to their custody as the Administrator has under the Administration Agreement.

### **Perfection of Title**

Upon the occurrence of any of the following (each a "**Relevant Event**"): (i) the valid service of an Enforcement Notice, or (ii) the termination of the Administrator's role as Administrator and failure of any substitute administrator to assume the duties of the Administrator, or (iii) Alliance & Leicester being required by an order of a court of competent jurisdiction, or by a change in law occurring after the Closing Date, or by a regulatory authority to which Alliance & Leicester is subject or of which Alliance & Leicester

is a member or with whose instructions it is customary for Alliance & Leicester to comply, to perfect the transfer of legal title to the Mortgage Loans and their Related Security in favour of the Issuer, or (v) the security under the Deed of Charge or any material part of such security being in jeopardy and it being necessary to perfect the transfer of legal title to the Mortgage Loans in favour of the Issuer in order to reduce materially such jeopardy, or (vi) any action is taken for the winding-up, dissolution, administration or re-organisation of Alliance & Leicester, the Issuer (with the consent of the Trustee) and the Trustee will have the right to require the perfection of legal title to the Mortgage Loans in favour of the Issuer (as purchaser) and the Trustee (as chargee) by procuring completion (insofar as not already done) of the relevant transfers of the Mortgages and, where applicable, the necessary registrations, recordings and notifications. Delays are likely to arise in registration or recording and in the interim, only Alliance & Leicester would, as a matter of law, normally be able to exercise the rights of the mortgagee under the Mortgages. In order to protect the position of the Issuer and the Trustee during this interim period, the Issuer and the Trustee will obtain on the Closing Date irrevocable security powers of attorney granted, *inter alios*, by the Issuer and Alliance & Leicester.

If Alliance & Leicester ceases to have a long term credit unsecured, unsubordinated and unguaranteed rating by Fitch of at least BBB+ or by Moody's of at least Baa2 (unless the Rating Agencies confirm that the then current ratings of the Notes will not be adversely affected) Alliance & Leicester will be obliged to give notice only of the transfer of the interest in the Mortgage Loans to the Borrowers but will not be required to complete any other steps to perfect legal title to the Mortgage Loans in favour of the Issuer.

The giving of notice to each Borrower will crystallise any right of set-off which accrues in the Borrower's favour against Alliance & Leicester at the time such notice is given and further rights of set-off will cease to accrue from that date.

## SALE OF THE MORTGAGE PORTFOLIO

### Introduction

On the Closing Date, the Issuer will purchase the Initial Mortgage Portfolio which complies with the terms of the Mortgage Sale Agreement on the Closing Date.

Following the purchase of the Initial Mortgage Portfolio, further Mortgage Loans may from time to time be included in the Mortgage Portfolio. These further Mortgage Loans may include Substitute Mortgage Loans, which may be acquired by the Issuer on the same date as Alliance & Leicester repurchases a Mortgage Loan within the Mortgage Portfolio following, *inter alia*, a material breach of warranty (see “Repurchase by Alliance & Leicester” below), and Further Advances.

### Consideration

#### Initial Portfolio

The consideration payable by the Issuer to Alliance & Leicester for the Initial Mortgage Portfolio shall be the aggregate of:

- (a) the sum of the Current Balances of all Mortgage Loans comprised in the Initial Mortgage Portfolio on the Closing Date (including capitalised interest, fees and expenses) (this shall be payable on the Closing Date); and
- (b) all unpaid interest (whether due or accrued) in respect of the Initial Mortgage Portfolio in respect of the period up to and including the Business Day immediately preceding the Closing Date (this shall be payable as and when such interest is received after the Closing Date).

In addition, the Issuer shall pay to Alliance & Leicester on each Payment Date, to the extent that it has funds available after paying or providing for prior ranking claims as set out in “Summary Information – Pre-Enforcement Revenue Priority of Payments and Allocation of Receipts following Enforcement” above, deferred purchase price calculated in accordance with the provisions of the Mortgage Sale Agreement.

#### Repurchase by Alliance & Leicester

The Mortgage Sale Agreement contains warranties given by Alliance & Leicester in relation to each Mortgage Loan originated by Alliance & Leicester. No searches, enquiries or independent investigation of title of the type which a prudent purchaser or mortgagee would normally be expected to carry out have been or will be carried out by the Issuer or the Trustee each of whom is relying on the warranties in the Mortgage Sale Agreement. The warranties given by Alliance & Leicester in the Mortgage Sale Agreement will include, *inter alia*, statements substantially to the following effect: that Alliance & Leicester is the absolute legal and beneficial owner of each Mortgage Loan and its Related Security (subject only to registration); that the mortgage loan schedule containing details of each Mortgage Loan in the Provisional Mortgage Portfolio attached to the Mortgage Sale Agreement is accurate; that, so far as Alliance & Leicester is aware, each Mortgage Loan, subject to certain exceptions relating, *inter alia*, to the Unfair Terms in Consumer Contract Regulations 1994 and 1999 and any effect that those regulations may be found to have upon Mortgage Early Repayment Charges, constitutes a valid and binding obligation of the relevant Borrower and, subject to relevant registrations, each Mortgage is a valid and subsisting mortgage over the relevant Property; that each Mortgage Loan in the Mortgage Portfolio is fully performing as at the Cut-Off Date and no Monthly Payment has been in arrears for an amount greater than £80 (or such other sum as agreed from time to time between the parties to the Mortgage Sale Agreement and the Rating Agencies) in the last 12 months and that each Mortgage Loan was originated in accordance with the applicable lending criteria and is subject to the standard documentation of Alliance & Leicester.

Alliance & Leicester will agree in the Mortgage Sale Agreement to repurchase Mortgage Loans originated by it in certain circumstances, including any Mortgage Loan in respect of which there is a material breach of warranty by Alliance & Leicester under the Mortgage Sale Agreement which has not been remedied by Alliance & Leicester within 30 days of receipt of written notice of such breach from the Issuer or the Trustee and any Mortgage Loan which contains provisions for interest variation which is held by a court to be unfair under the Unfair Terms in Consumer Contract Regulation 1994 or 1999. Alliance &

Leicester while it is the Administrator will be under an obligation to notify the Issuer and the Trustee of any material breach of warranty as soon as its senior management or the managers working within the securitisation administration department become aware of such breach.

Alliance & Leicester will also agree in the Mortgage Sale Agreement not to make a Product Switch or Further Advance secured by the same Mortgage as a Mortgage Loan owned by the Issuer which the Issuer is prohibited by the terms of the Administration Agreement from providing unless it agrees to repurchase the relevant Mortgage Loan.

There are no other circumstances in which Alliance & Leicester is entitled or obliged to repurchase Mortgage Loans.

The price payable upon any repurchase (the “**Repurchase Price**”) is an amount (not less than zero) equivalent to the Current Balance of the Mortgage Loan as of the date of completion of such repurchase (the “**Repurchase Date**”) together with all interest (whether due or accrued but not due) payable thereon. In the event that Alliance & Leicester becomes obliged to repurchase a Mortgage Loan in respect of which a breach of warranty has occurred, it shall be entitled, subject to the conditions set out below, to substitute a BoW Substitute Mortgage Loan for the one being repurchased, in which case the outstanding principal balance of that BoW Substitute Mortgage Loan on the Repurchase Date together with all interest (whether due or accrued but not due) payable thereon shall be deducted from the Repurchase Price. In lieu of such repurchase or substitution, Alliance & Leicester may reimburse the Issuer for any losses of principal or interest on the Mortgage Loan related to the breach of warranty as and to the extent provided in the Mortgage Sale Agreement.

#### **Further Advances**

The Issuer may buy Further Advances from Alliance & Leicester at any time after each Mortgage Loan has completed subject to the following:

- (a) the principal amount of such Further Advances does not at the time of purchase exceed the funds credited to the Prepayments Ledger;
- (b) as at the previous Payment Date, the total outstanding principal balance of Mortgage Loans, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is less than 4 per cent. of the aggregate outstanding principal balance of Mortgage Loans;
- (c) such Further Advances are drawn on the same mortgage loan account as the Mortgage Loans to which they relate;
- (d) it has been originated according to Alliance & Leicester’s standard Lending Criteria in force from time to time or with material amendments to such Lending Criteria provided that the then current Rating Agencies have been notified prior to such amendments;
- (e) the relevant Borrower should not be in material breach of any of the conditions of the relevant Borrower’s existing mortgage and during the twelve month period prior to the making of any Further Advance, the relevant Borrower has not been in arrears for an amount greater than £80 (or such other sum as agreed from time to time between the parties to the Mortgage Sale Agreement and the Rating Agencies);
- (f) the aggregate of substitutions and Further Advances in respect of any Interest Period may not exceed 10 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio at the time such substitutions or Further Advances are made or purchased, as the case may be;
- (g) the effect of the Further Advance would not be to extend the final maturity date of the Mortgage Loan to beyond the date falling two years prior to the final maturity of the Notes;
- (h) Alliance & Leicester’s long term unsecured, unsubordinated and unguaranteed debt rating assigned by Moody’s is at least Baa2;

- (i) the Cash Reserve Fund as at the Payment Date immediately prior to the date of the Further Advance (the “**FA Relevant Payment Date**”) is at the IRSMA (in respect of any Payment Date falling in the first two Interest Periods) or CRSMA (in respect of any Payment Date falling in all succeeding Interest Periods);
- (j) the Liquidity Facility Agreement is in effect and/or the Liquidity Facility Stand-by Account has funds standing to its credit equal to the Liquidity Facility Commitment as at the FA Relevant Payment Date;
- (k) the Step-up Date has not occurred;
- (l) no Enforcement Notice has been given by the Trustee which remains in effect;
- (m) the provisions of the Consumer Credit Act and the Regulations promulgated thereunder do not apply to any such Further Advance;
- (n) prior to making the Further Advance no second mortgage, charge or standard security has been created over the relevant Property unless such second mortgage, charge or standard security has been expressly postponed by deed to the Mortgage securing such Further Advance or unless the loan secured by such second charge is to be, and is, redeemed out of the proceeds of the Further Advance simultaneously with the making of the Further Advance;
- (o) the Issuer has no reason to believe that the purchase of the relevant Further Advance will adversely affect the then current rating of the Rated Notes;
- (p) no Further Advance may be purchased during the first Determination Period;
- (q) the weighted average LTV of Mortgage Loans in the Mortgage Portfolio after any Further Advance is purchased cannot exceed the LTV of Mortgage Loans in the Mortgage Portfolio on the Closing Date by more than 1 per cent. (in absolute terms); and
- (r) the yield on the Mortgage Loans in the Mortgage Portfolio (reduced by amounts payable by the Issuer or increased by amounts payable to the Issuer, as appropriate, under the Swap Agreement) on the date of the purchase of the Further Advance is not less than LIBOR for three month deposits plus 0.80 per cent.

All Further Advances purchased by the Issuer from Alliance & Leicester will be covered by the existing Mortgage and will not create a second charge. Alliance & Leicester will also agree in the Mortgage Sale Agreement not to make a Product Switch or Further Advance secured by the same Mortgage as a Mortgage Loan owned by the Issuer which the Issuer is prohibited by the terms of the Administration Agreement from providing unless it agrees to repurchase the relevant Mortgage Loan. This notwithstanding Alliance & Leicester may make an advance to a Borrower secured by a second or more junior charge on a Property or related security provided that such Further Advance is made as a separate loan that will not be included in the Mortgage Pool and Alliance & Leicester’s security for such advance ranks in priority of payment after the priority of the relevant Mortgage Loan in the Mortgage Pool.

The purchase price for a Further Advance will be equal to the principal amount of such Further Advance at the time of purchase. Interest accrued (whether or not due) on the Further Advance in respect of the period before the date of the purchase of the Further Advance by the Issuer will be paid to Alliance & Leicester as and when received from the Borrower.

### **Substitution**

Alliance & Leicester shall be entitled to sell a BoW Substitute Mortgage Loan or an ARR Substitute Mortgage Loan to the Issuer subject to the following conditions:

- (a) it has been originated according to Alliance & Leicester’s standard Lending Criteria in force from time to time or with material amendments to such Lending Criteria provided that the then current Rating Agencies have been notified prior to such amendments;
- (b) as at the previous Payment Date, the total outstanding principal balance of Mortgage Loans, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is less than 4 per cent. of the aggregate outstanding principal balance of Mortgage Loans;

- (c) the relevant Borrower should not be in material breach of any of the conditions of the relevant Borrower's existing mortgage and during the twelve month period prior to the relevant Repurchase Date, the relevant Borrower has not been in arrears for an amount greater than £80 (or such other sum as agreed from time to time between the parties to the Mortgage Sale Agreement and the Rating Agencies);
- (d) the aggregate of substitutions and Further Advances in respect of any Interest Period may not exceed 10 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio;
- (e) the legal final maturity date of the Substitute Mortgage Loan does not fall beyond the date falling two years prior to the final maturity of the Notes;
- (f) Alliance & Leicester's long term unsecured, unsubordinated and unguaranteed debt rating assigned by Moody's is at least Baa2;
- (g) the Cash Reserve Fund as at the Payment Date immediately prior to the Repurchase Date (the "**Substitution Relevant Payment Date**") is at the IRSMA (in respect of any Payment Date falling in the first two Interest Periods) or CRSMA (in respect of any Payment Date falling in all succeeding Interest Periods);
- (h) the Liquidity Facility Agreement is in effect and/or the Liquidity Facility Stand-by Account has funds standing to its credit equal to the Liquidity Facility Commitment as at the Repurchase Date;
- (i) the Step-up Date has not occurred;
- (j) no Enforcement Notice has been given by the Trustee which remains in effect;
- (k) the Substitute Mortgage Loan will not, unless confirmed by the Rating Agencies as not affecting the then current ratings of the Notes, be a different type of Mortgage Loan to those Mortgage Loans in the Completion Mortgage Pool;
- (l) the yield on the Mortgage Loans in the Mortgage Portfolio (reduced by amounts payable by the Issuer or increased by amounts payable to the Issuer, as appropriate, under the Swap Agreement) on the Repurchase Date is not less than LIBOR for three month sterling deposits plus 0.80 per cent.;
- (m) for ARR Substitute Mortgage Loans only, the ARR as at the Repurchase Date is not less than 20 per cent.;
- (n) if the Substitute Mortgage Loan is an ARR Substitute Mortgage Loan, the amount of such ARR Substitute Loan does not exceed the funds credited to the Prepayments Ledger at the time of substitution;
- (o) no Substitute Mortgage Loans may be purchased during the first Determination Period;
- (p) the Substitute Mortgage Loans are subject to appropriate hedging arrangements made pursuant to the Administration Agreement; and
- (q) the weighted average LTV of Mortgage Loans in the Mortgage Portfolio after any Substitution cannot exceed the LTV of Mortgage Loans in the Mortgage Portfolio on the Closing Date by more than 1 per cent. (in absolute terms).

### **Product Switch Loans**

One of the discretions which the Issuer will delegate to the Administrator is the right to agree to a request by a Borrower to convert a Mortgage Loan (subject to satisfaction of the following conditions) into any other type of mortgage product offered by Alliance & Leicester (the "**Product Switch Loan**") provided that a conversion to such other type of mortgage product would not result in a downgrading or withdrawal of the then current ratings of the Notes by the Rating Agencies. The relevant conditions include:

- (a) it has been originated according to Alliance & Leicester's standard Lending Criteria in force from time to time or with material amendments to such Lending Criteria provided that the then current Rating Agencies have been notified prior to such amendments;



- (b) as at the previous Payment Date, the total outstanding principal balance of Mortgage Loans, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is less than 4 per cent. of the aggregate outstanding principal balance of Mortgage Loans;
- (c) the effect of the conversion would not be to extend the final maturity date of such Mortgage Loan to beyond the date falling two years prior to the final maturity of the Notes;
- (d) Alliance & Leicester's long term unsecured, unsubordinated and unguaranteed debt rating assigned by Moody's is at least Baa2;
- (e) the Step-up Date has not occurred;
- (f) no Enforcement Notice having been given by the Trustee which remains in effect at the date of the relevant conversion;
- (g) no Product Switch Loan and no agreement to make any such conversion constitutes or is to be treated as a regulated consumer credit agreement as defined in the Consumer Credit Act, in whole or in part;
- (h) the yield on the Mortgage Loans in the Mortgage Portfolio (reduced by amounts payable by the Issuer or increased by amounts payable to the Issuer, as appropriate, under the Swap Agreement) on the date of the Product Switch is not less than LIBOR for three month deposits plus 0.80 per cent.;
- (i) the Product Switch Loans are subject to appropriate hedging arrangements made pursuant to the Administration Agreement; and
- (j) any Product Switch Loan must be of a type of mortgage product in the Initial Mortgage Portfolio, unless otherwise agreed by the Rating Agencies.

## AVERAGE LIVES OF THE NOTES AND MODELLING ASSUMPTIONS

The average life of the Class A Notes, the Class B Notes and the Class C Notes cannot be accurately predicted as the actual rate at which Mortgage Loans will be repaid and a number of other relevant factors are unknown. The average lives are likely to vary, possibly significantly, from those set forth in the table below due to the differences between the actual characteristics and performance of the Mortgage Loans and those used in the Modelling Assumptions. The calculations shown below of the average life of the Class A Notes, the Class B Notes and the Class C Notes are based on, among other things, hypothetical amortisation schedule of the Mortgage Loans assumed to be included in the Initial Mortgage Portfolio and the following additional assumptions (the “**Modelling Assumptions**”):

- (1) the Issuer exercises its option to redeem the Notes on the Step-up Date;
- (2) the Mortgages are subject to a constant annual rate of prepayment as shown in the table below;
- (3) no Mortgage Loans are sold by the Issuer except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Notes;
- (4) no Borrowers are offered and accept different mortgage products or Further Advances by Alliance & Leicester or any of its subsidiaries;
- (5) no defaults or delinquencies occur on the Mortgages;
- (6) there are no arrears or enforcements on the Mortgages; and
- (7) there are no Substitute Mortgage Loans purchased by the Issuer.

Based on the Modelling Assumptions, the approximate average life of the Notes, using the assumed constant rates of prepayment indicated below for the Mortgages, would be as follows:

<i>Constant Prepayment Rate (% per annum)</i>	<i>Approximate Average Life of Class A Notes (Years)</i>	<i>Approximate Average Life of Class B Notes (Years)</i>	<i>Approximate Average Life of Class C Notes (Years)</i>
8%	5.15	7.04	7.04
12%	4.47	7.04	7.04
16%	3.89	7.04	7.04

No assurance can be given that the Notes will be redeemed on the Step-up Date.

The constant prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for constant prepayment rates. The actual Mortgage prepayment rates will differ from the constant rates shown.

The average lives of the Class A Notes, the Class B Notes and the Class C Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the assumptions and estimates above will prove in any way to be realistic and they must therefore be viewed with considerable caution.

## AUDITORS' REPORT

The Directors  
Fosse Securities No. 1 plc  
Blackwell House  
Guildhall Yard  
London EC2V 5AE

and

The Directors  
Morgan Stanley & Co. International Limited  
20 Cabot Square  
Canary Wharf  
London E14 4QW  
Our Ref: PJNH/MG

25th October, 2000

Dear Sirs

### **FOSSÉ SECURITIES NO. 1 PLC (“the Company”)**

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular to be dated 25th October, 2000 relating to the issue of £235,000,000 Class A Mortgage Backed Floating Rate Notes due 2032, £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2032, and £10,000,000 Class C Mortgage Backed Floating Rate Notes due 2032, (the “Offering Circular”).

### **Basis of preparation**

The Company was incorporated and registered as a public limited company in England and Wales on 29th December, 1999 under the name of Issuelaunch Public Limited Company. The name of the Company was changed to Fosse Securities No. 1 plc on 22nd August, 2000.

The Company has issued 50,000 ordinary shares for a total consideration of £12,501.50. The Directors have represented that no material contracts or transactions have been entered into save for those detailed in the Offering Circular. The Directors have represented that the Company has not yet traded and no dividends have been declared or paid.

We have been auditors of the Company since our appointment on 3rd October, 2000.

The financial information set out in this report is based on the audited non-statutory accounts of the Company for the period from incorporation on 29th December, 1999 to 25th October, 2000 which no adjustments were considered necessary.

No audited statutory financial statements have been prepared for submission to the members of the Company in respect of any period. The first audited statutory financial statements of the Company will be prepared for the period ending 31st December, 2000.

### **Responsibility**

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The Company is responsible for the contents of the Offering Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained

by us relating to the audit of the non-statutory financial statements underlying the financial information. It also included an assessment of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### Opinion

In our opinion, the financial information set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs as at the date stated.

## FOSSE SECURITIES NO. 1 PLC

### BALANCE SHEET as at 25th October, 2000

	<i>Note</i>	<i>£</i>
Assets employed:		
Current assets – cash		12,501.50
Financed by:		
Equity shareholders funds		
Called up share capital	2	12,501.50

## NOTES TO THE FINANCIAL INFORMATION

### 1. Accounting Policies

The financial information set out in this report has been prepared in accordance with applicable accounting standards generally accepted in the United Kingdom.

The accounts and notes have been prepared using the historic cost method of accounting.

### 2. Called up share capital

Authorised share capital consists of 50,000 ordinary shares of £1 each. The issued share capital consists of 2 shares allotted, each with £1 paid, issued on 28th July, 2000 to form the initial share capital, and 49,998 ordinary shares allotted, each with 25p paid, issued on 21st August, 2000.

### 3. Profit and loss account

The Directors have represented that the Company has been dormant throughout the period since incorporation on 29th December 1999 to 25th October, 2000, consequently no profit and loss account has been prepared.

### 4. Ultimate parent company

The company's ultimate parent company is Fosse Holdings Limited, a company registered in England and Wales.

This report is provided solely on the basis of and in accordance with accounting and reporting standards and practice established in the United Kingdom. In other jurisdictions, including the United States, accounting and reporting standards and practice may be different and the role of the reporting accountant does not necessarily provide for opinions in the manner referred to above. Accordingly, our opinions and confirmations should not be relied upon as if they had been provided in accordance with accounting and reporting standards and practice in other jurisdictions including the United States.

This information does not constitute statutory financial statements.

Yours faithfully

Deloitte & Touche

Chartered Accountants

## UNITED KINGDOM TAXATION

*The following is a general description of certain UK tax considerations relating to the Notes based on current law and practice in the UK. It does not purport to be a complete analysis of all tax considerations relating to the Notes. It relates only to the position of persons who hold the Global Notes and the Definitive Notes (together, the “Notes”) as absolute beneficial owners and may not apply to certain classes of persons such as dealers or any person connected with the Issuer. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.*

All prospective Noteholders should be aware that the Finance Act, 2000 contains measures which will affect parts of the analysis given below. This is explained in greater detail under “Withholding Tax” below.

### 1. Withholding Tax

Under current legislation the Notes will constitute “**quoted Eurobonds**” within the meaning of section 124 of the Income and Corporation Taxes Act 1988 (the “**Taxes Act**”) as long as they continue to be (a) in bearer form (b) listed on a “**recognised stock exchange**” within the meaning of section 841 of the Taxes Act (the London Stock Exchange is currently so designated) and (c) carry a right to interest. Accordingly, payments of interest on the Notes which constitute “quoted Eurobonds” (“**Eurobond Notes**”) may be made without withholding on account of United Kingdom income tax:

- (a) where the person by or through whom the payment is made is not in the United Kingdom; or
- (b) where payment is made by or through a person in the United Kingdom but either:
  - (i) a declaration of eligibility based on non-residence in the United Kingdom (in a form prescribed by administrative regulations made under the Taxes Act) has been provided by or on behalf of the person who is the beneficial owner of the Eurobond Notes and beneficially entitled to the interest or the Inland Revenue has given notice to the payer of such eligibility; or
  - (ii) where the Eurobond Notes are held in a “recognised clearing system” within the meaning of section 841A of the Taxes Act (Euroclear and the Clearstream System (previously the Cedel System) are currently so designated) and either:
    - (A) the depositary for the “recognised clearing system” has provided a declaration (in a form prescribed by administrative regulations made under the Taxes Act); or
    - (B) the Inland Revenue has given notice to the payer that the Eurobond Notes are so held.

In all other cases an amount must be withheld from interest payments on the Notes on account of United Kingdom income tax at the lower rate (currently at the rate of 20 per cent.), subject to any direction to the contrary by the Inland Revenue pursuant to the provisions of any appropriate double taxation convention. If interest is paid subject to withholding on account of tax, the Issuer is not obliged to pay any additional amount in respect of the Notes.

Under current legislation, for so long as the Notes constitute “quoted Eurobonds” within the meaning of section 124 of the Taxes Act, where a person in the United Kingdom acting in the course of a trade or profession (a “**collecting agent**”) either:

- (a) acts as custodian of Eurobond Notes and receives interest on the Eurobond Notes or directs that interest on the Eurobond Notes be paid to another person or consents to such payment; or
- (b) collects or secures (or arranges to collect or secure) payment of or receives interest on the Eurobond Notes for a Noteholder;

(except in any case by means only of clearing a cheque or arranging for the clearing of a cheque) the collecting agent will be required to withhold from interest payments on the Eurobond Notes on account of income tax at the lower rate applicable to savings income unless:

- (i) the relevant Eurobond Notes are held in a “recognised clearing system” as described above and the collecting agent either:
  - (A) pays or accounts for the interest directly or indirectly to the “recognised clearing system”; or

- (B) is acting as depositary for the “recognised clearing system”; or
- (ii) the person beneficially entitled to the interest and who beneficially owns the Eurobond Note on which the interest is paid is not resident in the United Kingdom; or
- (iii) the interest arises to trustees not resident in the United Kingdom of certain discretionary or accumulation trusts (where, *inter alia*, none of the beneficiaries of the relevant trust is resident in the United Kingdom); or
- (iv) the person entitled to the interest is eligible for certain reliefs from tax in respect of the interest; or
- (v) the interest falls to be treated as the income of, or of the government of, a sovereign power or of an international organisation; or
- (vi) the Eurobond Note and the interest are beneficially owned by a person falling into certain specified categories, or one of certain other circumstances applies, in each case as prescribed by regulations made under the Taxes Act, which would apply, for example, to Notes held under an individual savings account, in a pension funds pooling scheme or a superannuation fund.

In the case of each of the above exceptions (except (i)(B)), further administrative conditions imposed by regulations made under the Taxes Act may have to be satisfied for the relevant exception to be available.

United Kingdom withholding tax (including withholding or deduction for or on account of tax by issuers, paying agents and collecting agents) will be abolished in relation to interest payments made (or, in the case of collecting agents, received) on or after 1st April 2001 on the Notes (whether in bearer or registered form) provided that the Notes are listed on a recognised stock exchange, as defined in section 841 of the Taxes Act. It is proposed to introduce new provisions from the same date enabling the United Kingdom Inland Revenue to obtain information about United Kingdom savings income of individuals and, in certain circumstances, to exchange taxpayer information with the tax authorities of other jurisdictions.

## **2. Proposed EU Withholding Tax Directive**

In June 1998, the European Union Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a “withholding tax system” or an “information reporting system” in relation to interest, discounts and premiums. The “withholding tax system” would require a paying agent established in a Member State to withhold tax at a minimum rate of 20 per cent. from any interest (including interest paid on a quoted Eurobond), discount or premium paid to an individual resident in another Member State unless such individual presents a certificate obtained from the tax authorities of the Member State in which he is a resident confirming that those authorities are aware of the payment due to that individual. The “information reporting system” would require a Member State to supply, to other Member States, details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term “**paying agent**” is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interest, discounts and premiums made before 1st January 2001.

It appears, however, from a report by the ECOFIN Council to the European Council dated 20th June, 2000 (and which has been endorsed by the European Council) that the proposals will not be adopted in their current form and that the ECOFIN Council has agreed (and the European Council has endorsed) that the ultimate objective of any EU Directive shall be the exchange of information between Member States (although if a Member State so wishes it would be permitted temporarily to operate a withholding tax system provided that an appropriate share of the tax collected is transferred to the Member State in which the relevant payee is resident).

## **3. Taxation of Noteholders**

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where it is paid without withholding.

### ***3.1 Interest Received by Non-Resident Noteholders***

However, interest on the Notes which is received without withholding on account of United Kingdom tax will not normally be chargeable to such tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable. There are certain exemptions for interest received by certain classes of agent (such as some brokers and investment managers).

### ***3.2 Noteholders within the charge to UK corporation tax***

In general a Noteholder which is within the charge to United Kingdom corporation tax, i.e. a company which is resident for tax purposes in the United Kingdom or which is not resident but carries on a trade in the United Kingdom through a United Kingdom branch or agency to which the Notes are attributable, will be charged to such tax on all the returns on and fluctuations in the value of the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with its authorised accounting treatment. Such Noteholders will generally be charged to tax in each accounting period by reference to the interest accrued in that period.

### ***3.3 Accrued Income Scheme***

A disposal of Notes by an individual Noteholder who is resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade in the United Kingdom through a United Kingdom branch or agency to which the Notes are attributable may, on a disposal of the Notes, be chargeable to United Kingdom income tax in respect of interest accrued since the last Payment Date.

United Kingdom income tax will be chargeable on such amount of such accrued interest as the Inland Revenue considers to be just and reasonable. However, the transferee of the Note will not be entitled to any relief on such amount.

### ***3.4 Taxation of Chargeable Gains***

A disposal of Notes by an individual Noteholder who is resident or ordinarily resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or allowable loss for the purposes of the UK taxation of chargeable gains.

## **4. Stamp Duty and Stamp Duty Reserve Tax**

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on their transfer by delivery.



## SUBSCRIPTION AND SALE

Pursuant to the Subscription Agreement dated 25th October, 2000 between the Issuer, Morgan Stanley & Co International Limited (the “**Lead Manager**”), Barclays Bank PLC, HSBC Bank plc, J.P. Morgan Securities Ltd., Deutsche Bank AG London, The Royal Bank of Scotland plc, Salomon Brothers International Limited and Société Générale (the “**Co-Managers**”) and Alliance & Leicester (the “**Subscription Agreement**”), the Lead Manager and the Co-Managers have agreed, subject to certain conditions, to subscribe and pay for the Class A Notes and the Lead Manager has agreed subject to certain conditions, to subscribe and pay for the Class B Notes and the Class C Notes. The Issuer will pay to the Lead Manager and the Co-Managers (i) in the case of the Class A Notes, a combined management and underwriting fee of 0.075 per cent. of their principal amount and a selling commission of 0.1 per cent. of their principal amount; (ii) in the case of the Class B Notes, a combined management and underwriting fee of 0.3 per cent. of their principal amount; and (iii) in the case of the Class C Notes, a combined management and underwriting fee of 0.6 per cent of their principal amount.

Both of the Issuer and Alliance & Leicester have agreed to reimburse the Lead Manager and Co-Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement is subject to a number of conditions and entitles the Lead Manager to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer. The Issuer and Alliance & Leicester have agreed to indemnify the Lead Manager and Co-Managers against certain liabilities in connection with the offer and sale of the Notes. The Lead Manager has performed and continues to perform investment banking and other services for Alliance & Leicester and has received and may, for so long as its engagement is maintained, receive compensation in connection with such services, including fees in connection with the arrangement of Alliance & Leicester’s programme for the securitisation of its mortgage loan portfolio.

In connection with the issue and distribution of the Notes, the Lead Manager may over-allot Notes or effect transactions which stabilise or maintain the market prices of the Notes or any of them at levels which might not otherwise prevail and such stabilisation, if commenced, may be discontinued at any time.

### **United States of America**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each of the Lead Manager and the Co-Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### **United Kingdom**

Each of the Lead Manager and the Co-Managers has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part IV of the Financial Services Act 1986 except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses

- or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the Financial Services Act 1986;
- (ii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of Notes, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Financial Services Act 1986, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on; and
  - (iii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **General**

Other than as described above no action has been or will be taken that is intended to permit a public offering of the Notes, or the distribution of any document, in or from any jurisdiction where action would be required for such purposes.

Each of the Lead Manager and the Co-Managers has further represented and agreed with the Issuer that it has not offered or sold and will not offer or sell any of the Notes, and that it has not distributed and will not distribute this Offering Circular or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with applicable law.

This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Reference should be made to the Subscription Agreement for a complete description of the restrictions on offers and sales of Notes and on distribution of documents. Attention is also drawn to the information set out on the inside front cover of this Offering Circular.

## GENERAL INFORMATION

1. The issue of the Notes has been authorised by resolution of the Board of Directors of the Issuer passed on 25th October, 2000.
2. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that such listing and the admission to trading of the Notes on the London Stock Exchange will be granted on or about 27th October, 2000 subject only to the issue of the Temporary Global Note.
3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg as follows:

	<i>ISIN Number</i>	<i>Common Code</i>
Class A .....	XS0119816824	011981682
Class B.....	XS0119817129	011981712
Class C .....	XS0119816741	011981674

4. In relation to this transaction the Issuer, on 25th October, 2000, has entered into the Subscription Agreement referred to under “Subscription and Sale”.
5. Except as disclosed herein, since 29th December, 1999, the date of its incorporation, there has been (i) no significant change in the financial or trading position of the Issuer and (ii) no material adverse change in the financial position or prospects of the Issuer.
6. The Issuer is not nor has been involved in any legal or arbitration proceedings which may have, or have had since 29th December, 1999, the date of its incorporation, a significant effect on the Issuer’s financial position nor, so far as the Issuer is aware, are any such proceedings pending or threatened.
7. Deloitte & Touche, auditors to the Issuer, have given, and have not withdrawn, their written consent to the inclusion in this document of their letter in the form and context in which that letter is included and have authorised the contents of that part of the listing particulars for the purposes of Section 152(1)(e) of the FSA. No statutory or non statutory accounts within the meaning of section 240(5)g of the Companies Act 1985 in respect of any financial year of the Issuer have been prepared.
8. No interim accounts will be published by the Issuer.
9. Copies of the following documents may be inspected during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of Allen & Overy, One New Change, London EC4M 9QQ during the period of fourteen days from the date of this document:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the report of Deloitte Touche set out in “Auditors Report”;
  - (c) the Subscription Agreement;
  - (d) the following (which, prior to the Closing Date, will be in draft form):
    - (i) the Trust Deed (including the forms of the Global Notes and of the Definitive Notes);
    - (ii) the Master Definitions Schedule;
    - (iii) the Mortgage Sale Agreement;
    - (iv) the Administration Agreement;
    - (v) the Deed of Charge;
    - (vi) the Scottish Declaration of Trust;
    - (vii) the Bank Agreement;
    - (viii) the Liquidity Facility Agreement;
    - (ix) the Swap Agreement;
    - (x) the Swap Guarantee;
    - (xi) the Subordinated Loan Agreement;

- (xii) the Paying Agency Agreement;
- (xiii) the Corporate Services Agreement;
- (xiv) the Transaction GIC Agreement;
- (xv) the Reserve GIC Agreement; and
- (xvi) the Post Maturity Call Option Agreement.

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