

## DEVA FINANCING PLC

(Incorporated in England and Wales with limited liability, registered number 6691601)

Sub-class of Notes	Principal Amount	Issue Price	Interest rate	Ratings S&P/Fitch	Final Maturity Date
Class A1 Notes	£1,725,000,000	100%	0.18% margin above Three-month Sterling LIBOR	AAA/AAA	November 2053
Class A2 Notes	£1,725,000,000	100%	0.18% margin above Three-month Sterling LIBOR	AAA/AAA	November 2053
Class A3 Notes	£1,725,000,000	100%	0.18% margin above Three-month Sterling LIBOR	AAA/AAA	November 2053
Class A4 Notes	£1,725,000,000	100%	0.18% margin above Three-month Sterling LIBOR	AAA/AAA	November 2053

On 10 October 2008 (the **Closing Date**), the Issuer will issue its asset backed floating rate notes (the **Notes**) in the classes set out above.

The principal asset from which the Issuer will make payments on the Notes is a pool of residential mortgages originated by The Mortgage Business Public Limited Company (**TMB**) and secured over properties located in England, Wales and Scotland.

Interest will be payable quarterly in arrear on the 19th day of November, February, May and August in each year for all classes of Notes. See further the definition of Interest Payment Date.

Subject to the detailed description and limitations set out in Credit Structure, the Notes will have the benefit of credit enhancement or support comprising a general reserve fund and a yield reserve fund and liquidity support in the form of a liquidity facility. The Notes will also have the benefit of derivative transactions, namely the Interest Rate Swaps which are provided by Bank of Scotland plc (**Bank of Scotland**).

The Notes will be issued and secured pursuant to a trust deed (the **Trust Deed**) and secured pursuant to a deed of charge (the **Deed of Charge**) dated the Closing Date, between, *inter alios*, the Issuer and Citicorp Trustee Company Limited.

The Notes will be obligations of the Issuer only. The Notes will not be obligations of TMB or any of their affiliates.

Application has been made to the Financial Services Authority (the **FSA**) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Notes to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). This Prospectus comprises a prospectus for the purposes of EU Directive 2003/71/EC (the **Prospectus Directive**).

The Notes are expected to be assigned the ratings set out above on or about the Closing Date. A credit 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.

The Notes are highly structured. Before you purchase any Notes, be sure that you understand the structure and the risks (see, in particular, the section herein entitled "*Risk Factors*").

Arranger



The date of this Prospectus is 10 October 2008

## IMPORTANT NOTICE

**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 THE SELLER, THE INTEREST RATE SWAP PROVIDER, THE ARRANGER, THE ADMINISTRATOR, THE CASH MANAGER, THE ACCOUNT BANK, THE LIQUIDITY FACILITY PROVIDER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE (EACH AS DEFINED HEREIN), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY SUCH ENTITIES 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 THE SELLER, THE INTEREST RATE SWAP PROVIDER, THE ARRANGER, THE ADMINISTRATOR, THE CASH MANAGER, THE ACCOUNT BANK, THE LIQUIDITY FACILITY PROVIDER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR BY ANY PERSON OTHER THAN THE ISSUER.**

The Notes of each sub-class will be represented on issue by a global note in registered form for each such sub-class of Notes (the **Global Notes**).

The Issuer will maintain a register, to be kept by the Registrar, in which it will register the Global Notes in the name of a nominee for the common depositary (the **Common Depositary**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), as owner of the Global Notes. Transfers of all or any portion of the interests in the Global Notes may be made only through the register maintained by the Issuer. Each of Euroclear and Clearstream, Luxembourg will record the beneficial interests in the Global Notes (**Book-Entry Interests**). Book-Entry Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear or Clearstream, Luxembourg, and their respective participants. Except in the limited circumstances described under "*Description of the Notes — Issuance of Definitive Notes*", the Notes will not be available in definitive form (the **Definitive Notes**). Definitive Notes will be issued in registered form only.

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE ARRANGER THAT THIS PROSPECTUS 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 PROSPECTUS AS A PROSPECTUS FOR THE PURPOSES OF THE PROSPECTUS DIRECTIVE BY THE UK LISTING AUTHORITY, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE ARRANGER WHICH WOULD PERMIT A PUBLIC OFFERING OF THE NOTES OR DISTRIBUTION OF THIS PROSPECTUS 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 PROSPECTUS 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 ARRANGER HAS REPRESENTED THAT ALL OFFERS AND SALES BY IT WILL BE MADE ON SUCH TERMS. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE

ISSUER AND THE ARRANGER TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

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 MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT (**REGULATION S**)) (**U.S. PERSONS**) EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES OR TRANSFERS, SEE "TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS".

THE INITIAL AND EACH SUBSEQUENT PURCHASER OF THE NOTES WILL BE DEEMED BY ITS ACCEPTANCE OF SUCH NOTES TO HAVE MADE CERTAIN ACKNOWLEDGEMENTS, REPRESENTATIONS AND AGREEMENTS INTENDED TO RESTRICT THE RESALE OR OTHER TRANSFER OF THE NOTES AS SET FORTH THEREIN AND DESCRIBED IN THIS PROSPECTUS AND, IN CONNECTION THEREWITH, MAY BE REQUIRED TO PROVIDE CONFIRMATION OF ITS COMPLIANCE WITH SUCH RESALE AND OTHER TRANSFER RESTRICTIONS IN CERTAIN CASES. SEE "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*".

NONE OF THE ISSUER OR THE ARRANGER MAKES ANY REPRESENTATION TO ANY PROSPECTIVE INVESTOR OR PURCHASER OF THE NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH PROSPECTIVE INVESTOR OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS.

THE ISSUER ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS. TO THE BEST OF ITS KNOWLEDGE (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THIS PROSPECTUS IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. ANY INFORMATION SOURCED FROM THIRD PARTIES CONTAINED IN THIS PROSPECTUS HAS BEEN ACCURATELY REPRODUCED (AND IS CLEARLY SOURCED WHERE IT APPEARS IN THIS PROSPECTUS) AND, AS FAR AS THE ISSUER IS AWARE AND IS ABLE TO ASCERTAIN FROM INFORMATION PUBLISHED BY THAT THIRD PARTY, NO FACTS HAVE BEEN OMITTED WHICH WOULD RENDER THE REPRODUCED INFORMATION INACCURATE OR MISLEADING.

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 PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE OR THE SECURITY TRUSTEE, THE ARRANGER, OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS 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 AFFAIRS OF THE ISSUER OR THE SELLER OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF. THE INFORMATION CONTAINED IN THIS PROSPECTUS WAS OBTAINED FROM THE ISSUER AND THE OTHER SOURCES IDENTIFIED HEREIN, BUT NO ASSURANCE CAN BE GIVEN BY THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE ARRANGER AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE NOTE TRUSTEE OR THE SECURITY TRUSTEE OR THE ARRANGER MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE

INFORMATION IN THIS PROSPECTUS. 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 PROSPECTUS 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 PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF, THE ISSUER, THE SELLER OR THE ARRANGER OR ANY OF THEM TO SUBSCRIBE FOR OR PURCHASE ANY OF THE NOTES IN ANY JURISDICTION WHERE SUCH ACTION WOULD BE UNLAWFUL AND NEITHER THIS PROSPECTUS, NOR ANY PART THEREOF, MAY BE USED FOR OR IN CONNECTION WITH ANY OFFER TO, OR SOLICITATION BY, ANY PERSON IN ANY JURISDICTION OR IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORISED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

PAYMENTS OF INTEREST AND PRINCIPAL IN RESPECT OF THE NOTES WILL BE SUBJECT TO ANY APPLICABLE WITHHOLDING TAXES WITHOUT THE ISSUER OR ANY OTHER PERSON BEING OBLIGED TO PAY ADDITIONAL AMOUNTS THEREFOR.

IN THIS PROSPECTUS ALL REFERENCES TO **POUNDS, STERLING, GBP AND £** ARE REFERENCES TO THE LAWFUL CURRENCY FOR THE TIME BEING OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (THE **UNITED KINGDOM** or **UK**).

#### **Forward-Looking Statements**

Certain matters contained herein are forward-looking statements. Such statements appear in a number of places in this Prospectus, including with respect to assumptions on prepayment and certain other characteristics of the Loans, and reflect significant assumptions and subjective judgments by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans" or similar terms. Consequently, future results may differ from the Issuer's expectations due to a variety of factors, including (but not limited to) the economic environment and regulatory changes in the residential mortgage industry in the United Kingdom. Moreover, past financial performance should not be considered a reliable indicator of future performance and prospective purchasers of the Notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer. The Arranger has not attempted to verify any such statements, nor does it make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements. None of the Issuer nor the Arranger assumes any obligation to update these forward-looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements.

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## PARTIES AND PRINCIPAL FEATURES OF THE TRANSACTION

*The following is an overview of the parties and the principal features of the Notes, the Loans and their Related Security and the Transaction Documents and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus.*

**You should read the entire Prospectus carefully, especially the risks of investing in the Notes discussed under "Risk Factors".**

Capitalised terms used, but not defined, in certain sections of this Prospectus, including this overview, may be found in other sections of this Prospectus, unless otherwise stated. An index of defined terms is set out at the end of this Prospectus.

### The Parties

#### ***Issuer:***

Deva Financing plc is a public limited company incorporated under the laws of England and Wales with registered number 6691601 (the **Issuer**). The Issuer is a wholly owned subsidiary of Holdings. The Issuer was established as a special purpose entity for the purpose of, *inter alia*, issuing the Notes and using the gross proceeds of the Notes to acquire the Initial Portfolio from the Seller.

#### ***Holdings:***

Deva Financing Holdings Limited is a private limited company incorporated under the laws of England and Wales with registered number 6691572 (**Holdings**). The issued share capital of Holdings is held by SFM Corporate Services Limited as trustee (the **Share Trustee**) under the terms of a discretionary trust for charitable purposes.

#### ***Seller:***

TMB (in such capacity, the **Seller**) will enter into a mortgage sale agreement with, *inter alios*, the Issuer, the Servicer and the Security Trustee on or about the Closing Date (the **Mortgage Sale Agreement**). On the Closing Date, the Seller will sell its Loans comprising the Initial Portfolio to the Issuer pursuant to the terms of the Mortgage Sale Agreement. On any Sale Date occurring during the Revolving Period, the Seller may sell New Portfolios to the Issuer subject to the satisfaction of certain conditions.

#### ***Servicer:***

Bank of Scotland (in such capacity, the **Servicer**) will enter into a servicing agreement with, *inter alios*, the Issuer, the Seller and the Security Trustee on or about the Closing Date (the **Servicing Agreement**). Pursuant to the terms of the Servicing Agreement, the Servicer will administer the Loans sold by the Seller to the Issuer that comprise the Portfolio on behalf of the Issuer.

#### ***Cash Manager:***

Bank of Scotland (in such capacity, the **Cash Manager**) will enter into a cash management agreement with the Issuer and the Security Trustee on or about the Closing Date (the **Cash Management Agreement**). The Cash Manager will act as agent for the Issuer to manage all cash transactions and maintain certain ledgers on behalf of the Issuer.

***Note Trustee:***

Citicorp Trustee Company Limited (in such capacity, the **Note Trustee**), will be appointed pursuant to a trust deed (the **Trust Deed**) to be entered into on or about the Closing Date between the Issuer and the Note Trustee to represent the interests of the registered holders of the Notes (the **Noteholders**).

***Security Trustee:***

Citicorp Trustee Company Limited (in such capacity, the **Security Trustee**), will hold the security to be granted by the Issuer under the Deed of Charge for the benefit of, *inter alios*, the Noteholders and will be entitled to enforce the security granted in its favour under the Deed of Charge.

***Interest Rate Swap Provider:***

On or about the Closing Date, Bank of Scotland (in such capacity, the **Interest Rate Swap Provider**) will enter into an ISDA Master Agreement (including a schedule, a credit support annex and one or more confirmations) with the Issuer and the Security Trustee to swap and hedge various interest rates payable on the Loans in the Portfolio into rates calculated by reference to Three-Month Sterling LIBOR (the **Interest Rate Swap Agreement**).

***Liquidity Facility Provider:***

On or about the Closing Date, Bank of Scotland (in such capacity, the **Liquidity Facility Provider**) will enter into a liquidity facility agreement with the Issuer and the Security Trustee, which provides for a liquidity facility to be made available to the Issuer which the Issuer may draw on in certain specified circumstances (the **Liquidity Facility Agreement**).

***Account Bank:***

Bank of Scotland will be appointed as account bank to the Issuer (in such capacity, the **Account Bank**) pursuant to the terms of a bank account agreement to be entered into by, *inter alios*, the Account Bank, the Issuer and the Security Trustee on or about the Closing Date (the **Bank Account Agreement**). The Issuer will open two accounts (the **GIC Account** and the **Transaction Account** and together with any additional accounts to be established pursuant to the Bank Account Agreement (collectively, the **Bank Accounts**)) with the Account Bank on or about the Closing Date.

The short term unguaranteed, unsubordinated and unsecured debt obligations of the Account Bank are currently rated A-1+ by S&P and F1+ by Fitch.

If at any time the short term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of A-1 by S&P or F1 by Fitch, the Issuer will be required (within 30 days) to arrange for the transfer (at its own cost) of the Bank Accounts to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement in order to maintain the ratings of the Notes at their then current ratings.

The Account Bank will agree to pay a guaranteed rate of interest in relation to the GIC Account.

***Subordinated Loan Provider:***

Bank of Scotland will act as subordinated loan provider to the Issuer (in such capacity, the **Subordinated Loan Provider**) pursuant to the subordinated loan agreement to be entered into on or about the Closing Date between, *inter alios*, the Issuer and the Subordinated Loan Provider (the **Subordinated Loan Agreement**).

***Corporate Services Provider:***

Structured Finance Management Limited, having its registered office at 35 Great St. Helen's London EC3A 6AP, a private limited company incorporated in England and Wales with registered number 03853947 (in such capacity, the **Corporate Services Provider**) will be appointed to provide certain corporate services to the Issuer and Holdings pursuant to a corporate services agreement (the **Corporate Services Agreement**) to be entered into on or about the Closing Date by, *inter alios*, the Issuer, Holdings and the Corporate Services Provider.

***Principal Paying Agent, Agent Bank and Registrar:***

Citibank, N.A., acting through its London branch, will be appointed to act as principal paying agent, as registrar and as agent bank (the **Principal Paying Agent**, the **Registrar** and the **Agent Bank** respectively) pursuant to an agency agreement to be entered into on or about the Closing Date between, *inter alios*, the Issuer, the Principal Paying Agent, the Registrar and the Agent Bank (the **Agency Agreement**).



Figure 1 – Ownership Structure

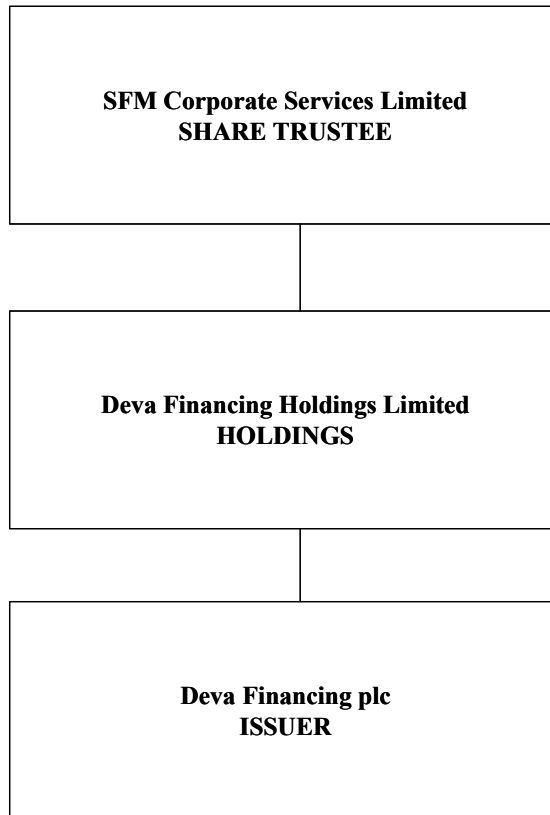


Figure 1 illustrates the ownership structure of the special purpose companies that are parties to the transaction, as follows:

- The Issuer is a wholly owned subsidiary of Holdings.
- The entire issued share capital of Holdings is held on trust by the Share Trustee under the terms of a discretionary trust, the benefit of which is expressed to be for charitable purposes.
- None of the Issuer, Holdings or the Share Trustee are either owned, controlled, managed, directed or instructed, whether directly or indirectly, by the Seller or any member of the group of companies containing the Seller.

Figure 2 – Transaction Structure

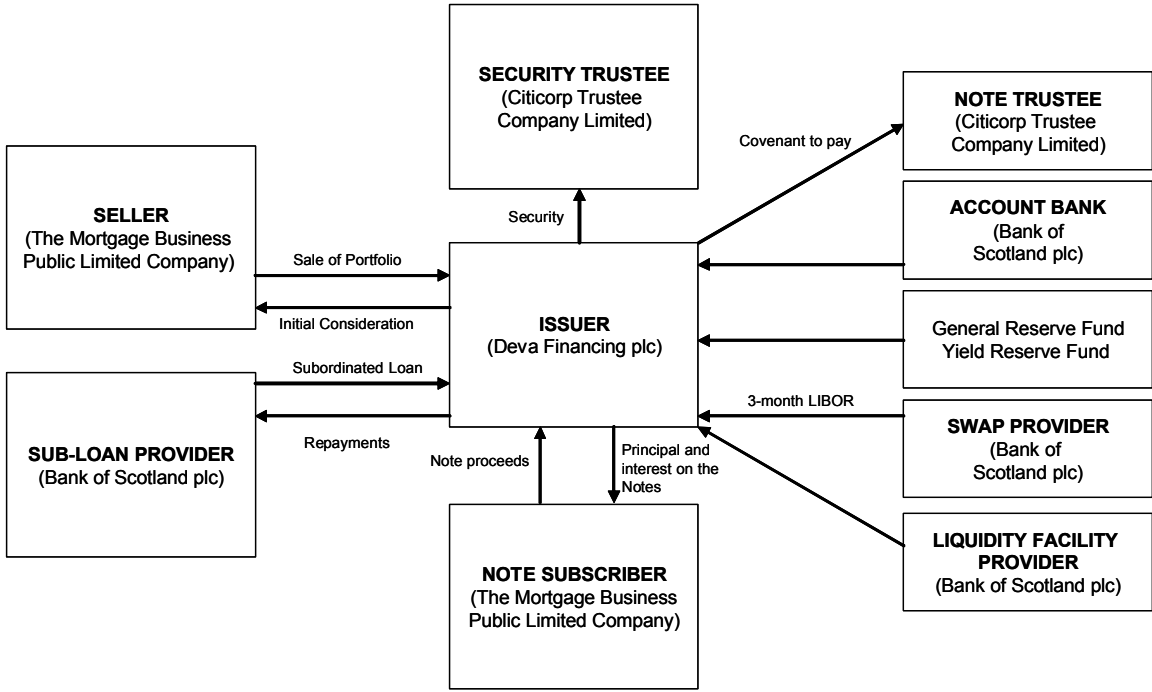


Figure 2 illustrates a brief overview of the transaction, as follows:

The Seller will (subject to the CCA Trust) sell the Initial Portfolio (comprising the Initial Loans, the Initial Related Security and all amounts derived therefrom) to the Issuer on the Closing Date.

The Issuer will use the proceeds of the issue of the Notes to pay the Initial Consideration of £6,900,000,000 to the Seller. At later dates, the Issuer will pay Deferred Consideration to the Seller from excess Available Revenue Receipts.

The Issuer will use the proceeds of the issue of the Subordinated Loan (a) to pay for certain of the Issuer's initial fees and expenses incurred in connection with the issue of the Notes, (b) to establish the General Reserve Fund on the Closing Date and (c) to establish the Yield Reserve Fund on the Closing Date.

The Seller will (subject to the CCA Trust) sell New Portfolios (comprising New Loans, New Related Security and all amounts derived therefrom) to the Issuer on the Sale Dates occurring during the Revolving Period and the Issuer will use Principal Receipts standing to the credit of the Retained Principal Receipts Ledger to pay for such New Portfolios.

In addition, the Issuer will use Principal Receipts standing to the credit of the Retained Principal Receipts Ledger, Principal Receipts received during the relevant Collection Period and, to the extent such funds are insufficient, drawings under the Liquidity Facility, to purchase Further Advances and Flexible Drawings from the Seller. If the Issuer is unable to fund the purchase of any Flexible Drawing and/or Further Advance from the Retained Principal Receipts Fund and/or Principal Receipts received during the relevant Collection Period and/or drawings under the Liquidity Facility, the Seller will repurchase the relevant Loan. Further, if the Issuer has made a drawing under the Liquidity Facility to pay for any Flexible Drawing and/or Further Advance and has been unable to repay all or part of that Flexible Drawing Shortfall Advance or Further Advance Shortfall Advance by the Business Day before the following Distribution Date, the Seller shall repurchase that Loan or Loans relating to such Flexible Drawing Shortfall or Further Advance Shortfall on that day for a purchase price equal to the outstanding principal balance of that Loan (or Loans) on the relevant Distribution Date.

The Issuer will use Revenue Receipts and Principal Receipts received in respect of the Portfolio to meet its obligations to pay, among other items, interest amounts and principal amounts, respectively, to the Noteholders.

Pursuant to the terms of the Deed of Charge, the Issuer will grant security over all of its assets in favour of the Security Trustee, to secure its obligations to its various creditors, including the Noteholders.

The terms of the Notes will be governed by a Trust Deed made with the Note Trustee.

The Issuer will open the GIC Account and the Transaction Account with the Account Bank.

The Issuer will enter into the Interest Rate Swap Agreement with the Interest Rate Swap Provider to swap and hedge various interest rates payable on the Loans in the Portfolio into a rate calculated by reference to Three-Month Sterling LIBOR.

The Issuer will enter into the Liquidity Facility Agreement with the Liquidity Facility Provider pursuant to which the Issuer will make drawings (i) in respect of senior expenses and interest amounts on the Notes to the extent that there is a shortfall in respect of amounts available to make such payments and (ii) to pay for any Further Advances and/or Flexible Drawings on the Business Day after they are acquired by the Issuer to the extent the Issuer does not have sufficient funds standing to the credit of the Retained Principal Receipts Ledger and/or Principal Receipts.

### KEY CHARACTERISTICS OF THE NOTES

	Class A1	Class A2	Class A3	Class A4
Principal Amount:	£1,725,000,000	£1,725,000,000	£1,725,000,000	£1,725,000,000
Credit enhancement:	General Reserve Fund	General Reserve Fund	General Reserve Fund	General Reserve Fund
Issue Price:	100%	100%	100%	100%
Interest Rate:	Three-month Sterling LIBOR + Margin	Three-month Sterling LIBOR + Margin	Three-month Sterling LIBOR + Margin	Three-month Sterling LIBOR + Margin
Margin	0.18% p.a.	0.18% p.a.	0.18% p.a.	0.18% p.a.
Interest Accrual Method:	Actual/365 Fixed	Actual/365 Fixed	Actual/365 Fixed	Actual/365 Fixed
Interest Payment Dates:	For all Notes, quarterly in arrear on the Interest Payment Dates falling in November, February, May and August of each year.			
First Interest Payment Date:	November 2008	November 2008	November 2008	November 2008
Final Maturity Date:	November 2053	November 2053	November 2053	November 2053
Application for Exchange Listing:	London	London	London	London
ISIN:	XS0392644638	XS0392644802	XS0392644984	XS0392645288
Common Code:	39264463	39264480	39264498	39264528
Ratings (S&P/Fitch):	AAA/AAA	AAA/AAA	AAA/AAA	AAA/AAA

## TRANSACTION OVERVIEW

### Description of the Notes, the Loans and their Related Security and the Transaction Documents

#### *Status and Form of the Notes:*

The Issuer will issue the following classes of the Notes on the Closing Date under the Trust Deed:

- Class A1 Asset Backed Floating Rate Notes due November 2053 (the **Class A1 Notes**);
- Class A2 Asset Backed Floating Rate Notes due November 2053 (the **Class A2 Notes**);
- Class A3 Asset Backed Floating Rate Notes due November 2053 (the **Class A3 Notes**); and
- Class A4 Asset Backed Floating Rate Notes due November 2053 (the **Class A4 Notes** and, together with the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, and the Class A4 Notes, the **Notes** and holders thereof the **Noteholders** .

The Notes of each sub-class will rank *pari passu* and rateably without any preference or priority among themselves as to payments of interest and principal.

Pursuant to the Deed of Charge, the Notes will all share the same Security. Certain other amounts, being the amounts owing to the other Secured Creditors, will also be secured by the Security. Certain amounts due by the Issuer to its other Secured Creditors will generally rank in priority to the Notes.

#### *Interest on the Notes:*

The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate (**LIBOR**) for three-month Sterling deposits as displayed on Reuters Screen page LIBOR01 (**Three-Month Sterling LIBOR**) (other than the first Interest Period, which will be determined by reference to a linear interpolation of one month and two month Sterling LIBOR) plus, in each case, a margin which will differ for each Class of Notes. Sterling LIBOR will be determined on the first day for which the relevant interest rate will apply (the **Interest Determination Date**).

The margins applicable to the Notes, and the Interest Periods for which such margins apply, will be as set out in "*Key Characteristics of the Notes*" above.

**Interest will not be deferred on the Notes.**

**Failure to pay interest on the Notes shall constitute an Event of Default under the Notes which may result in the Note Trustee giving a Note Acceleration Notice and directing the Security Trustee to enforce the Security.**

Interest is payable in respect of the Notes in Sterling. In respect of each class of Notes, interest is payable quarterly in arrear on the 19th day of November, February, May and August, in each year, or, if such day is not a Business Day, on the immediately succeeding Business Day (each such date being an **Interest Payment Date**).

An **Interest Period** in relation to the Notes is the period from (and including) an Interest Payment Date (except in the case of the first Interest Payment Date, where it shall be the period from (and including) the Closing Date) to (but excluding) the next succeeding (or first) Interest Payment Date.

***Mandatory Redemption:***

Subject to the terms of the Deed of Charge, on each Interest Payment Date prior to the service of a Note Acceleration Notice, Available Principal Receipts will be applied sequentially to repay the Class A1 Notes on a pro rata basis until repaid in full, then the Class A2 Notes on a pro rata basis until repaid in full, then the Class A3 Notes on a pro rata basis until repaid in full and then the Class A4 Notes on a pro rata basis until repaid in full.

During the Revolving Period, the Notes will also be subject to mandatory redemption if and to the extent that the Issuer has the same Principal Receipts standing to the credit of the Retained Principal Receipts Fund for two consecutive Interest Periods. This will happen if the Issuer is not required or offered to purchase Flexible Drawings, Further Advances or New Portfolios in an amount that would utilise those Principal Receipts or if the conditions for the sale of New Portfolios are not met. The Cash Management Agreement will provide that Principal Receipts standing to the credit of the Retained Principal Receipts Fund for the longest period of time must be applied to acquire Flexible Drawings, Further Advances and New Portfolios ahead of more recently received Principal Receipts. Any mandatory redemption of the Notes as described in this paragraph will be applied to sequentially redeem the Notes as described in the paragraph above.

***Optional Redemption in Full or in Part:***

Upon giving not more than 60 nor less than 30 days' notice to the Noteholders in accordance with Condition 15 (Notice To Noteholders) of the terms and conditions of the Notes (the **Conditions**), the Note Trustee and the Interest Rate Swap Provider, and provided that (a) on or prior to the Interest Payment Date on which such notice expires, no Note Acceleration Notice has been served and (b) the Issuer has, immediately prior to giving such notice, provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that the Issuer will have the necessary funds to pay all principal and interest due in respect of the Notes to be redeemed on the relevant Interest Payment Date and to discharge all other amounts required to be paid in priority or *pari passu* with the Notes on such Interest Payment Date, the Issuer may at its option redeem all, or any sub-class, of the Notes on the first Interest Payment Date falling in November 2008 and on each Interest Payment Date thereafter, if the Issuer elects (at its absolute discretion) to accept an offer from the Seller under the Mortgage Sale Agreement to repurchase some or all the relevant Loans and their Related Security (See Condition 7.3(a) (Optional Redemption in Full or in Part) of the Notes).

Any Note redeemed pursuant to Condition 7.3(a) (Optional Redemption in Full or in Part) will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to (but excluding) the date of redemption (see Condition 7.3(a) (Optional Redemption in Full or in Part) of the Notes).

***Optional Redemption for Tax or Other Reasons:***

Subject to the Conditions, if by reason of a change in tax law affecting the Notes and/or the Interest Rate Swap Agreement which becomes effective on or after the Closing Date, (a) the Issuer or the Paying Agents would be required (on the next Interest Payment Date) to make a deduction or withholding for or on account of tax from any payment in respect of the Notes and/or (b) either the Issuer or the Interest Rate Swap Provider would be required to make a withholding or deduction for or on account of tax from any payment it makes under the Interest Rate Swap Agreement, then the Issuer shall use its reasonable endeavours to appoint a Paying Agent in another jurisdiction or arrange the substitution of a company incorporated and/or tax resident in another jurisdiction approved in writing by the Note Trustee as principal debtor under the Notes.

If the Issuer satisfies the Note Trustee that taking the actions as described above would not avoid the effect of the relevant events in (a) or (b) or that, having used its reasonable endeavours, the Issuer is unable to effect such appointment or arrange such a substitution, then the Issuer may, on any Interest Payment Date

and having given not more than 60 nor less than 30 days' notice in accordance with Condition 7.4 (Optional Redemption for Taxation or Other Reasons) of the Notes redeem all (but not some only) of the Notes at their respective Principal Amount Outstanding together with any interest accrued (and unpaid) thereon. (See Condition 7.4 (Optional Redemption for Taxation or Other Reasons) of the Notes.)

***Credit Enhancement:***

The Notes will have the benefit of the following credit enhancement:

- availability of excess portions of revenue receipts (see "Credit Structure - Credit Support for the Notes provided by Available Revenue Receipts"); and
- the General Reserve Fund (see "*Credit Structure — General Reserve Fund*").

The Notes will also have the benefit of other support by way of the Yield Reserve Fund (see "*Credit Structure – Yield Reserve Fund*").

The Liquidity Facility will also be available to provide additional liquidity support (but not credit support) in relation to shortfalls of interest payable on the Notes (see "*Credit Structure – Liquidity Facility*").

***Purchase of Notes:***

It is intended that TMB (in its capacity as the Note Subscriber under the Subscription Agreement (the **Note Subscriber**) will subscribe for all of the Notes on the Closing Date. Either TMB or another member of the HBOS Group will retain the Notes. Unless it is provided for in or permitted by the terms of the Transaction Documents, the Issuer shall not purchase any Notes.

***Final Maturity:***

Unless previously redeemed in full, each class of Notes will mature on the date (which is an Interest Payment Date) designated as the **Final Maturity Date** for that class of Notes in the table titled "*Key Characteristics of the Notes*".

***Withholding Tax:***

Payments of interest and principal with respect to the Notes will be subject to any applicable withholding or deduction for or on account of any taxes and neither the Issuer, nor any Paying Agent or any other person will be obliged to pay additional amounts in respect of any such withholding or deduction. The applicability of any withholding or deduction for or on account of UK taxes is discussed further under "*United Kingdom Taxation*", below.

***Expected Average Lives of the Notes:***

The actual average lives of the Notes cannot be stated, as the actual rate of repayment of the Loans and redemption of the Loans and a number of other relevant factors are unknown.

***Ratings:***

The ratings expected to be assigned to the Notes (the **Rated Notes**) on or about the Closing Date by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**S&P**) and Fitch Ratings Ltd. (**Fitch**, and together with S&P, the **Rating Agencies**, which term includes any further or replacement rating agency appointed by the Issuer with the approval of the Note Trustee to give a credit rating to the Notes (or any class thereof)), are set out in "*Key Characteristics of the Notes*", above.

The issuance of the Notes is conditional on the assignment on the Closing Date of the expected ratings of S&P and Fitch set out above in the table titled "*Key Characteristics of the Notes*", above.

**A credit 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 if, in its judgment, circumstances (including without limitation, a reduction in the credit rating of the Account Bank and/or the Interest Rate Swap Provider) in the future so warrant.**

***Listing:***

Application will be made to the UK Listing Authority to list each class of the Notes on the Official List maintained by the UK Listing Authority and to the London Stock Exchange to admit the Notes to trading on the London Stock Exchange's Regulated Market.

***Sale of Initial Portfolio and New Portfolios:***

The primary source of funds available to the Issuer to pay interest and principal on the Notes will be the Revenue Receipts and Principal Receipts generated by the Loans in the Portfolio. Pursuant to the Mortgage Sale Agreement, the Seller will (subject to the CCA Trust) sell its interest in the Initial Portfolio to the Issuer on the Closing Date and may on each Sale Date during the Revolving Period (subject to the CCA Trust) sell New Loans comprising the relevant New Portfolio to the Issuer. The sale by the Seller to the Issuer of each Initial Loan in the Initial Portfolio and of each relevant New Loan in the relevant New Portfolio which is secured by a mortgage over a property located in England, Wales or Scotland will be given effect by (a) as regards Initial Loans that are secured by a Mortgage over a property located in England and Wales, on the Closing Date, a CCA Trust as described below and on the Effective Date, an equitable assignment, (b) as regards Initial Loans that are secured by a Mortgage over a property located in Scotland, on the Closing Date, a Scottish declaration of trust (together with any future Scottish declarations of trust entered into pursuant to the Mortgage Sale Agreement being the **Scottish Declarations of Trust** and each a **Scottish Declaration of Trust**), (c) as regards New Loans that are secured by a Mortgage over a property located in England and Wales, on each Sale Date occurring prior to the Effective Date during the Revolving Period, a CCA Trust as described below and on each Sale Date occurring on or after the Effective Date during the Revolving Period, an equitable assignment, and (d) as regards New Loans that are secured by a Mortgage over a property located in Scotland, on each Sale Date during the Revolving Period, a Scottish Declaration of Trust, in each case pursuant to which the Issuer is vested in the beneficial interest in and to such Initial Loans and their Initial Related Security. The terms **sale**, **sell** and **sold** when used in the Prospectus in connection with the Loans and their Related Security shall be construed to mean each such creation of equitable interest and such equitable assignment and each such Scottish Declaration of Trust as applicable. The terms **repurchase** and **repurchased** when used in the Prospectus in connection with the Loans and their Related Security shall be construed to mean the repurchase of the beneficial interest of the Issuer in respect of such Loans and Related Security under the CCA Trust or the relevant Scottish Declaration of Trust (as applicable).

Until the Issuer has notified the Seller that it has obtained the requisite licence under the Consumer Credit Act 1974, as amended (the **CCA**), the Seller will hold the English Loans and their Related Security on a bare trust for the Issuer (the **CCA Trust**) and following receipt of such notification from the Issuer (the date of such receipt being the **Effective Date**), such Loans and their Related Security will be assigned to the Issuer as described above.

The term **Loans** when used in this Prospectus means the residential mortgage loans in the Initial Portfolio to be sold to the Issuer on the Closing Date and in each New Portfolio sold to the Issuer on a Sale Date during the Revolving Period together with, where the context so requires, each Further Advance (as defined in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances, Flexible Drawings and Product Switches*") sold to the Issuer by the Seller after the Closing Date, any Flexible



Drawings and any alteration to a Loan by the Seller pursuant to a Product Switch, but excluding (for the avoidance of doubt) each Loan and its Related Security redeemed or repurchased by the Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer in accordance with the terms of the Transaction Documents and no longer beneficially owned by it.

The term **English Loan** when used in this Prospectus means a Loan secured by an English Mortgage (as defined below). The term **Scottish Loan** when used in this Prospectus means a Loan secured by a Scottish Mortgage (as defined below).

Prior to the occurrence of a Seller Insolvency Event (as defined below), a BoS Downgrade Event (as defined below) or certain other events described in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Title to the Mortgages, registration and notifications*", notice of the sale of the Portfolio will not be given to the relevant borrowers (the **Borrowers**) under those Loans transferred and the Issuer will not apply to the Land Registry, the Central Land Charges Registry or Registers of Scotland (as applicable) to register or record its equitable or beneficial interest in the Mortgages.

#### **The Loans:**

The **Portfolio** will consist of the Loans, the Related Security and all moneys derived therein from time to time.

When used in this Prospectus:

**Calculation Date** means the date which occurs four Business Days prior to each Distribution Date.

**Collection Period** means the period commencing on and including the first day of a calendar month and ending on and including the last date of that calendar month.

**Collection Period End Date** means the last day of the calendar month immediately preceding the Calculation Date.

**Distribution Date** means the 19th day of each month (or, if that date is not a Business Day, the next Business Day in the same calendar month).

**Related Security** means, in relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement.

Any reference to the **outstanding principal balance** of the Loans includes capitalised expenses, capitalised arrears, capitalised interest and, for the avoidance of doubt, any increase in the principal amount of a Loan due to any Flexible Drawing and/or Further Advance.

As at the Closing Date, the Loans in the Portfolio each had an original repayment term of up to 40 years. No Loan in the Portfolio will have a final repayment date beyond two years prior to the latest Final Maturity Date for the Notes.

The Provisional Portfolio consists of 12,885 Loans with an aggregate outstanding principal balance of £7,103,426,729.43.

In relation to the Loans comprising the Provisional Portfolio, (a) the weighted average original loan-to-value of those Loans was 75.22%, (b) the weighted average seasoning of those Loans was 23.2 months and (c) the Loans are secured by Mortgages over properties situated in England, Wales and Scotland.

As at the Closing Date, the Initial Loans in the Initial Portfolio will comprise:

- (a) tracker rate loans, which are set at a fixed margin above or below rates set by the Bank of England;
- (b) fixed rate loans, which are subject to a fixed rate of interest;
- (c) standard variable rate loans, which allow the Borrower to pay interest at the standard variable rate of the Seller which is administered, at the discretion of the Seller, by reference to the general level of interest rates and competitive forces in the UK mortgage market (the **Standard Variable Rate**); and
- (d) discount loans, which allow the Borrower to pay interest at a specified discount to the Standard Variable Rate of the Seller.

See "*The Loans*" for a full description of the Loans.

### **Further Advances**

If a Borrower requests, or the Seller (or the Servicer on behalf of the Seller) offers, a Further Advance under a Loan, the Seller (or the Servicer on behalf of the Seller) will be solely responsible for offering, documenting and funding that Further Advance. Any Further Advance made to a Borrower will be purchased by the Issuer on the relevant Advance Date (as defined in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances, Flexible Drawings and Product Switches*").

If a Further Advance is purchased by the Issuer on the relevant Advance Date, the Issuer will pay the Seller the Further Advance Purchase Price on the Business Day following the Advance Date (the **Further Advance Payment Date**) to the extent that the Issuer has sufficient amounts standing to the credit of the Retained Principal Receipts Fund or otherwise sufficient Principal Receipts and, to the extent such amounts are insufficient, will pay the remainder of the Further Advance Purchase Price by utilising the proceeds of a drawing under the Liquidity Facility. Where the Issuer (or the Cash Manager on its behalf) determines that the amount of available drawings under the Liquidity Facility in respect of such Further Advance Shortfall would not be sufficient to fund such Further Advance Purchase Price, the Issuer may not complete the purchase of the relevant Further Advance and the Seller must promptly repurchase the related Loan and its Related Security.

In addition, if a Further Advance Shortfall Advance has been made to the Issuer and the Issuer (or the Cash Manager on its behalf) determines on the Business Day before the following Distribution Date that it will be unable to repay all or part of such advance on the Distribution Date, the Seller shall be required to repurchase the Loan and the Related Security relating to the Further Advance in respect to which the Further Advance Shortfall Advance was made on the Distribution Date.

If the Issuer determines on the Calculation Date immediately succeeding an Advance Date, or on any other subsequent date, that any Loan Warranty made by the Seller in respect of a Further Advance purchased by the Issuer was materially untrue as at its Advance Date, and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer, then the relevant Further Advance, its related Loan and its Related Security must be repurchased by the Seller on the next Business Day following receipt by the Seller of a notice from the Issuer requiring repurchase thereof (a Loan Repurchase Notice).

**New Portfolios:** Pursuant to the terms of the Mortgage Sale Agreement, the Seller may, subject to the satisfaction of certain conditions (including that the Issuer has sufficient amounts standing to the credit of the Retained Principal Receipts Fund on the Sale Date to purchase the New Portfolio), sell (subject to the CCA Trust) its interest in New Portfolios on the Sale Dates occurring during the Revolving Period. The sale by the Seller to the Issuer of the relevant New Loans in each New Portfolio will be given effect to by (a) as regards English Loans, an equitable assignment and (b) as regards Scottish Loans, a Scottish Declaration of Trust unless the sale of the New Portfolio occurs on a date before the Issuer has obtained a CCA licence in which case the Seller will hold the English Loans and their Related Security under the CCA Trust for the

Issuer and following receipt of notification from the Issuer that it has obtained the requisite license under the CCA, such Loans and their Related Security will be assigned to the Issuer.

A New Portfolio may be sold by the Seller, and will be purchased by the Issuer, on the relevant Sale Date and for the consideration set out in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — New Portfolios*".

If it is subsequently determined that any Loan Warranty made by the Seller in respect of any New Loan and its Related Security purchased by the Issuer was materially untrue as at the relevant Sale Date and that default has not been remedied within 20 Business Days of receipt of notice by the Seller from the Issuer, then the relevant New Loan and its New Related Security must be repurchased by the Seller on the next Business Day following receipt by the Seller of a Loan Repurchase Notice.

**Product Switches:** If a Borrower requests, or the Seller offers, a Product Switch (as defined in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances, Flexible Drawings and Product Switches*") under a Loan, the Seller will be solely responsible for offering and documenting that Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio provided that if it is subsequently determined on the Calculation Date immediately succeeding a Switch Date, or on any other subsequent date, that any Loan Warranty made by the Seller in respect of a Loan which is the subject of a Product Switch and which remains in the Portfolio was materially untrue as at its Switch Date, and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer, then the relevant Loan and its Related Security must be repurchased by the Seller on the next Business Day following receipt by the Seller of a Loan Repurchase Notice.

**Flexible Drawings:** If a Borrower requests a Flexible Drawing under a Flexible Loan, the Seller will be solely responsible for documenting and funding that Flexible Drawing. Any Flexible Drawing made to a Borrower will be purchased by the Issuer on the relevant drawing date (the Flexible Drawing Date). The Issuer will pay the Seller the purchase price of the Flexible Drawing (the **Flexible Drawing Purchase Price**) on the Business Day following the Flexible Drawing Date (the **Flexible Drawing Payment Date**) to the extent that the Issuer has sufficient amounts standing to the credit of the Retained Principal Receipts Fund and otherwise sufficient Principal Receipts to make such payment and, to the extent such amounts are insufficient, will pay the remainder of the Flexible Drawing Purchase Price by utilising the proceeds of a drawing under the Liquidity Facility. Where the Issuer (or the Cash Manager on its behalf) determines that the amount of available drawings under the Liquidity Facility in respect of such Flexible Drawing Shortfall would not be sufficient to fund such Flexible Drawing Purchase Price, the Issuer may not complete the purchase of the relevant Flexible Drawing and the Seller must promptly repurchase the related Loan and its Related Security.

In addition, if a Flexible Drawing Shortfall Advance has been made to the Issuer and the Issuer (or the Cash Manager on its behalf) determines on the Business Day before the following Distribution Date that it will be unable to repay all or part of such advance on the Distribution Date, the Seller shall be required to repurchase the Loan and the Related Security relating to the Flexible Drawing in respect to which the Flexible Drawing Shortfall Advance was made on the Distribution Date.

**Loan Warranties:** The Issuer will have the benefit of the Loan Warranties given, by the Seller as at the Closing Date in relation to the Loans and their Related Security and (as described above) on the Sale Date in relation to the New Loans and their New Related Security, on the Advance Date in relation to Loans subject to a Further Advance and their Related Security and on the Switch Date in relation to Loans subject to a Product Switch and their Related Security, including warranties in relation to the Lending Criteria applied in advancing the Loans.

It should be noted that any Loan Warranties made by the Seller in relation to a New Portfolio, Further Advance and/or Product Switch may be amended from time to time without the consent of the Noteholders

provided that prior consent has been given by the Security Trustee who, for such purpose, may have regard to whether the Rating Agencies have confirmed that the current ratings of the Notes will not be adversely affected by such variation or waiver. Any amendment to the Loan Warranties will be notified to the Rating Agencies.

The Seller will be required to repurchase any Loan sold to the Issuer pursuant to the Mortgage Sale Agreement if any Loan Warranty made by the Seller in relation to that Loan and/or its Related Security is materially breached or proves to be materially untrue as at the Closing Date, Sale Date, Advance Date or Switch Date (as applicable) and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer. See "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Repurchase by a Seller*" and "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances, Flexible Drawings and Product Switches*" below.

***Principal Deficiency Ledger:***

A principal deficiency ledger will be established to record any Losses affecting the Loans in the Portfolio.

When used in this Prospectus, **Losses** means all realised losses on the Loans.

The Principal Deficiency Ledger will comprise a sub-ledger relating to the Notes— the **Note Principal Deficiency Sub-Ledger** .

See "*Credit Structure — Principal Deficiency Ledger*", below.

***Servicing Agreement:***

Pursuant to the Servicing Agreement, the Servicer will agree to service the Loans sold to the Issuer and their Related Security on behalf of the Issuer (or whilst the Loans are held subject to the CCA Trust or under a Scottish Declaration of Trust, the Servicer will agree to service such Loans on behalf of the Seller as trustee thereunder) (such services, *inter alia*, the **Services**).

See "*The Servicing Agreement*", below.

The Issuer will, on each Interest Payment Date, pay to the Servicer a servicing fee (inclusive of VAT) (each, a **Servicing Fee**) totalling 0.025% per annum on the aggregate outstanding principal balance of the Loans in the Portfolio as at the opening of business on the preceding Interest Payment Date. The Servicing Fees will rank ahead of all payments on the Notes.

***Interest Rate Swap Agreement:***

Payments received by the Issuer under the Loans will be subject to variable and fixed rates of interest. To hedge the potential variance between these rates and a rate of interest calculated by reference to Three-Month Sterling LIBOR, the Issuer will enter into the Interest Rate Swaps with the Interest Rate Swap Provider and the Security Trustee under the Interest Rate Swap Agreement.

***Subordinated Loan Agreement:***

The Issuer will enter into the Subordinated Loan Agreement on or about the Closing Date with the Subordinated Loan Provider, pursuant to which the Subordinated Loan Provider will advance a loan (the **Subordinated Loan**) to the Issuer on the Closing Date in the amount of approximately £1.45 billion which will be used (a) to meet certain of the Issuer's initial fees and expenses incurred in connection with the issue of the Notes, (b) to initially fund the General Reserve Fund up to the General Reserve Required Amount and (c) to fund the Yield Reserve Fund.

***Bank Account Agreement:***

The Issuer will enter into the Bank Account Agreement with the Account Bank on or about the Closing Date in respect of the Bank Accounts. The Account Bank will agree to pay interest on the GIC Account at a specified rate. On each Distribution Date, the Cash Manager will transfer moneys from the GIC Account to the Transaction Account to be applied in accordance with the relevant Priority of Payments. Moneys may also be transferred from the GIC Account to pay the Further Advance Purchase Price and the Flexible Drawing Purchase Price in respect of any Further Advance or Flexible Drawing (respectively) sold by the Seller to the Issuer.

## **RISK FACTORS**

*The following is a description of the principal risks associated with an investment in the Notes. These risk factors are material to an investment in the Notes and in the Issuer. Prospective Noteholders should carefully read and consider all the information contained in this Prospectus, including the risk factors set out in this section, prior to making any investment decision.*

### ***Liabilities Under the Notes***

The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. 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 the Seller, the Interest Rate Swap Provider, the Arranger, the Servicer, the Cash Manager, the Account Bank, the Liquidity Facility Provider, the Note Trustee, the Security Trustee, any company in the same group of companies as such entities, any other party to the Transaction Documents or by any person other than the Issuer.

### ***Limited Source of Funds***

The ability of the Issuer to meet its obligations to pay principal and interest on the Notes and its operating and administrative expenses will be dependent primarily on receipts from the Loans in the Portfolio (including, interest earned on the Bank Accounts and amounts standing to the credit of the Reserve Funds and the receipts under the Interest Rate Swap and the Liquidity Facility).

### ***Considerations Relating to Yield, Prepayments and Mandatory Redemptions***

The yield to maturity of the Notes of each sub-class will depend on, *inter alia*, the amount and timing of payment of principal and interest on the Loans and the price paid by the holders of the Notes of each sub-class. Prepayments on the Loans may result from 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 under the insurance policies. In addition, repurchases of Loans required to be made under the Mortgage Sale Agreement will have the same effect as a prepayment of such Loans. Furthermore, as the Portfolio will only contain a minority of Loans subject to Further Advances or Product Switches, in the event that a Borrower requests a Further Advance or a Product switch then in the majority of instances the Borrower will be offered an alternative loan originated by another member of the HBOS Group. If such an alternative loan is advanced to the Borrower, then the proceeds of that loan will be used to prepay the Borrower's existing Loan in the Portfolio. In addition, if the conditions for the sale of New Loans, Further Advances or Flexible Drawings are not met, such as Bank of Scotland ceasing to have a rating of F1 by Fitch, then the Issuer will not be able to purchase such New Loans, Further Advances or Flexible Drawings during the Revolving Period resulting in Retained Principal Receipts instead being used to prematurely repay the Notes. The yield to maturity of the Notes of any sub-class may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Loans.

The rate of prepayment of Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. Generally, when market interest rates increase, borrowers are less likely to prepay their mortgage loans, while conversely, when market interest rates decrease, borrowers are generally more likely to prepay their mortgage loans. For instance, borrowers may prepay mortgage loans when they refinance their loans or sell their properties (either voluntarily or as a result of enforcement action taken). In addition, if the Seller is required to repurchase a Loan or Loans under a mortgage account and their Related Security because, for example, one of the Loans does not comply with the Loan Warranties, then the payment received by the Issuer will have the same effect as a prepayment of all the Loans under that mortgage account. Because these and other relevant factors are not within the

control of the Issuer, no assurance can be given as to the level of prepayments that the Portfolio will experience.

Payments and prepayments of principal on the Loans will be applied to reduce the Principal Amount Outstanding of the Notes on a pass-through basis on each Interest Payment Date after the Revolving Period in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cashflows*" below).

During the Revolving Period, payments and repayments of principal on the Loans will be credited to the Retained Principal Receipts Fund and to the extent not used within two consecutive Interest Periods to pay the New Portfolio Purchase Price in respect of any New Portfolio sold to the Issuer, Further Advance Purchase Price and/or Flexible Drawing Purchase Price payable by the Issuer to the Seller, will be released as Available Principal Receipts and hence to redeem the Notes.

Following enforcement of the Security, there is no guarantee that the Issuer will have sufficient funds to redeem the Notes in full.

***Continuing decline in house prices may adversely affect the performance and market value of your notes***

During late 2007 and 2008 to date, house prices have fallen under different monthly measurements as a result of a combination of subdued earnings growth, greater pressure on household finances, higher interest rates and the effect of the continuing global market volatility that began in the summer of 2007.

Should house prices continue to decline, borrowers may have insufficient equity to refinance their mortgage loans with lenders other than the Seller. This could lead to higher delinquency rates and losses.

***Geographic Concentration Risks***

Loans in the Portfolio may also be subject to geographic concentration risks within certain regions of the United Kingdom. To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the United Kingdom, a concentration of the Loans in such a region may be expected to exacerbate the risks relating to the Loans described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the Borrowers in that region or the region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected Mortgaged Properties. This may result in a loss being incurred upon sale of the Mortgaged Property. These circumstances could affect receipts on the Loans and ultimately result in losses on the Notes. For an overview of the geographical distribution of the Loans, see "*Characteristics of the Portfolio — Geographical Spread Distribution*".

***Deferral of Interest Payments***

Failure to pay interest on the Notes shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

***Lack of liquidity in the secondary market may adversely affect the market value of your Notes***

The secondary mortgage markets are currently experiencing severe disruptions resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. As a result, the secondary market for mortgage-backed securities is experiencing extremely limited liquidity. These conditions may continue or worsen in the future.

Limited liquidity in the secondary market for mortgage-backed securities has had a severe adverse effect on the market value of mortgage-backed securities. Limited liquidity in the secondary market may continue to

have a severe adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the investment requirements of limited categories of investors. Consequently, you may not be able to sell your Notes readily. The market values of the Notes are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to you.

In addition, the forced sale into the market of mortgage-backed securities held by structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties could adversely affect your ability to sell, and/or the price you receive for, your Notes in the secondary market.

***Increases in prevailing market interest rates may adversely affect the performance and market value of your Notes***

Borrowers seeking to avoid increased monthly payments (caused by, for example, the expiry of an initial fixed rate or low introductory rate, or a rise in the related mortgage interest rates) by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

***UK Banking (Special Provisions) Act 2008***

Under the Banking (Special Provisions) Act 2008 (the **Act**), until 21 February 2009 the U.K. Treasury has wide powers to make certain orders in respect of a U.K. authorised deposit-taking institution (such as Bank of Scotland) and, in certain circumstances, certain corporate related corporate undertakings. The orders which may be made under the Act in respect of relevant deposit-taking institutions (and/or, in certain circumstances, certain related corporate undertakings) relate to (amongst other things) (i) transfers of securities issued by relevant entities (and/or securing that rights of holders of securities cease to be exercisable by such holders, discontinuing the listing of securities and/or varying or nullifying the terms of securities and/or other documents by which the relevant entity is bound), (ii) transfers of property, rights and liabilities of relevant entities notwithstanding any restrictions, requirements or interest (and/or modifying related interests, rights or liabilities of third parties), (iii) the disapplication or modification of laws, (iv) the imposition of a moratorium on the commencement or continuation of any legal process in relation to any body or property and/or (v) the dissolution of any relevant entity. Orders may have retrospective effect and may make provision for nullifying the effect of transactions or events taking place after the time in question.

In general, transfer orders under the Act may be made by the UK Treasury only in certain circumstances for the purposes of maintaining the stability of the UK financial system and/or protecting the public interest in circumstances where financial assistance has been provided by the Treasury to the deposit-taking institution. The Act includes provisions related to compensation in respect of any transfer orders made.

If the UK Treasury were to make an order in respect of Bank of Scotland and/or certain related corporate undertakings, such order may (amongst other things) impact on various aspects of the transaction (including the enforceability of certain Transaction Documents and/or the ability of certain parties to perform their obligations under such documents) which may negatively affect the ability of the Issuer to meet its obligations in respect of the Notes. At present, the UK Treasury has not made any orders under the Act in respect of Bank of Scotland referred to above and there has been no indication that it will make any such order under the Act, but there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such order if made.



### ***Ratings of the Notes***

The ratings address the likelihood of full and timely payment to the Noteholders of all payments of interest on each Interest Payment Date and ultimate payment of principal on the Final Maturity Date of each sub-class of Notes.

The expected ratings of the Notes assigned on the Closing Date are set out in "*Ratings*", below. A 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 if, in its judgment, circumstances (including without limitation, a reduction in the credit rating of the Interest Rate Swap Provider and/or the Account Bank) in the future so warrant.

### ***Conflict between Noteholders***

There may also be circumstances where the interests of the Class A1 Noteholders, the Class A2 Noteholders, the Class A3 Noteholders and the Class A4 Noteholders conflict.

Unless expressly provided otherwise, the Note Trust Deed and the Conditions of the Notes will provide that where, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, there is such a conflict, then the Note Trustee shall not be obliged to take any action unless and until directed by the Noteholders, but on the basis that a resolution directing the Note Trustee to take any action must be passed at separate meetings of the holders of each such sub-class of the Notes then outstanding. A resolution may only be passed at a single meeting of the Noteholders of each sub-class of the Notes if the Note Trustee is, in its absolute discretion, satisfied that there is no conflict between them.

Similar provisions will apply in relation to requests in writing or directions from holders of a specified percentage of the principal amount outstanding of the Notes of each sub-class of Notes.

### ***Conflict Between Noteholders and other Secured Creditors***

So long as any of the Notes are outstanding, neither the Security Trustee nor the Note Trustee shall have regard to the interests of the other Secured Creditors, subject to the provisions of Condition 12.7.

TMB will purchase all of the Notes on the Closing Date (see "*Subscription and Sale*" below). While TMB remains the beneficial owner of any whole class of Notes, it will be entitled to vote in respect of them.

### ***Meetings of Noteholders, Modification and Waivers***

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Note Trustee or, as the case may be, the Security Trustee, may agree, without the consent of the Noteholders or the other Secured Creditors (but, in the case of the Security Trustee only, with the written consent of the Interest Rate Swap Provider and the Liquidity Facility Provider), to (i) any modification of, or the waiver or authorisation of any breach or proposed breach of, the Conditions or any of the Transaction Documents which is not, in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders and, in the opinion of the Security Trustee, is not materially prejudicial to the interests of the Noteholders and any other Secured Creditor or (ii) any modification which, in the Note Trustee's or, as the case may be, the Security Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, proven.

### ***Book-Entry Interests***

Unless and until Definitive Notes are issued in exchange for the Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of Notes under the Trust Deed. After payment to the Principal Paying Agent, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

A nominee for the Common Depositary will be considered the registered holder of Notes as shown in the records of Euroclear or Clearstream, Luxembourg and will be the sole legal Noteholder of the Global Notes under the Trust Deed while the Notes are represented by the Global Notes. Accordingly, each person owning a Book-Entry Interest must rely on the relevant procedures of, Euroclear and Clearstream, Luxembourg and, if such person is not a participant in such entities, on the procedures of the participant through which such person owns its interest, to exercise any right of a Noteholder under the Trust Deed.

Payments of principal and interest on, and other amounts due in respect of, the Global Notes will be made by the Principal Paying Agent to a nominee of the Common Depositary for Euroclear and Clearstream, Luxembourg) in the case of the Global Notes. Upon receipt of any payment from the Principal Paying Agent, Euroclear and Clearstream, Luxembourg, as applicable, will promptly credit participants' accounts with payment in amounts proportionate to their respective ownership of Book-Entry Interests as shown on their records. The Issuer expects that payments by participants or indirect payments to owners of Book-Entry Interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in "street name", and will be the responsibility of such participants or indirect participants. None of the Issuer, the Note Trustee, the Security Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, the Book-Entry Interests or for maintaining, supervising or reviewing any records relating to such Book-Entry Interests.

Unlike Noteholders, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by or on behalf of the Issuer for consents or requests by or on behalf of the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under the Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear and Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the relevant provisions described herein under "*Terms and Conditions of the Notes*" below. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Note Trustee, the Security Trustee, any Paying Agent, the Registrar or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants or account holders of their respective obligations under the rules and procedures governing their operations.

Certain transfers of Notes or interests therein may only be effected in accordance with, and subject to, certain transfer restrictions and certification requirements.

### ***Interest Rate Risk***

The Loans in the Portfolio are subject to variable and fixed interest rates while the Issuer's liabilities under the Notes are based on Three-Month Sterling LIBOR.

To hedge its interest rate exposure, the Issuer will enter into the Interest Rate Swap on or about the Closing Date with the Interest Rate Swap Provider (see "*Credit Structure — Interest Rate Risk for the Notes*" below).

A failure by the Interest Rate Swap Provider to make timely payments of amounts due under the Interest Rate Swap Agreement will constitute a default thereunder. The Interest Rate Swap Provider is obliged to make payments under an Interest Rate Swap only to the extent that the Issuer makes payments under the Interest Rate Swap Agreement to it. To the extent that the Interest Rate Swap Provider defaults in its obligations under an Interest Rate Swap to make payments to the Issuer in Sterling calculated by reference to Three-Month Sterling LIBOR, on any payment date under an Interest Rate Swap (which corresponds to an Interest Payment Date), the Issuer will be exposed to the possible variance between various fixed and variable rates payable on the Loans in the Portfolio and Three-Month Sterling LIBOR. Unless one or more comparable replacement interest rate swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes.

The Interest Rate Swap Agreement will provide that, upon the occurrence of certain events, the Interest Rate Swap may terminate and a termination payment by either the Issuer or the Interest Rate Swap Provider will be payable based on the cost of a replacement transaction. Any termination payment due by the Issuer (other than an Interest Rate Swap Excluded Termination Amount and to the extent not satisfied by any applicable Replacement Swap Premium, which shall be paid directly by the Issuer to the Interest Rate Swap Provider) will rank prior to payments in respect of the Notes. In each case, payment of such termination amounts may affect amounts available to pay interest and principal on all the Notes.

Any additional amounts required to be paid by the Issuer following termination of the Interest Rate Swap (including any extra costs incurred (for example, from entering into interest rate swaps if the Issuer cannot immediately enter into a relevant replacement transaction)) will also rank prior to payments in respect of the Notes. This may affect amounts available to pay interest and principal on all the Notes.

No assurance can be given as to the ability of the Issuer to enter into one or more replacement transactions, or if one or more replacement transactions are entered into, as to the credit rating of the swap provider for the replacement transactions.

### ***Issuer Reliance on Third Parties***

The Issuer is also 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 Corporate Services Provider has agreed to provide certain corporate services to the Issuer pursuant to the Corporate Services Agreement, the Account Bank has agreed to provide the GIC Account and the Transaction Account to the Issuer pursuant to the Bank Account Agreement, the Servicer has agreed to service the Portfolio pursuant to the Servicing Agreement

and the Paying Agents, the Registrar and the Agent Bank have all agreed to provide services with respect to the Notes pursuant to the Agency Agreement. 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, Noteholders may be adversely affected.

### ***The Servicer***

If the Servicer is removed, there is no guarantee that a substitute servicer would be found, which could delay collection of payments on the Loans and ultimately could adversely affect payments on the Notes.

Bank of Scotland has been appointed by the Issuer as Servicer to service the Loans. If the Servicer breaches the terms of the Servicing Agreement, then (prior to the delivery of a Note Acceleration Notice and with the prior written consent of the Security Trustee) the Issuer or (after delivery of a Note Acceleration Notice) the Security Trustee will be entitled to terminate the appointment of the Servicer and the Issuer and the Seller shall use their reasonable endeavours to appoint a new servicer in its place whose appointment is approved by the Security Trustee.

There can be no assurance that a substitute servicer with sufficient experience of administering the Loans would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer will be required to be authorised under the Financial Services and Markets Act 2000 (the **FSMA**) in order to administer Loans that constitute regulated mortgage contracts. The ability of a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the Loans and hence the Issuer's ability to make payments when due on the Notes.

You should note that the Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion.

### ***Impact of Possible Acquisition of HBOS plc by Lloyds TSB Group plc on Noteholders***

As noted below under "*The Mortgage Business Public Limited Company and Bank of Scotland plc – Recent Developments - Merger*", the entity, Bank of Scotland plc, that performs the roles of, *inter alios*, the Servicer, the Liquidity Facility Provider, the Cash Manager, the Interest Rate Swap Provider, the Account Bank and the Subordinated Loan Provider, may be acquired by a different credit institution. With respect to the risks to Noteholders of either (i) such an acquisition proceeding and the identity of the entity performing the various roles changing, or (ii) such an acquisition failing to proceed and the position of the entity performing those roles changing, please refer to "*Risk Factors - Issuer Reliance on Third Parties*" above. Any adverse change in respect of the capability of the entity performing the roles of the Servicer, the Liquidity Facility Provider, the Cash Manager, the Interest Rate Swap Provider, the Account Bank or the Subordinated Loan Provider, whether Bank of Scotland plc or a successor entity, to perform such roles could have an impact on the ability of the Issuer to make payments on the Notes and could lead Noteholders to suffer an early redemption of their Notes or a loss on their Notes. In accordance with its obligations as an entity with securities admitted to the Official List, the Issuer will provide information in relation to this merger and its potential effects on the Notes to the effect that such information is significant to the parties involved and when such information becomes available.

### ***Withholding Tax Under the Notes***

In the event that any withholding or deduction for or on account of any taxes is imposed in respect of payments to Noteholders of any amounts due under the Notes, neither the Issuer nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of such withholding or deduction. However, in such circumstances, the Issuer will, in accordance

with Condition 7.4 (Optional Redemption for Taxation or Other Reasons) of the Notes, use reasonable endeavours to prevent such an imposition.

As of the date of this Prospectus, no withholding or deduction for or on account of UK tax will be required on interest payments to any holders of the Notes provided that the Notes carry a right to interest and are and continue to be listed on a recognised stock exchange. The London Stock Exchange is a recognised stock exchange for such purposes and the Notes will be treated as listed on the London Stock Exchange if the Notes are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange.

### ***Set off risks in relation to Flexible Loans***

The Seller will make an equitable assignment of Loans and their Related Security or, in the case of Scottish Loans, a transfer of the beneficial interest in Loans and their Related Security, to the Issuer, with legal title being retained by the Seller. Therefore, the rights of the Issuer may be subject to the direct rights of the Borrowers against the Seller, including rights of set-off existing prior to notification to the Borrowers of the sale of the Loans. Set-off rights (including analogous rights in Scotland) may occur if, for example, the Seller fails to advance to a Borrower a Flexible Drawing under a Flexible Loan when the Borrower is entitled to draw additional amounts under a Flexible Loan.

If the Seller fails to advance the Flexible Drawing, then the relevant Borrower may set off any damages claim (or exercise analogous rights in Scotland) arising from the Seller's breach of contract against the Seller's (and, as assignee or holder of the beneficial interest in the Loans and their Related Security, the Issuer's) claim for payment of principal and/or interest under the Loan as and when it becomes due. These set-off claims will constitute transaction set-off.

The amount of the claim in respect of a Flexible Drawing will, in many cases, be the cost to the Borrower of finding an alternative source of finance (although in the case of Flexible Loans which are governed by Scots law, it is possible, though regarded as unlikely, that the Borrower's rights of set-off could extend to the full amount of the additional drawing). The Borrower may obtain a loan elsewhere, in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable to obtain an alternative loan, he or she may have a claim in respect of other losses arising from the Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Mortgage was taken out or which otherwise were reasonably foreseeable.

A Borrower may also attempt to set off against his or her Mortgage payments an amount greater than the amount of his or her damages claim (or attempt to exercise analogous rights in Scotland). In that case, the Servicer will be entitled to take enforcement proceedings against the Borrower, although the period of non-payment by the Borrower is likely to continue until a judgment is obtained.

The exercise of set-off rights by Borrowers would reduce the incoming cashflow to the Issuer during such exercise.

### ***Searches, Investigations and Warranties in Relation to the Loans***

The Seller will give certain warranties to each of the Issuer and the Security Trustee regarding the Initial Loans and their Initial Related Security sold to the Issuer on the Closing Date and will give similar warranties to each of the Issuer and the Security Trustee regarding any New Loans and their New Related Security sold to the Issuer on any Sale Date or in relation to any Further Advances and Product Switches at the relevant Advance Date or Switch Date, as applicable (see "*Summary of Key Transaction Documents — Mortgage Sale Agreement*" below for a summary of these).

Neither the Security Trustee nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Loan or its Related Security in the Portfolio and each relies instead on the warranties given in the Mortgage Sale Agreement by the Seller. The primary remedy of the Issuer against the Seller if any of the warranties made by the Seller is materially breached or proves to be materially untrue as at the Closing Date, the Sale Date, the Advance Date or the Switch Date (as applicable), which breach is not remedied within 20 Business Days of receipt by the Seller of a notice from the Issuer, shall be to require the Seller to repurchase any relevant Loan and its Related Security. There can be no assurance that the Seller will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

It should also be noted that any warranties made by the Seller in relation to a New Portfolio, Further Advances and/or Product Switches may be amended from time to time without the consent of the Noteholders provided that the Security Trustee has given its consent to such amendments (and for such purpose, the Security Trustee may have regard to whether each of the Rating Agencies have confirmed that it will not downgrade, withdraw or qualify the ratings of the Notes as a result of those amendments). Changes to the warranties may affect the quality of Loans in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

### ***Interest-Only Loans***

Each Loan in the Portfolio may be repayable either on a capital repayment basis, an interest-only basis or a combination capital repayment/interest payment basis (see "*The Loans — Repayment Terms*" below). Where the Borrower is only required to pay interest during the term of the Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term. However, the Seller does not require proof of any such repayment mechanism and does not take security over any investment policies taken out by Borrowers. The Seller also strongly recommends that the Borrower take out a life insurance policy in relation to the Loan but, as with certain of the repayment mechanisms, the Seller does not have the benefit of security over life policies.

Borrowers may not have been making payment in full or on time of the premiums due on any relevant investment or life policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases, the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the Borrower may not have been applied in paying amounts due under the Loan. Thus the ability of such a Borrower to repay an Interest-Only Loan (as defined in "*The Loans — Repayment Terms*" below) at maturity frequently may depend on such Borrower's responsibility in ensuring that sufficient funds are available from a given source such as pension policies, PEPs, ISA or endowment policies, as well as the financial condition of the Borrower, tax laws and general economic conditions at the time. If a Borrower cannot repay an Interest-Only Loan and a Loss occurs, this may affect repayments on the Notes if the resulting Principal Deficiency Ledger entry cannot be cured.

### ***Seller to Initially Retain Legal Title to the Loans***

The sale by the Seller to the Issuer of the English Loans and their Related Security (until legal title is conveyed) takes effect in equity only. The sale by the Seller to the Issuer of the Scottish Loans and their Related Security is given effect to by one or more Scottish Declarations of Trust by the Seller by which the beneficial interest in such Scottish Loans and their Related Security is transferred to the Issuer. In each case, this means that legal title to the Loans and their Related Security in the Portfolio will remain with the Seller until certain trigger events occur under the terms of the Mortgage Sale Agreement (see "*Summary of the Key Transaction Documents — Mortgage Sale Agreement*", below). Until such time, the assignment by the Seller to the Issuer of the English Loans and their Related Security takes effect in equity only and the transfer of the Scottish Loans and their Related Security is by way of one or more Scottish Declarations of Trust by

the Seller in favour of the Issuer. The Issuer has not and will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the English Mortgages and may not in any event apply to the Registers of Scotland to register or record its beneficial interest in the Scottish Mortgages.

As a consequence of the Issuer not obtaining legal title to the Loans and their Related Security or the Mortgaged Properties secured thereby, a *bona fide* purchaser from the Seller for value of any of such Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such interest. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents.

Further, prior to the insolvency of the Seller, unless (i) notice of the assignment was given to a Borrower who is a creditor of the Seller in the context of English Loans and their Related Security and (ii) an assignation of the Scottish Loans and their Related Security is effected by the Seller to the Issuer and notice thereof is then given to a Borrower who is a creditor of the Seller, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under its Loan. These rights may result in the Issuer receiving reduced payments on the Loans. The transfer of the benefit of any Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment is given to the Borrower or an assignation is effected and notice thereof is given, however, some rights of set-off may not arise after the date notice is given.

Until notice of the assignment is given to Borrowers or an assignation is effected and notice thereof is given, Borrowers will also have the right to redeem their Mortgages by repaying the relevant Loan directly to the Seller. However, the Seller will undertake, pursuant to the Mortgage Sale Agreement, to hold any money repaid to it in respect of relevant Loans to the order of the Issuer.

For so long as the Issuer does not have legal title, the Seller will undertake for the benefit of the Issuer that it will lend its name to, and take such other steps as may reasonably be required by the Issuer in relation to, any legal proceedings in respect of the relevant Loans and their Related Security.

Notwithstanding the above, until the Issuer has confirmed that it has obtained the requisite licence under the CCA, the Seller will hold the English Loans on a bare trust absolutely for the Issuer and following receipt of such confirmation from the Issuer, such Loans and their Related Security will be assigned to the Issuer. The Issuer will not procure that any of the notifications and registrations required pursuant to the Mortgage Sale Agreement to perfect its title to the Loans are effected until it has obtained a CCA licence, however it shall instead of giving those notifications and registrations send written notice to each Borrower, informing such Borrower of the interests of the Issuer in respect of such Borrower's Loan and its Related Security pursuant to the CCA Trust or any Scottish Declaration of Trust (as applicable). The Issuer is currently in the process of obtaining a CCA licence.

### ***Product Switches and Further Advances***

The Seller (or the Servicer on behalf of the Seller) may offer a Borrower, or a Borrower may request, a Further Advance or a Product Switch from time to time. Any Loan which has been the subject of a Further Advance or a Product Switch following an application by the Borrower will remain in the Portfolio unless the Issuer subsequently determines on the immediately following Calculation Date, or on any other subsequent date, that any Loan Warranty made with respect to a Loan which is subject to a Further Advance or a Product Switch was materially untrue as at the relevant Advance Date or Switch Date (as applicable), and such default is not remedied within 20 Business Days of the Seller (or the Servicer on its behalf) receiving notice from the Issuer. In these circumstances, the Seller will be required to repurchase the relevant

Loan and its Related Security (see further "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances, Flexible Drawings and Product Switches*".)

The Seller (or the Servicer on behalf of the Seller) having proposed making a Further Advance or Product Switch (as applicable) may, despite the circumstances set out in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances, Flexible Drawings and Product Switches*", as alternatives to selling the Further Advance to the Issuer or keeping the Loan which is the subject of the Product Switch remaining in the Portfolio (as applicable), elect to repurchase the Loan and its Related Security as set out in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances, Flexible Drawings and Product Switches*".

It should be noted that any warranties made by the Seller in relation to a Further Advance and/or a Product Switch may be amended from time to time and such changes will be notified to the Rating Agencies. The consent of the Noteholders in relation to such amendments will not be obtained if the Security Trustee has given its prior consent to such amendment (and for such purpose, the Security Trustee may have regard to any confirmation from each of the Rating Agencies that it will not downgrade, withdraw or qualify the ratings of the Notes as a result of those amendments). Where the Seller is required to repurchase because the warranties are not true, there can be no assurance that the Seller will have the financial resources to honour its repurchase obligations under the Mortgage Sale Agreement. Either of these circumstances may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments on the Notes.

The number of Further Advance and Product Switch requests received by the Seller and/or the Servicer will affect the timing of principal amounts received by the Issuer and hence payments of principal and (in the event of a shortfall) interest on the Notes.

Further, there may be circumstances in which:

- (a) a Borrower might seek to argue that any Loan, Further Advance or Flexible Drawing is wholly or partly unenforceable by virtue of non-compliance with the CCA as further discussed below; or
- (b) security for certain Flexible Drawings or Further Advances may rank behind the security created by a Borrower after the date upon which the Borrower entered into its Mortgage with the Seller.

If either of the circumstances set out in (a) or (b) above occurs, then this could adversely affect the Issuer's ability to make payments due on the Notes or redeem the Notes.

### ***Insurance Policies***

The policies of the Seller in relation to buildings insurance are described under "*The Loans — Buildings Insurance Policies*", below. No assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance contracts. This could adversely affect the Issuer's ability to redeem the Notes.

### ***Denominations***

The Notes are issued in the denominations of £50,000 per Note. However, for so long as the Notes are represented by a Global Note, and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradeable in minimum nominal amounts of £50,000 and integral multiples of £1,000 thereafter.

If Definitive Notes are required to be issued in respect of the Notes represented by Global Notes, they will only be printed and issued in denominations of £50,000 and any amount in excess thereof in integral multiples of £1,000 up to and including £99,000. No Definitive Notes will be issued with a denomination above £99,000. Accordingly, if Definitive Notes are required to be issued in respect of the Global Notes, a



Noteholder holding an interest in a Global Note of less than the minimum authorised denomination at the relevant time may not receive a Definitive Note in respect of such holding and may need to purchase a principal amount of Notes such that their holding amounts to the minimum authorised denomination. If Definitive Notes are issued, Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum authorised denomination or for any amount in excess thereof in integral multiples of £1,000 up to and including £99,000 may be illiquid and difficult to trade.

### ***Change of Law***

The structure of the transaction and, *inter alia*, the issue of the Notes and the ratings which are to be assigned to the Rated Notes are based on the law and administrative practice in effect as at the date of this Prospectus as it affects the parties to the transaction and the Portfolio, and having regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to such law (including any change in regulation which may occur without a change in primary legislation) and practice or tax treatment after the date of this Prospectus nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Notes.

## ***Certain Regulatory Considerations***

### *Office of Fair Trading, Financial Services Authority and Other Regulatory Authorities*

In the United Kingdom, the Office of Fair Trading (the **OFT**) is responsible for the issue of licences under, and the superintendence of the working and enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take action when necessary with regard to the mortgage market in the United Kingdom (except to the extent that the market is regulated by the FSA under FSMA, as described below). The CCA regime is different from and in addition to the FSMA regime.

A credit agreement is regulated by the CCA where (a) the borrower is or includes an "individual" as defined in the CCA, (b) if the credit agreement is made before the financial limit is removed (as described below), the amount of "credit" as defined in the CCA does not exceed the financial limit, which is £25,000 for credit agreements made on or after 1 May 1998 or lower amounts for credit agreements made before that date and (c) the credit agreement is not an exempt agreement under the CCA.

Any credit agreement that is wholly or partly regulated by the CCA or treated as such has to comply with requirements under the CCA as to licensing of lenders and brokers, documentation and origination procedures of credit agreements and (in so far as applicable) pre-contract disclosure. If it does not comply with those requirements, then to the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower (a) without an order of the OFT, if the lender or any broker does not hold the required licence at the relevant time, (b) totally, if the credit agreement was made before 6 April 2007 and if the form of such credit agreement was not properly signed or omits or mis-states a "prescribed term" or (c) without a court order in other cases and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability of the lender.

There is a risk that any credit agreement intended to be a Regulated Mortgage Contract under the FSMA or unregulated might instead be wholly or partly regulated by the CCA or treated as such because of technical rules on (a) determining whether any credit under the CCA arises or whether any applicable financial limit of the CCA is exceeded, (b) determining whether the credit agreement is an exempt agreement under the CCA and (c) changes to credit agreements. So as to avoid dual regulation, it is intended that Regulated Mortgage Contracts will not be regulated by the CCA. Relevant provisions of the CCA are designed to clarify the position in this regard.

A court order under section 126 of the CCA is necessary to enforce a land mortgage (including in Scotland, a standard security) securing a credit agreement to the extent that the credit agreement is regulated by the CCA or treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend the loan, further advance or credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under section 75 of the CCA in certain circumstances the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier. The lender may also be entitled to be indemnified against such liability, subject to any agreement between the lender and the supplier. The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the loan or under any other loan agreement that the borrower has made with the lender (or exercise analogous rights in Scotland). Any such set-off may adversely affect the Issuer's ability to make payments on the Notes.

The Consumer Credit Act 2006 (the **CCA 2006**), which amends and updates the CCA, was enacted on 30 March 2006 and is expected to be fully implemented by October 2008.

For example, the "extortionate credit" regime has been replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing credit agreements. The new test explicitly imposes liability to repay amounts received from a borrower on both the originator and any assignee such as the Issuer. In applying the "unfair relationship" test, the courts will be able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair" as the intention is for the test to be flexible and subject to judicial discretion.

The courts may, but are not obliged to, look solely to the CCA for guidance. The FSA "Principles for Businesses" may also be relevant and apply to the way contract terms are used in practice and not just the way they are drafted. Once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary. However, the Issuer is not aware as at the date of this Prospectus of any court order on this point and it is unclear how the "unfair relationship" test will be interpreted by the courts.

An alternative dispute resolution scheme for consumer credit matters is run by the Ombudsman (as described below) and was established on 6 April 2007. The scheme is mandatory for all businesses licensed under the CCA. The OFT was given far broader powers under the CCA from 6 April 2008. For example, it can apply civil penalties, has far greater powers of investigation and can issue indefinite standard licences. For appeals against such decisions by the OFT, the CCA 2006 introduced an independent Consumer Credit Appeals Tribunal.

The financial limit of £25,000 for CCA regulation has been removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements, and except for certain buy-to-let loans made before 1 October 2008. The Department for Business, Enterprise and Regulatory Reform (the **DBERR**) has confirmed that it intends to exempt agreements entered into for buy-to-let purposes regardless of value, from the CCA. The DBERR defines buy-to-let loans as being agreements secured on land where less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. It is anticipated that an order will be implemented as from mid-October 2008 so that buy-to-let loans will be exempt agreements under the CCA where the credit agreement is made on or after the effective date in mid-October 2008, and includes a prescribed declaration. A court order under section 126 of the CCA will, however, be necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a buy-to-let loan to the extent that the credit agreement would, apart from this exemption, be regulated by the CCA or be treated as such. In dealing with any such application, the court has the power, if it appears just to do so, to amend a credit agreement, or to impose conditions on its performance or to make a time order to give extra time for arrears to be cleared.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) the credit agreement will also be unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower will not be liable to pay interest or, in certain cases, default fees for any period when the lender fails to comply with further requirements as to post-contract disclosure, and (c) interest upon default fees will be restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. Charges payable for early repayment in full are restricted by a formula under the CCA. A more restrictive formula applies to credit agreements made on or after 31 May 2005 and will apply retrospectively to all existing credit agreements by 31 May 2010. These changes to the CCA may result in adverse effects on the Issuer's ability to make payment in full on the Notes when due.

The Seller has interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or other dispute resolution authority, then a credit agreement, to the extent that it is regulated by the CCA or treated as such, would be

unenforceable as described above. If such interpretation were challenged by a significant number of borrowers, then this could lead to significant disruption and shortfall in the income of the Issuer. Court decisions have been made on technical rules under the CCA against certain mortgage lenders, but such decisions are very few and are generally county court decisions which are not binding on other courts.

The Seller has given or, as applicable, will give warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each relevant Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) cannot be or is not cured within 20 Business Days, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase the relevant Loans under the relevant mortgage account and their Related Security from the Issuer.

In the United Kingdom, regulation of residential mortgage business by the FSA (including certain buy-to-let mortgage business) under the FSMA came into force on 31 October 2004 "**N(M)**". Entering into, arranging or advising in respect of, and administering, Regulated Mortgage Contracts, and agreeing to do any of these things, are (subject to applicable exemptions) regulated activities under the FSMA.

A credit agreement is a **Regulated Mortgage Contract** under the FSMA if, at the time it is entered into on or after N(M) (a) the borrower is an individual or trustee, (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage (or the Scottish equivalent) on land (other than timeshare accommodation) in the UK and (c) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person.

The main effects are that, on and after N(M), unless an exclusion or exemption applies (a) each entity carrying on a regulated mortgage activity by way of business has to hold authorisation and permission from the FSA to carry on that activity and (b) each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation and permission from the FSA. It should be noted that the definition of "qualifying credit" is broader than that of a Regulated Mortgage Contract and may include loans that are regulated by the CCA or treated as such or unregulated. If requirements as to authorisation and permission of lenders and brokers or as to issue and approval of financial promotions are not complied with, a Regulated Mortgage Contract or (in the case of requirements as to approval and issue of advertisements) other secured credit agreement, will be unenforceable against the borrower except with the approval of a court. An unauthorised person who administers a Regulated Mortgage Contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

Any credit agreement intended to be a Regulated Mortgage Contract under the FSMA might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a Regulated Mortgage Contract under the FSMA, because of technical rules on (a) determining whether the credit agreement or any part of it falls within the definition of Regulated Mortgage Contract and (b) changes to credit agreements.

The FSA's Mortgages and Home Finance: Conduct of Business Sourcebook (**MCOB**), which sets out the FSA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, *inter alia*, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. FSA rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

A borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise

analogous rights in Scotland). Any such set-off may adversely affect the Issuer's ability to make payments on the Notes.

So as to avoid dual regulation, it is intended that Regulated Mortgage Contracts will not be regulated by the CCA. Regulations made in 2005 and 2008 under the FSMA are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after N(M) and credit agreements made before N(M) but subsequently changed such that a new contract is entered into on or after N(M) and constitutes a separate Regulated Mortgage Contract. A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a Regulated Mortgage Contract to the extent that the credit agreement would, apart from the exemption referred to above, be regulated by the CCA or treated as such.

No assurance can be given that additional regulatory changes by the OFT, the FSA or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments or compliance costs may have a material adverse effect on the Seller, the Issuer, the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

By virtue of the definition in the FSA of Regulated Mortgage Contracts, buy-to-let loans would not normally be construed as Regulated Mortgage Contracts, and it is not believed that any of the Loans included in the Portfolio would fall into that category, subject to the risk of re-characterisation discussed above. Thus the Seller has given or, as applicable, will give warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each relevant Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) is not cured within 20 Business Days, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase the Loans under the relevant mortgage account and their Related Security from the Issuer.

The Seller holds authorisation and permission to enter into and to administer and, where applicable, to advise in respect of Regulated Mortgage Contracts. Subject to any exemption, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts.

The Issuer is not and does not propose to be an authorised person under the FSMA. The Issuer does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The Issuer does not carry on the regulated activity of administering in relation to Regulated Mortgage Contracts as a result of having them administered pursuant to a servicing agreement by entities having the required FSA authorisation and permission. If such servicing agreement terminates or the appointment of a servicer thereunder is terminated, however, the Issuer would have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement servicer or replacement servicers having the required FSA authorisation and permission. In addition, on and after N(M) no variation has been or will be made to the Loans and no Flexible Drawing, Further Advance or Product Switch has been or will be made in relation to a Loan, where it would result in the Issuer arranging or advising in respect of, administering or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

Prior to N(M), in the United Kingdom, self-regulation of mortgage business existed under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The Seller subscribed to the CML Code and on and from N(M), as an authorised person, has been subject to the FSA requirements in MCOB. Membership of the CML and compliance with the CML Code were voluntary. The CML Code set out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998 lender-subscribers to the

CML Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1 November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme.

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit (the **Consumer Credit Directive**), which provides that, subject to exemptions, loans of at least €200 and not exceeding €75,000 will be regulated. This directive will repeal and replace the first consumer credit directive; the official journal states that member states should implement the directive by measures coming into force by 12 May 2010.

Loans secured by a land mortgage (including, in Scotland, a standard security) are, however, exempted from the Consumer Credit Directive and from the first consumer credit directive. The European Commission published a White Paper on mortgage credit in December 2007, and has indicated that it is yet to determine whether a mortgage directive would be appropriate.

Until the final text of any initiatives resulting from the White Paper process are decided and the details of the United Kingdom implementation of the Consumer Credit Directive are published, it is not certain what effect the adoption and implementation of the Consumer Credit Directive or any initiatives implemented in respect of mortgages credit would have on the Seller, the Issuer, the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

### ***Distance Marketing***

The Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A Regulated Mortgage Contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations. Certain other credit agreements may be cancellable under these regulations if the borrower does not receive prescribed information at the prescribed time, or in any event for certain unsecured lending. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received, or, if later, the borrower receives the last of the prescribed information.

If the borrower cancels the credit agreement under these regulations, then:

- (a) the borrower is liable to repay the principal and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the originator receiving notice of cancellation;
- (b) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- (c) any security provided in relation to the contract is to be treated as never having had effect.

If a significant portion of the Loans are characterised as being cancellable under these regulations, then there could be an adverse effect on the Issuer's receipts in respect of the Loans, affecting the Issuer's ability to make payments in full on the Notes when due.

## ***Unfair Terms in Consumer Contracts Regulations 1994 and 1999***

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **1999 Regulations**), which, together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the **UTCCR**), apply to agreements made on or after 1 July 1995 and affect all or almost all of the Loans. The UTCCR provides that:

- a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term); and
- the OFT and any "qualifying body" within the 1999 Regulations (such as the FSA) may seek to enjoin (or in Scotland interdict) a business from relying on unfair terms.

The UTCCR will not affect "core terms", which define the main subject matter of the contract, such as the borrower's obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to be core terms, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees.

For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such non-recovery, claim or set-off may adversely affect the ability of the Issuer to make payments to Noteholders on the Notes.

In February 2000, the OFT issued a guidance note on what the OFT considers to be fair terms and unfair terms for interest variation in mortgage loan contracts. An interest variation term which provides for precise and immediate tracking of an external rate outside the lender's control and (such as external bank base rates or LIBOR) is likely to be regarded as "fair". Other interest variation terms, if the Borrower is locked in, for example by an early repayment charge that is considered to be a penalty, are likely to be regarded as unfair under the UTCCR unless the lender (a) notifies the affected borrower in writing at least 30 days before the rate change and (b) permits the affected borrower to repay the whole loan during the next three months after the rate change, without paying an early repayment charge. The Seller has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the relevant Loans or its business. The guidance note has been withdrawn from the OFT website but may remain in effect as the OFT's view and as a factor that the FSA may take into account.

Under concordats agreed between the FSA and the OFT in 2001 and 2006, the division of responsibility for the enforcement of the UTCCR in mortgage loan agreements was agreed to be allocated by them, generally, to the FSA in relation to mortgage contracts in respect of the activities of firms authorised by the FSA and to the OFT in relation to other mortgages. In April 2006, in the context of the OFT's investigation into credit card default charges, the OFT publicly announced that the principles the OFT considers should be applied in assessing the fairness of credit card default charges shall apply (or are likely to apply) also to analogous default charges in other agreements, including those for mortgages.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers, a lender may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. In August 2007, the FSA's Unfair Contract Terms Regulatory Guide came into force. This guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

The broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a court would find a term to be unfair. It is therefore possible that any Loans which have been made or may be made to Borrowers covered by the UTCCR may contain unfair terms, which may result in the possible unenforceability of the terms of such Loans.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission published a joint consultation on proposals to rationalise the UK Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair terms, was published in February 2005. The proposals are primarily to simplify the legislation on unfair terms. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, would affect the Loans.

No assurance can be given that changes enacted in the 1999 Regulations, or any change adopted in guidance on interest variation terms or otherwise, would not have a material adverse effect on the Seller, the Issuer, the Servicer and their respective businesses and operations. This may adversely affect the ability of the Issuer to make payments in full on the Notes when due.

### ***Financial Ombudsman Service***

Under the FSMA, the Financial Ombudsman Service is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance. Transitional provisions exist by which certain complaints relating to breach of the CML Code occurring before N(M) may be dealt with by the Financial Ombudsman Service. Complaints brought before the Financial Ombudsman Service for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

As the Financial Ombudsman Service is required to make decisions on the basis of, among other things, the principles of fairness (subjectively rather than being bound by common law principles), and may order a money award to the borrower, it is not possible to predict how any future decision of the Financial Ombudsman Service would affect the ability of the Issuer to make payments to Noteholders.

### ***Unfair Commercial Practices Directive 2005***

In May 2005, the European Parliament and the Council adopted a Directive on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, the Unfair Practices Directive applies full harmonisation, which means that member states may not impose more stringent provisions in the fields



to which full harmonisation applies. By way of exception, the Unfair Practices Directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "unfair" within this Directive. The Unfair Practices Directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The Unfair Practices Directive required member states to implement the Directive by measures coming into force by 12 December 2007. The United Kingdom implemented the Directive by the Consumer Protection from Unfair Trading Regulations 2008 which came into force on 26 May 2008. In addition, the FSA has taken the Directive into account in reviewing its relevant rules, such as MCOB, and the OFT addresses commercial practices in administering licences under the CCA. The Unfair Practices Directive provides a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

No assurance can be given that the United Kingdom implementation of the Unfair Practices Directive, including full harmonisation in the fields to which it applies, will not have a material adverse effect on the Loans and accordingly on the ability of the Issuer to make payments to Noteholders.

#### ***UK Taxation Position of the Issuer***

The Issuer has been advised that it should fall within the UK Securitisation Company regime (as introduced by the Taxation of Securitisation Companies Regulations 2006 (the **Securitisation Regulations**)), and as such should be taxed only on the amount of its retained profit, for so long as it satisfies the conditions of the Securitisation Regulations. However, if the Issuer does not (or subsequently does not), then profits or losses could arise in the Issuer which could have tax effects not contemplated in the cashflows for the transaction described in this prospectus and as such adversely affect the tax investment of the Issuer and consequently payment on the Notes.

#### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each member state is required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

#### ***Implementation of Basel II Risk-Weighted Asset Framework may result in changes to the risk-weighting of the Notes***

A framework has been developed by the Basel Committee on Banking Supervision which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the framework was published in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" (**Basel II** and the **Basel II Framework**). The Basel II Framework is being implemented in stages (the Basel II standard approach was implemented from 1 January 2007, and the more advanced Basel II IRB approach and advanced measurement approach for operational risks were required to be implemented from 1 January 2008). However, the Basel II Framework is not self-implementing and, accordingly, implementation in participating countries is in some cases still in development or has not yet been put into effect.

In the UK, Basel II, through the EU Capital Requirements Directive, has been implemented through the Prudential Sourcebook for Banks, Building Societies and Investment Firms (**BIPRU**) and the Capital Requirements Regulations 2006, although the most advanced approaches only became available from 1 January 2008.

The Basel Committee announced in April 2008 its intention to take steps to strengthen certain aspects of the Basel II Framework. The European Commission also published in April 2008 a consultation paper on proposed changes to the Capital Requirements Directive, and has sought technical advice on those proposals from the Committee of European Banking Supervisors.

As and when implemented (and amended), the Basel II Framework could affect risk-weighting of the Notes for investors who are subject to capital adequacy requirements that follow or are based on the Basel II Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the implementation of the Basel II Framework (as and when amended) and any relevant implementing measures. No predictions can be made as to the precise effects of potential changes on any investor or otherwise as a result of such implementation.

### ***European Monetary Union***

If the United Kingdom joins the European Monetary Union prior to the maturity of the Notes, this may adversely affect payments on the Notes.

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating member state in the European economic and monetary union and that 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 Euro, (b) applicable provisions of law may allow or require the Issuer to redenominate the Notes into Euro and take additional measures in respect of such 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 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.

### ***English law security and insolvency considerations***

The Issuer will enter into the Deed of Charge pursuant to which it will grant the Security in respect of certain of its obligations, including its obligations under the Notes (as to which, see "*Summary of Key Transaction Documents — Deed of Charge*"). If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the Security impaired.

In particular, the ability to realise the security granted by the Issuer may be delayed if an administrator is appointed or in the context of a company voluntary arrangement in respect of the Issuer. In this regard, it should be noted that:

- (a) in general, an administrator may not be appointed in respect of a company if an administrative receiver is in office. Amendments were made to the Insolvency Act 1986 in September 2003 which restrict the right of the holder of a floating charge to appoint an administrative receiver, unless an exception applies. Significantly, one of the exceptions allows for the appointment of an administrative receiver in relation to certain transactions in the capital market. While it is anticipated that the requirements of this exception will be met in respect of the Deed of Charge, it should be noted that the Secretary of State for Business, Enterprise and Regulatory Reform may by regulation modify the capital market exception and/or provide that the exception shall cease to have effect; and

- (b) (under the Insolvency Act 1986 (as amended by the Insolvency Act 2002), certain "small" companies (which are defined by reference to certain financial and other tests) are entitled to seek protection from their creditors for a limited period for the purposes of putting together a company voluntary arrangement. The position as to whether or not a company is a small company may change from time to time and consequently no assurance can be given that the Issuer will not, at any given time, be determined to be a small company. However, certain companies are excluded from the optional moratorium provisions, including a company which is party to certain transactions in the capital market and/or which has a liability in excess of a certain amount. While the Issuer should fall within the current exceptions, it should be noted that the Secretary of State for Business, Enterprise and Regulatory Reform may by regulation modify these exceptions.

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Transaction Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

While the transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the application of insolvency laws (including English insolvency laws and, if applicable, Scottish insolvency laws).

### ***Liquidation expenses***

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, section 176ZA of the Insolvency Act, which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986. In general, the reversal of *Leyland Daf* applies in respect of all liquidations commenced on or after 6 April 2008.

Therefore, floating charge realisations upon the enforcement of the floating charge security to be granted by the Issuer would be reduced by the amount of all, or a significant proportion of, any liquidation expenses.

### ***Limited recourse***

The Notes will be limited recourse obligations of the Issuer. The ability of the Issuer to meet its obligations under the Notes will be dependent upon the receipt by it in full of (a) principal and interest from the Borrowers under the Loans and their Related Security in the Portfolio (b) payments (if any) due from the Swap Counterparty, (c) interest income on the Bank Accounts and (d) the receipt of funds (if available to be drawn) under the Liquidity Facility Agreement. Other than the foregoing, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes.

Upon enforcement of the Security, the Security Trustee will, in practice, have recourse only to the Loans and the Issuer's interest in the Related Security and to any other assets of the Issuer then in existence as described in this document. It should be noted that, in certain limited circumstances, the Issuer will not be able to make any further drawings under the Liquidity Facility Agreement.

## SUMMARY OF THE KEY TRANSACTION DOCUMENTS

### Mortgage Sale Agreement

#### *Initial Portfolio*

Under the Mortgage Sale Agreement, on the Closing Date:

- (a) until such time as the Issuer notifies the Seller that the Issuer has obtained the requisite licence under the CCA (the **Effective Date**), the Seller will hold on trust for the Issuer under the CCA Trust a portfolio of English residential mortgage loans and their associated mortgages; and
- (b) the Seller will hold on trust under the Scottish Declarations of Trust a portfolio of Scottish residential mortgage loans (together with the above portfolio of English residential mortgage loans, the **Initial Loans**) and standard securities (together with the above associated mortgages, the **Initial Mortgages** and, together with the other security for the Initial Loans, the **Initial Related Security**),

in each case referred to as the **sale** by the Seller to the Issuer of the Initial Loans and Initial Related Security. The Initial Loans and Initial Related Security and all monies derived therefrom from time to time are referred to herein as the **Initial Portfolio**.

The sale by the Seller to the Issuer of the English Loans in the Initial Portfolio will be given effect (subject to the CCA Trust) by equitable assignments (and any sale of English Loans in the future will be given effect (subject to the CCA Trust) by further equitable assignments).

Until the Effective Date, the Seller will hold the English Loans on a bare trust for the Issuer (the **CCA Trust**) and following receipt of such notification, the English Loans and their Related Security will be assigned to the Issuer as described above. The sale by the Seller to the Issuer of the Scottish Loans in the Initial Portfolio will be given effect by a declaration of trust by the Seller (and any sale of Scottish Loans in the future will be given effect by further declarations of trust) under which the beneficial interest in the Scottish Loans will be transferred to the Issuer.

The consideration due to the Seller is the aggregate of:

- (a) £6,900,000,000 (the **Initial Consideration**);
- (b) a covenant by the Issuer to pay the Deferred Consideration in respect of the sale of the Initial Portfolio;
- (c) any principal, interest and expenses accrued as at the relevant Sale Date (being in this case the Closing Date) on the Initial Loans (**Accrued Amounts**) as and when they are received and identified by the Issuer; and
- (d) an amount equal to any fees received as a consequence of the early termination of a Loan (**Early Repayment Charges**), and certain other fees charged by the Seller in respect of its servicing of the Loans (together, the **Servicing Related Fees**) which shall be paid to the Seller as and when they are received and identified by the Issuer.

The consideration attributable to Accrued Amounts and Servicing Related Fees on the Initial Loans will be paid (as and when received and identified) from the payments made by Borrowers in respect of the Initial Loans on or after the Closing Date. The Deferred Consideration will be paid in accordance with the priority of payments set out in the section headed "*Cashflows — Application of Available Revenue Receipts Prior to the Service of a Note Acceleration Notice on the Issuer*" below.

The terms **sale**, **sell** and **sold** when used in the Mortgage Sale Agreement and the other transaction documents in connection with the Loans and their Related Security are construed to mean in the case of the English Loans and their Related Security subject to the CCA Trust, such Loans and Related Security held on such trust and in the case of the Scottish Loans, such Loans and Related Security held under the relevant Scottish Declaration of Trust.

The terms **repurchase** and **repurchased** when used in the Mortgage Sale Agreement and the other transaction documents in connection with the Loans and their Related Security are construed to mean the repurchase of the beneficial interest of the Issuer in respect of such Loan and Related Security under the CCA Trust or the relevant Scottish Declaration of Trust (as applicable).

#### *New Loans*

After the Closing Date and until the Interest Payment Date in November 2011 (such period, the **Revolving Period**), the Issuer may apply amounts standing to the credit of the Retained Principal Receipts Fund to purchase from the Seller new residential mortgage loans (the **New Loans**) together with their associated mortgages or (in the case of Scottish Loans) standard securities (the **New Mortgages** and together with the **Initial Mortgages**, as the context requires, the **Mortgages**), and other security for the New Loans (the **New Related Security** and, together with the Initial Related Security, as the context requires, the **Related Security**). The Loans and the Related Security and all monies derived therefrom from time to time are referred to herein as the Portfolio. The "Loans" and "Related Security" are further defined in "*Transaction Overview*".

The consideration for the sale of such New Loans and their New Related Security to the Issuer will consist of:

- (a) the Issuer paying to the Seller an amount equal to the principal amount outstanding of the New Loans (the **New Portfolio Purchase Price**); and
- (b) a covenant by the Issuer to pay the Deferred Consideration in respect of the sale of the New Loans; and
- (c) the Issuer paying Accrued Amounts on the New Loans as at the relevant Sale Date to the Seller as and when received and identified by the Issuer; and
- (d) an amount equal to any Servicing Related Fees as and when they are received and identified by the Issuer.

The Seller will select the New Loans to be offered to the Issuer during the Revolving Period using an internally developed system containing defined data on each of the qualifying New Loans in the Seller's overall portfolio of loans available for selection. This system allows the setting of exclusion criteria, among others, corresponding to relevant representations and warranties that the Seller makes in the Mortgage Sale Agreement in relation to the Loans (see "*Summary of the Transaction Documents — Mortgage Sale Agreement — Representations and Warranties*" below). This system also allows a limit to be set on some criteria, for example, a percentage restriction on the amount of buy-to-let properties. Once the criteria have been determined, the system identifies all loans owned by the Seller that are consistent with the criteria. From this subset, New Loans are selected at random until the target balance for New Loans has been reached or the subset has been exhausted. After a portfolio of New Loans is selected in this way, the constituent New Loans are monitored so that they continue to comply with the relevant criteria on the date of transfer.

The sale of New Loans and the New Related Security to the Issuer will in all cases also be subject to certain conditions as at the relevant date the New Loans are sold (in respect of any Loan, its **Sale Date** or **relevant Sale Date**). The conditions are that:

- (a) there has been no failure by the Seller of its obligations to repurchase any Loan pursuant to the Mortgage Sale Agreement;
- (b) there is no Event of Default occurring;
- (c) there is no Seller Insolvency Event; and
- (d) there are sufficient amounts standing to the credit of the Retained Principal Receipts Fund to finance the New Portfolio Purchase Price).

During the Revolving Period the Seller will use its best efforts to offer to sell New Portfolios to the Issuer. For the avoidance of doubt, the Seller shall not be obliged to sell New Portfolios if, in the Seller's opinion, it would adversely effect the business of the Seller.

It is not intended that the Seller will sell New Portfolios to the Issuer after the Revolving Period.

*Title to the Mortgages, registration and notifications*

The completion of the transfer or conveyance of the Loans and Related Security (and where appropriate their registration) to the Issuer is, save in the limited circumstances referred to below, deferred. Legal title to the Loans and Related Security therefore remains with the Seller. Notice of the sale of the Loans and their Related Security to the Issuer will not (except as stated below) be given to any Borrower.

The transfers to the Issuer will be completed on or before the twentieth Business Day after the later to occur of the Effective Date and the earliest to occur of the following:

- (a) the Seller being required to perfect the Issuer's legal title to the Loans, or to procure that any notifications or registrations with respect to the Loans (required to perfect the Issuer's legal title to the Loans) are made, by an order of a court of competent jurisdiction or by any regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders and with whose instructions it is customary for the Seller to comply; or
- (b) it becoming necessary by law to make the notifications or registrations referred to in paragraph (a) above; or
- (c) unless otherwise agreed in writing by Fitch and the Security Trustee (with notification by the Issuer to S&P and acknowledgement of receipt of such notification) and provided that the then current ratings of the Notes will not be adversely affected, the termination of the Seller's role as Servicer under the Servicing Agreement; or
- (d) the Seller calling for perfection by serving notice in writing to that effect on the Issuer and the Security Trustee; or
- (e) the date on which Bank of Scotland ceases to be assigned a long term unsecured, unsubordinated debt obligation rating from S&P of at least BBB+ or from Fitch of at least BBB (a **BoS Downgrade Event**); or
- (f) the Seller, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in paragraph (g) below, ceases or, through an authorised action of the board of directors of the Seller, threatens to cease to carry on all or substantially all of its business or its mortgages administration business or the Seller is deemed unable to pay its debts as and when they fall due within the meaning of Section 123(1)(a) of the Insolvency Act (on the basis that the reference in such section to £750 was read as a reference to £10 million), Section 123(1)(b), (d) and (e), 123(1)(c) (on the basis that

the words "for a sum exceeding £10 million" were inserted after the words "extract registered bond" and "extract registered protest") and 123(2) of the Insolvency Act 1986 (as that Section may be amended); or

- (g) an order is made or an effective resolution is passed for the winding-up of the Seller except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction (i) with or by HBOS Group plc or any of its subsidiaries or (ii) the terms of which have previously been approved by the Security Trustee in writing acting on an Extraordinary Resolution of the Noteholders; or
- (h) proceedings shall be initiated against the Seller under any applicable liquidation, insolvency, bankruptcy, composition, reorganisation (other than a reorganisation where the Seller is solvent) or other similar laws (including, but not limited to, presentation of a petition for an administration order, the filing of documents with the court for the appointment of an administrator, the service of a notice of intention to appoint an administrator or the taking of any steps to appoint an administrator) and (except in the case of presentation of a petition for an administration order, the filing of documents with the court for the appointment of an administrator, the service of a notice of intention to appoint an administrator or the taking of any steps to appoint an administrator) such proceedings are not, in the reasonable opinion of the Security Trustee, being disputed in good faith with a reasonable prospect of success or an administration order shall be granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator, trustee in sequestration or other similar official shall be appointed in relation to the Seller or in relation to the whole or any substantial part of the undertaking or assets of the Seller, or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Seller, or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Seller and such possession or process (as the case may be) shall not be discharged or otherwise ceases to apply within 30 days of its commencement, or the Seller (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, bankruptcy, composition, reorganisation or other similar laws or makes a conveyance or assignment or assignation for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness,

each of (f), (g) and (h) above being a **Seller Insolvency Event**.

If any of the events described above occurs prior to the Issuer obtaining the requisite CCA licence, it shall send written notice to each Borrower in respect of an English Loan informing such Borrower of, *inter alia*, the interests of the Issuer in such Loan and its Related Security pursuant to the CCA Trust and, in respect of a Scottish Loan, informing such Borrower of, *inter alia*, the interests of the Issuer in such Loan and its related Security under the relevant Scottish Declaration of Trust. The Issuer is currently in the process of obtaining a CCA licence.

The title deeds and customer files relating to the Portfolio are currently held by or to the order of the Seller. The Seller has undertaken that all the title deeds and customer files relating to the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Issuer or as the Issuer directs.

Neither the Security Trustee nor the Issuer has made or has caused to be made on its behalf any enquiries, searches or investigations, but each is relying entirely on the representations and warranties made by the Seller contained in the Mortgage Sale Agreement.



## *Representations and Warranties*

The Seller has represented and warranted (or, as the case may be, will represent and warrant) to the Issuer and the Security Trustee in the Mortgage Sale Agreement in the form of **Loan Warranties** (as defined below):

- (a) in respect of each Loan and its Related Security in the Initial Portfolio as at the Closing Date (excluding the Loan Warranties set out in section 2 (*New Loans*) and section 3 (*Further Advances and Product Switches*));
- (b) in respect of each New Loan and its Related Security in the New Portfolio, as at the relevant Sale Date, as if references in the Loan Warranties to the "Loan" include the relevant New Loan (without prejudice to any of those Loan Warranties explicitly stated to not apply to New Loans) (including the Loan Warranties set out in section 2 (*New Loans*) but excluding the Loan Warranties set out in section 3 (*Further Advances and product Switches*));
- (c) in relation to any Further Advance, as at the relevant Advance Date, as if references in the Loan Warranties to the "Loan" include the relevant Loan subject to a Further Advance (each such Loan together with the Further Advance, the **Increased Loan**), as if references in the Loan Warranties to "New Loans" in section 2 (*New Loans*) include the relevant Increased Loan and as if references to "Sale Date" are to the Advance Date (without prejudice to the matters stated not to apply to Further Advances in section 1 (*General*)) (including the Loan Warranties set out in section 3 (*Further Advances and Product Switches*));
- (d) in relation to each Loan which is subject to a Product Switch as at the relevant Switch Date, as if references in the Loan Warranties to the "Loan" are to the relevant Loan subject to a Product Switch, as if references to "New Loans" in section 2 (*New Loans*) include the relevant Loan subject to a Product Switch and as if references to "Sale Date" are to the Switch Date (including the Loan Warranties set out in section 3 (*Further Advances and Product Switches*) as applicable); and
- (e) without prejudice to any subsequent determination of a breach of Loan Warranty, the Loan Warranties applicable to New Loans, Further Advances and Product Switches will initially be tested on the Calculation Date immediately following the relevant Sale Date, Advance Date or Switch Date (as applicable), by reference to the circumstances existing as at that relevant Sale Date, Advance Date or Switch Date (as applicable).

The **Loan Warranties** are that, *inter alia*:

### **1. General**

- (a) Each Loan was originated by the Seller in pounds sterling and is denominated in pounds sterling (or was originated and is denominated in euro if the euro has at the time of origination been adopted as the lawful currency of the United Kingdom);
- (b) (except for New Loans) each Loan in the Portfolio was made no earlier than 1 September 2003 and no later than 31 December 2007;
- (c) the final maturity date of each Loan is no later than 31 October 2051;
- (d) no Loan has an outstanding principal balance of more than £2,000,000;
- (e) each Loan (other than Loans referred to in (f) and (g) below) had a maximum LTV Ratio of 95 per cent. at the point of origination;

- (f) each Self-Certification Loan had a maximum LTV Ratio of 90 per cent. at the point of origination;
- (g) each Buy-to-Let Loan had a maximum LTV Ratio of 85 per cent. at the point of origination;
- (h) no Loan is a Sub-prime Loan;
- (i) no Loan is a Staff Loan;
- (j) no Loan is a Right-To-Buy Loan;
- (k) no Loan is a Capped Rate Loan;
- (l) no Loan is a construction loan, a commercial loan, a Multi-Family Loan or a bridging loan;
- (m) each Loan and Related Security was executed substantially on the terms of the Standard Documentation without any material variation thereto;
- (n) prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions made on a case by case basis as would be acceptable to a reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital (a **Reasonable, Prudent Mortgage Lender**);
- (o) other than with respect to monthly payments, no Borrower is or has, since origination of the relevant Loan, been in material breach of any obligation owed in respect of such Loan or under the Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security;
- (p) (only in respect of the Initial Portfolio) no Loan is in arrears (of interest or principal due) by more than the monthly payment due on the Loan as at the Closing Date;
- (q) all of the Borrowers are individuals and were aged 18 years or older at the date of origination of the relevant Loan;
- (r) at least two monthly payments have been made in respect of each Loan;
- (s) the whole of the outstanding principal balance on each Loan, including any arrears of interest and all accrued interest is secured by a Mortgage;
- (t) each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) first ranking standard security over the relevant Property, subject only in certain appropriate cases to applications for registrations at the Land Registry or Registers of Scotland which where required have been made or are pending and, in relation to which, the Seller is not aware of any notice or any other matter that would prevent such registration;
- (u) all of the Properties are in England, Wales or Scotland;
- (v) each property constitutes a separate completed dwelling unit (subject to such limited case by case exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender) and is either freehold, leasehold or (in Scotland) heritable or held under a long lease;
- (w) not more than 12 months (or such longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the grant of each Mortgage (other than a re-mortgage), the Seller received a valuation report on the relevant property (or such other form of report concerning the valuation of

the relevant property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;

- (x) the benefit of all valuation reports, any other report concerning valuation referred to in this section (if any) and certificates of title (if any) can be validly assigned to the Issuer without obtaining the consent of the relevant valuer, solicitor, licensed conveyancer or (in Scotland) qualified conveyancer;
- (y) prior to the taking of each Mortgage (other than a re-mortgage), the Seller (a) instructed its solicitor, licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant property and to undertake such other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller issued to the relevant solicitor, licensed conveyancer or qualified conveyancer as are set out (in the case of English Loans) in the CML's Lenders' Handbook for England & Wales and (in the case of Scottish loans) the CML's Lenders' Handbook for Scotland or such other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to such variations as would be acceptable to a Reasonable, Prudent Mortgage Lender and (b) received a certificate of title from such solicitor, licensed conveyancer or qualified conveyancer relating to such property, the contents of which would have been acceptable to a Reasonable, Prudent Mortgage Lender at that time;
- (z) insurance cover for each property is available under a seller-introduced insurance policy, another policy arranged by the relevant Borrower or landlord or any properties in possession cover;
- (aa) the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the Seller to the Issuer under the Mortgage Sale Agreement (subject, in the case of Scottish Mortgages originated by the Seller prior to the HBOS Group reorganisation, to completion of title);
- (bb) each Loan and its Related Security is valid, binding and enforceable in accordance with its terms and is non-cancellable, except in relation to any term of any Loan or its Related Security, that is not binding by virtue of the UTCCR as amended, extended or re-enacted from time to time;
- (cc) to the best of the Seller's knowledge, none of the terms of any Loan or its Related Security are not binding by virtue of their being unfair within the meaning of the UTCCR as amended, extended or re-enacted from time to time;
- (dd) the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loan;
- (ee) there are no authorisations, permissions, approvals, licences or consents required (that have not already been obtained or will be obtained by the Seller), as appropriate, for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding and enforceable;
- (ff) to the extent any agreement for a Loan or any part of it is or has ever been a regulated agreement or treated as such under the CCA or is or has ever been a linked transaction under the CCA, in respect of the Loan:
  - (i) the Seller has at all relevant times held an appropriate consumer credit licence as required under the CCA; and
  - (ii) all material requirements of the CCA have been met; and

(gg) no agreement for any Loan gives rise (whether on its own or taken together with any related agreement) to an unfair relationship under Sections 140A to 140D of the CCA.

## 2. New Loans

- (a) Each New Loan has been less than one month in arrears in the last three months;
- (b) if any of the New Loans do not correspond to a type of loan product offered by the Seller on the Closing Date (a **New Loan Product**) and such New Loan Product does not form part of the Portfolio, the Rating Agencies have confirmed that the then current ratings of the Notes would not be adversely affected by such New Loan Product;
- (c) no Seller Insolvency Event shall have occurred which is continuing;
- (d) there has been no failure by the Seller of its obligations to repurchase any Loan pursuant to the Mortgage Sale Agreement;
- (e) the total outstanding principal balance of Loans constituting the Portfolio, in respect of which the aggregate amount in arrears of more than three monthly payments then due, is less than 6 per cent. of the aggregate outstanding principal balance of Loans constituting the Portfolio;
- (f) the inclusion of the relevant New Loan in the Portfolio does not result in Loans with an outstanding principal balance of between £500,000 and £1,000,000 accounting for more than 15 per cent. of the aggregate principal amount outstanding of the Loans constituting the Portfolio;
- (g) the Principal Deficiency Ledger shall not have a debit balance outstanding at the most recent Interest Payment Date;
- (h) the yield on the New Loans, is not less than LIBOR for three-month sterling deposits plus 0.25 per cent., taking into account the average yield on the New Loans which are Tracker Rate Loans, Fixed Rate Loans, Standard Variable Rate Loans and Discount Loans and the margin on the Swap, in each case as at the relevant Sale Date;
- (i) the inclusion of the relevant New Loan in the Portfolio does not result in Buy-to-Let Loans accounting for more than 50 per cent. of the aggregate principal amount outstanding of Loans constituting the Portfolio;
- (j) the inclusion of the relevant New Loans in the Portfolio does not result in Self-Certification Loans accounting for more than 60 per cent. of the aggregate principal amount outstanding of Loans constituting the Portfolio;
- (k) the inclusion of the relevant New Loans in the Portfolio does not result in Flexible Loans accounting for more than 20 per cent. of the aggregate principal amount outstanding of Loans constituting the Portfolio;
- (l) the inclusion of the New Loans in the Portfolio will not result in the product of  $p \times q \times r$ , exceeding the undrawn Flexible Drawing/Further Advance Shortfall Commitment of the Liquidity Facility where:

$p = 8\%$ ;

$q =$  the Flexible Draw Capacity; and

$r = 3$ ;

- (m) the inclusion of the relevant New Loans in the Portfolio does not result in Interest-Only Loans accounting for more than 90 per cent. of the aggregate principal amount outstanding of Loans constituting the Portfolio;
- (n) the inclusion of the relevant New Loans in the Portfolio does not result in the weighted average LTV Ratio at the point of origination of the Portfolio being more than 77 per cent.;
- (o) the inclusion of the New Loans in the Portfolio will not result in the product of the weighted average foreclosure frequency (**WAFF**) and the weighted average loss severity (**WALS**) for the Loans in the Portfolio (including, for the avoidance of doubt, the New Portfolio) calculated on the Sale Date (in the same manner as for the Loans in the Portfolio as at the Closing Date (or as otherwise determined by the Servicer, with S&P's confirmation that the then current rating of the Notes will not be adversely affected, from time to time)) exceeding the product of the WALS and WAFF for the Loans in the Portfolio calculated on the Closing Date plus 0.5%;
- (p) on the Calculation Date following the relevant Sale Date, the amounts standing to the credit of the General Reserve Ledger is greater than or equal to 95% of the General Reserve Required Amount;
- (q) the cumulative Losses on the Loans as at the Sale Date do not exceed 0.6% of the aggregate principal amount outstanding of the Notes as at the Closing Date; and
- (r) the short-term, unsecured, unguaranteed and unsubordinated debt obligations of Bank of Scotland are rated at least F1 by Fitch.

### 3. Further Advances and Product Switches

- (a) The Further Advance is secured by a Mortgage constituting a valid and subsisting first charge by way of legal mortgage or (in Scotland) first ranking standard security over the relevant Property, subject only (in appropriate cases) to registration at the Land Registry or Registers of Scotland;
- (b) the Product Switch will be effected by such means as would be adopted by the Seller, for the purpose of ensuring the validity and priority of the Loan, were such switch in respect of a loan advanced by the Seller which is not part of the Portfolio;
- (c) the Product Switch will be similar to switches offered to the Seller's mortgage borrowers whose mortgages do not form part of the Portfolio; and
- (d) there is no Seller Insolvency Event occurring as at the relevant Advance Date.

**Capped Rate Loan** means a Loan which allows the Borrower to pay interest by reference to the Standard Variable Rate set by the Seller or another variable rate, but subject to a cap for a predetermined period, usually between one and five years;

**Flexible Draw Capacity** means the maximum amount of cash withdrawals that Borrowers are entitled to draw under Flexible Loans included in the Portfolio as at the end of the immediately preceding Distribution Period;

**Multi-Family Loan** means properties with more than four independent units, which may consist of one or more rooms, and have their own entrance, securing a single loan;

**Right-To-Buy Loan** means a Loan made to a Borrower in connection with the purchase by such Borrower of properties from local authorities or certain other landlords under right-to-buy schemes;

**Staff Loan** means a Loan advanced to an employee of the Seller;

**Standard Documentation** means the standard documentation, a list of which is set out in Part 2 of the Appendix to the Mortgage Sale Agreement and copies of which have been initialled on behalf of the parties thereto for the purposes of identification, or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender; and

**Sub-prime Loan** means a Loan categorised as such by the Seller.

*Flexible Drawings, Further Advances and Product Switches*

The Seller shall be solely responsible for funding all future Flexible Drawings and Further Advances in respect of Loans constituting the Portfolio. As used in this Prospectus, **Initial Advance** means all amounts advanced by the Seller to a Borrower under a Loan other than a Flexible Drawing under a Flexible Loan or a Further Advance. Subject to the satisfaction of certain conditions described generally below, the Issuer will acquire Further Advances and Flexible Drawings.

**Flexible Drawings:** If a Borrower requests a Flexible Drawing under a Flexible Loan, the Seller will be solely responsible for documenting and funding that Flexible Drawing. Any Flexible Drawing made to a Borrower will be purchased by the Issuer on the relevant drawing date (the **Flexible Drawing Date**). Upon the purchase of a Flexible Drawing by the Issuer on the relevant Flexible Drawing Date, the Issuer will pay the Seller the purchase price of the Flexible Drawing (the **Flexible Drawing Purchase Price**) on the Business Day following the Flexible Drawing Date (the **Flexible Drawing Payment Date**) to the extent that the Issuer has sufficient amounts standing to the credit of the Retained Principal Receipts Fund and/or sufficient Principal Receipts to make such payment and, to the extent such amounts are insufficient, will pay the remainder of the Flexible Drawing Purchase Price by utilising the proceeds of a drawing under the Liquidity Facility in respect of such Flexible Drawing Shortfall. Where the Issuer (or the Cash Manager on its behalf) determines that the amount of available drawings under the Liquidity Facility in respect of such Flexible Drawing Shortfall would not be sufficient to fund such Flexible Drawing Purchase Price, the Issuer may not complete the purchase of the relevant Flexible Drawing and the Seller must promptly repurchase the related Loan and its Related Security.

**Further Advances:** The Issuer shall purchase Further Advances from the Seller on the date that the relevant Further Advance is advanced to the relevant Borrowers by the Seller (the **Advance Date**). The Issuer will pay the Seller an amount equal to the principal amount of the relevant Further Advance (the **Further Advance Purchase Price**) on the Business Day following the Advance Date (the **Further Advance Payment Date**) to the extent that the Issuer has sufficient amounts standing to the credit of the Retained Principal Receipts Fund and/or sufficient Principal Receipts to make such payment, to the extent such amounts are insufficient, will pay the remainder of the Further Advance Purchase Price by utilising the proceeds of a drawing under the Liquidity Facility in respect of such Further Advance Shortfall. Where the Issuer (or the Cash Manager on its behalf) determines that the amount of available drawings under the Liquidity Facility in respect of such Further Advance Shortfall would not be sufficient to fund such Further Advance Purchase Price, the Issuer may not complete the purchase of the relevant Further Advance and the Seller must promptly repurchase the related Loan and its Related Security.

Neither the Seller nor the Servicer (as applicable) shall be permitted to issue any offer for a Further Advance to any Borrower with a Loan which is delinquent or which is in default.

**Product Switches:** The Seller (or the Servicer on behalf of the Seller) may offer a Borrower (and the Borrower may accept), or a Borrower may request, a Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio on the date that the Product Switch is made (the **Switch Date**).

*Repurchase by the Seller*

The Seller will be required to repurchase any Loan, Further Advance or Product Switch sold pursuant to the Mortgage Sale Agreement if any Loan Warranty made by the Seller in relation to that New Loan, Further

Advance, Flexible Drawing or Product Switch (as applicable) and/or its Related Security proves on the Calculation Date following the relevant Sale Date, Advance Date or Switch Date (as applicable), or any other subsequent date after such Calculation Date, (and for the purposes of this paragraph only the **Relevant Date**) to be materially untrue as at the Relevant Date, and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer, then the relevant New Loan, Further Advance, Flexible Drawing or Product Switch (as applicable), its related Loan and its Related Security must be repurchased by the Seller on the next Business Day following receipt by the Seller of a Loan Repurchase Notice.

If a Flexible Drawing Shortfall Advance and/or a Further Advance Shortfall Advance has been made to the Issuer and the Issuer (or the Cash Manager on its behalf) determines on the Business Day before the following Distribution Date that it will be unable to repay such all or part of such advance on the Distribution Date, the Seller shall be required to repurchase the Loan and the Related Security relating to the Flexible Drawing and/or Further Advance in respect to which the Flexible Drawing Shortfall Advance and/or Further Advance Shortfall Advance (as applicable) was made on the Distribution Date.

Prior to the occurrence of a Seller Insolvency Event, the Seller may at any time on any Interest Payment Date from and including the Interest Payment Date falling in November 2008, offer to repurchase a Loan and its Related Security from the Issuer. The Issuer (or the Servicer acting on its behalf) may at its absolute discretion accept such offer, however, if the Issuer intends to use the proceeds of such a sale of Loans and their Related Security to redeem all, or any sub-class, of the Notes, then the Issuer's (or the Servicer acting on its behalf) acceptance of such an offer shall be subject to its compliance with Condition 7.3(a) of the Conditions.

Prior to the occurrence of a Seller Insolvency Event, the Seller may at any time offer to repurchase a Defaulted Loan and its Related Security from the Issuer. The Issuer (or the Servicer acting on its behalf) may at its absolute discretion accept such offer.

**Defaulted Loan** means a Loan in the Portfolio which is more than three months in arrears.

#### *Governing Law*

English (other than certain aspects relating to the Scottish Loans and their Related Security which are governed by Scots law).

#### **Servicing Agreement**

##### *Introduction*

On the Closing Date, the Servicer will be appointed by the Issuer (and (a) in the case of English Loans for so long as they are subject to the CCA Trust, by the Seller in its capacity as trustee of the CCA Trust on the instructions of the Issuer or beneficiary; and (b) in the case of Scottish Loans for so long as they are subject to the trusts created by the Scottish Declarations of Trust (the **Scottish Trust**), by the Seller in its capacity as trustee of the Scottish Trust to be its agent to service the Loans and their Related Security. The Servicer must comply with any proper directions and instructions that the Issuer or, following service of a Note Acceleration Notice, the Security Trustee may from time to time give to it in accordance with the provisions of the Servicing Agreement. The Servicer is required to service the Loans:

- in accordance with the Servicing Agreement; and
- as if the Loans and their Related Security had not been sold to (or otherwise held on trust under the CCA Trust for the benefit of) the Issuer but remained with the Seller, and in accordance with the Seller's procedures and administration and enforcement policies as they apply to those Loans from time to time.

The Servicer's actions in servicing the Loans and their Related Security in accordance with its procedures are binding on the Issuer. The Servicer may, in some circumstances, delegate or sub-contract some or all of its responsibilities and obligations under the Servicing Agreement. However, the Servicer remains liable at all times for servicing the Loans and their Related Security and for the acts or omissions of any delegate or sub-contractor.

#### *Powers*

Subject to the guidelines for servicing set forth in the preceding section, the Servicer has the power, among other things:

- to exercise the rights, powers and discretions of the Issuer in relation to the Loans and their Related Security and to perform their duties in relation to the Loans and their Related Security; and
- to do or cause to be done any and all other things which it reasonably considers necessary or convenient or incidental to the administration of the Loans and their Related Security or the exercise of such rights, powers and discretions.

#### *Undertakings by the Servicer*

The Servicer has undertaken, among other things:

2. to maintain approvals, authorisations, permissions, registrations, consents and licences (including in respect of any software used by the Servicer) required in order to perform its obligations under the Servicing Agreement;
3. to notify relevant Borrowers of any change in their Monthly Payments;
4. to keep records and accounts on behalf of the Issuer in relation to the Loans and their Related Security;
5. to keep records for all taxation purposes and VAT;
6. to keep customer files, (where applicable) Title Deeds, (where applicable) Insurance Policies and the receipt of notices of assignment relating to the Relevant Loans and their related Security in safe custody and maintain records necessary to enforce each mortgage;
7. to provide the Issuer, the Seller (where the Seller is no longer the Servicer, the Security Trustee and any other person nominated by it (to whom the Servicer has no reasonable objection) and each of their respective auditors upon reasonable notice during normal office hours to have access, or procure that such person or persons are granted access, to all books of record and account (including, for the avoidance of doubt, the relevant Title Deeds (if any) and Customer Files) relating to the administration of the relevant Loans and their Related Security;
8. to assist the Cash Manager in the preparation of a monthly report;
9. to take all reasonable steps to recover all sums due to the Issuer, including (without limitation) by the institution of proceedings and/or by the enforcement of any Loan or any Related Security;
10. to enforce any Loan or its Related Security which is in default in accordance with its enforcement procedures or, if these are inapplicable having regard to the nature of the default in question, take such action as is not materially prejudicial to the interests of the Issuer;



11. to provide to the Rating Agencies such information relating to its mortgage business and financial condition as the Rating Agencies may reasonably request in connection with the ratings of the Notes, provided that such request does not adversely interfere with the Servicer's day-to-day provision of services under the Servicing Agreement, and, in particular, to facilitate an annual review if required by the Rating Agencies of the Portfolio;
12. to act as collection agent for the Issuer under the Direct Debiting Scheme; and
13. to take all other action and do all other things which it would be reasonable to expect a Reasonable, Prudent Mortgage Lender to do in administering its loans and their related security.

*Setting of Interest Rates on the Loans*

The Servicer has undertaken, pursuant to the Servicing Agreement, to determine and set the Standard Variable Rate and, if applicable, any variable margin applicable in relation to Tracker Rate Loans chargeable to Borrowers from time to time. The Servicer shall not at any time, without the prior consent of the Issuer, set or maintain:

- (i) a margin in respect of any Tracker Rate Loan in respect of which the offer conditions for that Loan provide that the margin above the Bank of England base rate or other relevant variable rate shall be the same as the margin above the Bank of England base rate or other relevant variable rate applicable to all other Loans having the same offer conditions in relation to interest rate setting as that Tracker Rate Loan at a rate which is higher or lower than the margin above the Bank of England base rate or other relevant variable rate then applying to Tracker Rate Loans then applying to Loans with such offer conditions as are beneficially owned by the Seller outside the Portfolio; and
- (ii) a margin above the Bank of England base rate or other relevant variable rate in respect of any other Tracker Rate Loan at a rate which is higher than the margin above the Bank of England base rate or other relevant variable rate which would then be set in accordance with the Seller's policy from time to time in relation to that Tracker Rate Loan if such Loan had remained beneficially owned by the Seller outside the Portfolio,

unless the Servicer is required to do so pursuant to Clause 4.4 of the Servicing Agreement, and, subject to that requirement, it shall not change the Standard Variable Rate or any variable margin applicable to any Tracker Rate Loans save for the same reasons as the Seller was entitled, under the Mortgage Conditions, to change the relevant variable margin prior to the sale to the Issuer of such Tracker Rate Loans comprised in the Portfolio and their Related Security. The Issuer shall be bound by the Standard Variable Rate and any variable margin applicable to any Tracker Rate Loans set in accordance with the Servicing Agreement.

In particular, the Servicer shall determine on each Calculation Date having regard to the aggregate of:

- (A) the income which the Issuer would expect to receive during the Interest Period in which that Calculation Date falls;
- (B) the Standard Variable Rate and any variable margin applicable to any Tracker Rate Loans which the Servicer proposes to set under the Servicing Agreement; and
- (C) the other resources available to the Issuer, including the Interest Rate Swap Agreement, the General Reserve Fund and the Yield Reserve Fund,

whether the Issuer would receive an amount of revenue 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 Notes on the Interest Payment Date following the end of that Interest Period and amounts which rank in priority thereto under the Priority of Payments.

If the Servicer determines that there would be a shortfall in the foregoing amounts, it will give written notice to the Issuer and the Security Trustee, within one Business Day of such determination, of the amount of the shortfall and the Standard Variable Rate and any variable margin applicable to any Tracker Rate Loans which would (taking into account the applicable Mortgage Conditions), in the Servicer's reasonable opinion, need to be set in order for no shortfalls to arise, having regard to the date(s) on which the change to the Standard Variable Rate and the variable margins applicable to any Tracker Rate Loans would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender as regards the competing interests of Borrowers with Standard Variable Rate Loans and Borrowers with Tracker Rate Loans.

If the Issuer notifies the Servicer (with a copy to the Security Trustee) that, having regard to the obligations of the Issuer, the Standard Variable Rate and/or any variable margins applicable to any Tracker Rate Loans should be increased, then the Servicer will take all steps which are necessary to increase the Standard Variable Rate and/or variable margins applicable to any Tracker Rate Loans, including publishing any notice which is required in accordance with the applicable mortgage terms.

The Issuer (prior to the delivery of a Note Acceleration Notice) with the prior written consent of the Security Trustee and (following delivery of a Note Acceleration Notice) the Security Trustee may terminate the authority of the Servicer to determine and set the Standard Variable Rate and any variable margin applicable to any Tracker Rate Loans on or after the occurrence of a Servicer Termination Event as defined under "*Removal or Resignation of the Servicer*" below, in which case the Issuer shall set the Standard Variable Rate and any variable margin applicable to any Tracker Rate Loans itself in accordance with the above provisions.

#### *Reasonable, Prudent Mortgage Lender*

The requirement for any action to be taken according to the standards of a Reasonable, Prudent Mortgage Lender. For the avoidance of doubt, any action taken by the Servicer to set Standard Variable Rates and (if applicable) any variable margins applicable in relation to any Tracker Rate Loans which are lower than that of the competitors of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

#### *Compensation of the Servicer*

The Servicer receives a fee for servicing the Loans and their Related Security. The Issuer pays to the Servicer a servicing fee (inclusive of VAT, if any) of 0.025 per cent. per annum, on the outstanding principal balance of all Loans in the Portfolio as at the opening of business on the preceding Interest Payment Date (or, as applicable, the Closing Date). The fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Acceleration Revenue Priority of Payments or, as the case may be, the Post-Acceleration Priority of Payments.

#### *Removal or Resignation of the Servicer*

If any of the following events (each a **Servicer Termination Event**) shall occur:

- (a) default is made by the Servicer in the payment on the due date of any payment due and payable by it under this Agreement and such default continues unremedied for a period of five (5) Business Days after receiving written notice of such default;
- (b) default is made by the Servicer in the performance or observance of any of its other covenants and obligations under this Agreement, which in the reasonable opinion of the Issuer (prior to the delivery of a Note Acceleration Notice) or the Security Trustee (after the delivery of a Note Acceleration Notice and as directed by the Note Trustee) is materially prejudicial to the interests of the Noteholders and such default continues unremedied for a period of twenty (20) Business Days after becoming aware of such default provided however that where the relevant default occurs as a result

of a default by any person to whom the Servicer has sub-contracted or delegated part of its obligations hereunder, such default shall not constitute a Servicer Termination Event if, within such period of ten (10) Business Days of receipt of such notice from the Issuer or the Security Trustee, the Servicer terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Issuer or the Security Trustee may in their absolute discretion specify to remedy such default or to indemnify the Issuer against the consequences of such default;

- (c) the occurrence of an insolvency event in relation to the Servicer; or
- (d) the Issuer is of the opinion, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated,

then the Issuer (prior to the delivery of the Note Acceleration Notice) with the written consent of the Security Trustee, or the Security Trustee itself (after delivery of a Note Acceleration Notice and as directed by the Notes Trustee) (in the case of (a) or (b)) may, at once or at any time thereafter while such default continues, and (in the case of (c)) shall, at once, by notice in writing to the Servicer and the Rating Agencies terminate the Servicer's appointment as a Servicer under the Servicing Agreement with effect from a date (not earlier than the date of the notice) specified in the notice. Upon termination of the appointment of the Servicer, the Issuer and the Seller shall use their reasonable endeavours to appoint a substitute servicer whose appointment is approved by the Security Trustee (as directed by the Note Trustee).

Subject to the fulfilment of a number of conditions (including the appointment of a substitute servicer), the Servicer may voluntarily resign by giving not less than 12 months' notice to the Issuer, the Security Trustee and the Seller. The substitute servicer is required to have experience of administering mortgages in the United Kingdom and to enter into a servicing agreement with the Issuer, the Seller and the Security Trustee substantially on the same terms as the Servicing Agreement. It is a further condition precedent to the resignation of the Servicer that the current ratings of the Notes are not downgraded, withdrawn or qualified as a result of the resignation, unless the Noteholders otherwise agree by extraordinary resolutions.

If the appointment of the Servicer is terminated, the Servicer must deliver customer files relating to the Loans to, or at the direction of, the Issuer or the Security Trustee. The Servicing Agreement will terminate when the Issuer ceases to have any interest in the Portfolio.

#### *Right of Delegation by the Servicer*

The Servicer may sub-contract or delegate the performance of all or any of its powers and obligations under the Servicing Agreement, provided that such sub-contracting or delegation would not prevent such Servicer, the Issuer or the Security Trustee from complying in all material respects with any law, statute, judgment, decree, order, licence, authorisation or rule and provided further, including that:

- prior written notification of the proposed arrangement has been given to the Issuer, the Security Trustee and each of the Rating Agencies by the Servicer;
- where the arrangement involves the custody or control of any Customer Files and/or Title Deeds (if any) relating to the relevant Loans and their Related Security in the Portfolio, for the purpose of performing any delegated Services the subcontractor or delegate has executed a written acknowledgement in form and substance acceptable to the Issuer and the Security Trustee to the effect that any such Customer Files and/or Title Deeds are and will be held to the order of the Issuer or (after the delivery of a Note Enforcement Notice) the Security Trustee;
- where the arrangement involves or may involve the receipt by the sub-contractor or delegate of monies belonging to the Issuer which, in accordance with the Servicing Agreement or any other Transaction Document, are to be paid into the GIC Account, the Transaction Account or any Additional Account as the case may be, the sub-contractor or delegate has executed a declaration in

form and substance acceptable to the Issuer that any such monies held by it or to its order are held on trust for the Issuer and will be paid forthwith into the GIC Account, the Transaction Account or the relevant Additional Account, as the case may be, in accordance with the terms of the Servicing Agreement and any other applicable Transaction Documents;

- any such sub-contractor or delegate has executed a written waiver of any Security Interest arising in connection with such delegated Services (to the extent that such Security Interest relates to the relevant Loans and their Related Security in the Portfolio or any amount referred to in the immediately preceding paragraph);
- neither the Security Trustee nor the Issuer shall have any liability for any costs, charges or expenses payable to or incurred by such subcontractor or delegate or arising from the entering into, the continuance or the termination of any such arrangement; and
- any such subcontractor or delegate shall have confirmed to the Servicer, and the Security Trustee that it has, and shall maintain, all approvals required for itself in connection with the fulfilment of its obligations under this Agreement and any agreement with the Servicer.

If the Servicer sub-contracts or delegates the performance of its duties, it will nevertheless remain responsible for the performance of those duties to the Issuer and the Security Trustee.

#### *Liability of the Servicer*

The Servicer will indemnify the Issuer against all losses, liabilities, claims, expenses or damages incurred as a result of negligence or wilful default by the Servicer in carrying out its functions under the Servicing Agreement or any other transaction document or as a result of a breach of the terms of the Servicing Agreement.

#### *Governing law*

The Servicing Agreement is governed by English law, provided that any terms of the Servicing Agreement which are particular to Scots law will be construed in accordance with the laws of Scotland.

#### **Deed of Charge**

On or about the Closing Date, the Issuer will enter into a deed of charge (the **Deed of Charge**) with, *inter alios*, the Security Trustee.

#### *Security*

Under the terms of the Deed of Charge, the Issuer will provide the Security Trustee with the benefit of, *inter alia*, the following security (the **Security**):

- (a) an assignment by way of first fixed security of (and, to the extent not assigned, a charge (which may take effect as a floating charge) over) all of the Issuer's right, title, interest and benefit in and to the Transaction Documents;
- (b) an assignment by way of first fixed security of (and, to the extent not assigned, a charge (which may take effect as a floating charge) over) all of the Issuer's interest in the English Loans and their Related Security and other related rights comprised in the Portfolio;
- (c) an assignment by way of first fixed security of (and, to the extent not assigned, a charge (which may take effect as a floating charge) over) all of the Issuer's right, title, interest and benefit to and under insurance policies sold to the Issuer pursuant to the Mortgage Sale Agreement;

- (d) an assignation in security of the Issuer's interest in the Scottish Loans and their Related Security (comprising the Issuer's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);
- (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof;
- (f) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Authorised Investments permitted to be made by the Issuer; and
- (g) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge but extending over all of the Issuer's property, assets, rights and revenues as are situated in Scotland or governed by Scots law (whether or not the subject of fixed charges as aforesaid).

In respect of the property, rights and assets referred to in paragraph (d) above, fixed security will be expressed to be created over such property, rights and assets sold to the Issuer after the Closing Date by means of Scottish supplemental charges granted pursuant to the Deed of Charge (each a **Scottish Supplemental Charge**).

**Authorised Investments** means:

- (a) Sterling gilt-edged securities;
- (b) UK Treasury Bills; and
- (c) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper),

provided that in all cases either such investments (i) have a maturity date of 90 days or less and mature on or before the next following Interest Payment Date or (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Interest 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 person under the FSMA) are rated at least A-1 by S&P and F1+ by Fitch (and "AA-" (long-term) by each of S&P and Fitch if the issuing or guaranteeing entity has a long-term rating).

**Transaction Documents** means the Servicing Agreement, the Agency Agreement, the Bank Account Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge), the Interest Rate Swap Agreement, the Holdings Declaration of Trust, the Issuer Nominee Declaration of Trust, the Issuer Power of Attorney, the Master Definitions and Construction Schedule, the Liquidity Facility Agreement, the Mortgage Sale Agreement, each Scottish Declaration of Trust, the Seller Power of Attorney, the Subordinated Loan Agreement, the Subscription Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes.

Whether a fixed security interest expressed to be created by the Deed of Charge will be upheld as a fixed security interest rather than floating security will depend, among other things, on whether the Security Trustee has the requisite degree of control under the Transaction Documents over the chargor's ability to deal in the relevant assets and the proceeds thereof, and if so, whether such control is exercised by the Security Trustee in practice. Noteholders should assume that there is a floating charge only over the charged assets.

Unlike the fixed charges, the floating charge does not attach to specific assets but instead "floats" over a class of assets which may change from time to time, allowing the Issuer to deal with those assets and to give

third parties title to those assets free from any encumbrance in the event of sale, discharge or modification, provided those dealings and transfers of title are in the ordinary course of the Issuer's business. Any assets acquired by the Issuer after the Closing Date (including assets acquired as a result of the disposition of any other assets of the Issuer) will also be subject to the floating charge unless they are subject to the fixed charges mentioned in this section.

The floating charge created by the Deed of Charge allows the Security Trustee to appoint an administrative receiver of the Issuer and thereby prevent the appointment of an administrator of the Issuer by one of the Issuer's other creditors. An appointment of an administrative receiver by the Security Trustee under the Deed of Charge will not be prohibited by Section 72A of the Insolvency Act 1986 as the appointment will fall within the exception set out under Section 72B of the Insolvency Act 1986 (First Exception: Capital Markets). Therefore, in the event that enforcement proceedings are commenced in respect of amounts due and owing by the Issuer, the Security Trustee will be entitled to control those proceedings in the best interests of the Noteholders. However, see "*Risk factors — Change of law*" relating to the appointment of administrative receivers.

**Secured Creditors** means the Security Trustee, the Note Trustee, the Noteholders, the Seller, the Servicer, the Liquidity Facility Provider, the Cash Manager, the Interest Rate Swap Provider, the Account Bank, the Subordinated Loan Provider, the Corporate Services Provider, the Paying Agent, the Registrar, the Agent Bank and any other person who is expressed in any deed supplemental to the Deed of Charge to be a secured creditor.

The interest of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidator and the claims of certain preferential creditors on enforcement of the Security. Section 250 of the Enterprise Act 2002 abolishes Crown Preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to debts due to the holder of a floating charge) but a new Section 176A of the Insolvency Act 1986 (as inserted by Section 251 of the Enterprise Act 2002) requires a "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

The floating charge created by the Deed of Charge may "crystallise" and become a fixed charge over the relevant class of assets owned by the Issuer at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Deed of Charge, including, among other events, when an Event of Default occurs. A crystallised floating charge will rank ahead of the claims of unsecured creditors which are in excess of the prescribed part but will rank behind the expenses of any administration or liquidator, the claims of preferential creditors and the beneficiaries of the prescribed part on enforcement of the Security.

#### *Pre-Acceleration Revenue Priority of Payments and Pre-Acceleration Principal Priority of Payments*

Prior to the Note Trustee serving a Note Acceleration Notice on the Issuer pursuant to Condition 10 (Events Of Default) of the Notes, declaring the Notes to be immediately due and payable, the Cash Manager (on behalf of the Issuer) shall apply moneys standing to the credit of the Transaction Account as described in "*Cashflows — Application of Available Revenue Receipts prior to service of a Note Acceleration Notice on the Issuer*" and "*Application of Available Principal Receipts prior to the service of a Note Acceleration Notice on the Issuer*" below.

### *Post-Acceleration Priority of Payments*

After the Note Trustee has served a Note Acceleration Notice on the Issuer pursuant to Condition 10 (Events Of Default) of the Notes, declaring the Notes to be immediately due and payable, the Security Trustee shall apply the moneys available in accordance with the Post-Acceleration Priority of Payments defined in "*Cashflows — Distribution of Available Principal Receipts and Available Revenue Receipts following the service of a Note Acceleration Notice on the Issuer*" below.

The Security will become enforceable following the service of a Note Acceleration Notice on the Issuer pursuant to Condition 10 (Events Of Default) of the Notes provided that, if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Security Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders (and all persons ranking in priority to the Noteholders as set out in the order of priority of payment below) or the Security Trustee is of the opinion that the cashflow expected to be received 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 the Noteholders (and all persons ranking in priority to the Noteholders as set out in the order of priority below), which opinion shall be binding on the Secured Creditors and reached after considering at anytime and from time to time the advice of any financial adviser (or such other professional adviser selected by the Security Trustee for the purpose of giving such advice).

The fees and expenses of the aforementioned financial adviser or other professional adviser selected by the Security Trustee shall be paid by the Issuer.

### *Governing Law*

English law (other than each Scottish Supplemental Charge granted pursuant and supplemental to the Deed of Charge, which will be governed by Scots law).

### **Cash Management Agreement**

On or about the Closing Date, the Cash Manager, the Issuer, and the Security Trustee will enter into the Cash Management Agreement.

### *Cash Management Services to be Provided to the Issuer*

Pursuant to the Cash Management Agreement, the Cash Manager will agree to provide certain cash management and other services to the Issuer. The Cash Manager's principal function will be effecting payments to and from the GIC Account and the Transaction Account. In particular, the Cash Manager will:

- (a) apply, or cause to be applied Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments and Available Principal Receipts in accordance with the applicable Pre-Acceleration Principal Priority of Payments;
- (b) make withdrawals from the General Reserve Fund, the Yield Reserve Fund and the Retained Principal Receipts Fund as and when required;
- (c) make payments of the consideration for a Further Advance and/or Flexible Drawing to the Seller; and
- (d) make drawings under the Liquidity Facility Agreement.

In addition, the Cash Manager will:

- (a) maintain the following ledgers (the **Ledgers**) on behalf of the Issuer:
- (i) the **Principal Ledger**, which records all Principal Receipts received by the Issuer and the distribution of the Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
  - (ii) the **Revenue Ledger**, which records all amounts under items (a), (b), (c) and (f) of Available Revenue Receipts received by the Issuer and distribution of the same in accordance with the Pre-Acceleration Revenue Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
  - (iii) the **General Reserve Ledger**, which records amounts credited to the general reserve fund (the **General Reserve Fund**) from the proceeds of Tranche B of the Subordinated Loan Agreement and from Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments and withdrawals from the General Reserve Fund on each Distribution Date (see "*Credit Structure — General Reserve Fund*" below);
  - (iv) the **Yield Reserve Ledger** which records amounts credited to the yield reserve fund (the **Yield Reserve Fund**) from the proceeds of Tranche C of the Subordinated Loan Agreement and withdrawals from the Yield Reserve Fund on each Distribution Date (see "*Credit Structure — Yield Reserve Fund*" below);
  - (v) the **Retained Principal Receipts Ledger**, which records amounts credited to the Retained Principal Receipts Fund from Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments on each Distribution Date during the Revolving Period and withdrawals from the Retained Principal Receipts Fund on any Sale Date, Advance Date or Flexible Drawing Date (as applicable) during the Revolving Period or on each Interest Payment Date during the Revolving Period that amounts have been standing to the credit thereof for two consecutive Interest Periods (see "*Credit Structure — Retained Principal Receipts Fund*" and "*Cashflows – Definition of Available Principal Receipts*" below);
  - (vi) the **Principal Deficiency Ledger**, which records deficiencies arising from Losses on the Portfolio. The Principal Deficiency Ledger will record as a credit Available Revenue Receipts applied pursuant to items (g) and (h) of the Pre-Acceleration Revenue Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, thereupon become Available Principal Receipts); and
  - (vii) the **Liquidity Facility Ledger**, which will comprise two sub-ledgers, being the **Interest Shortfall Advance Ledger** and the **Flexible Drawings/Further Advance Shortfall Advance Ledger**. The Interest Shortfall Advance Ledger shall record drawings by way of an Interest Shortfall Advance under the Liquidity Facility (as a credit) and the amount of all repayments of an Interest Shortfall Advance (as a debit). The Flexible Drawings/Further Advance Shortfall Advance Ledger shall record all drawings by way of a Flexible Drawings Shortfall Advance and/or Further Advance Shortfall Advance under the Liquidity Facility (as a credit) and all repayments of such drawings (as a debit);
- (b) calculate on each Calculation Date the amount of Available Revenue Receipts and Available Principal Receipts to be applied on the relevant Distribution Date;
- (c) provide the Issuer, the Seller, the Security Trustee and the Rating Agencies with monthly reports in relation to the Portfolio; and



- (d) invest moneys standing from time to time to the credit of a Bank Account in Authorised Investments as determined by the Issuer or by the Servicer subject to the following provisions:
  - (i) any such Authorised Investment shall be made in the name of the Issuer;
  - (ii) any costs properly and reasonably incurred in making and changing Authorised Investments will be reimbursed to the Cash Manager by the Issuer; and
  - (iii) all income and other distributions arising on, or proceeds following the disposal or maturity of, Authorised Investments shall be credited to the relevant Bank Account.

#### *Remuneration of Cash Manager*

The Cash Manager receives a fee for its cash management services under the Cash Management Agreement. The Issuer pays to the Cash Manager a cash management fee (inclusive of VAT, if any) of 0.025 per cent. per annum, on the outstanding principal balance of all Loans in the Portfolio as at the opening of business on the preceding Interest Payment Date (or, as applicable, the Closing Date). The fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Acceleration Revenue Priority of Payments or, as the case may be, the Post-Acceleration Priority of Payments.

#### *Termination of Appointment of Cash Manager*

If the Cash Manager defaults in the performance of its obligations under the Cash Management Agreement and such default remains unremedied (if capable of remedy) for a specified period thereafter or an Insolvency Event occurs in relation to the Cash Manager or (while the Cash Manager is Bank of Scotland) a BoS Downgrade Event occurs, then the Issuer (prior to the delivery of a Note Acceleration Notice and with the written consent of the Security Trustee) or the Security Trustee (following delivery of a Note Acceleration Notice) may at once or at any time thereafter if the default is continuing, by notice in writing to the Cash Manager, terminate the appointment of the Cash Manager. (In this context **Insolvency Event** has the same meaning as Seller Insolvency Event (as defined in "*Summary of Key Transaction Documents — Mortgage Sale Agreement — Title to Mortgages, Registration and Notification*" above) but any reference to a Seller shall be deemed to be a reference to the Cash Manager.)

The Cash Manager may resign from its appointment as Cash Manager on giving 12 months' written notice thereof to the Security Trustee and the Issuer if, *inter alia*:

- (a) a substitute cash manager has been appointed and a new cash management agreement is entered into on terms satisfactory to the Security Trustee and the Issuer (and the Cash Manager shall not be released from its appointment under the Cash Management Agreement until such an appointment has been made and such new agreement has been entered into); and
- (b) the Issuer and Security Trustee have received confirmation from each of the Rating Agencies that the then current ratings of the existing Notes would not be adversely affected as a result thereof.

#### *Liability of the Cash Manager*

The Cash Manager will indemnify each of the Issuer and the Security Trustee on an after-tax basis for any loss, liability, claim, expense or damage suffered or incurred by it in respect of the negligence, fraud or wilful default of the Cash Manager in carrying out its functions as Cash Manager under, or as a result of a breach by the Cash Manager of, the terms and provisions of the Cash Management Agreement or such other Transaction Documents to which the Cash Manager is a party (in its capacity as such) in relation to such functions.

*Governing Law*

English.

**Other Agreements**

For a description of the Interest Rate Swap Agreement and the Subordinated Loan Agreement, see "*Credit Structure*" below.

## CREDIT STRUCTURE

The Notes are obligations of the Issuer only. The Notes are not obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes are not obligations of, or the responsibility of, or guaranteed by, any of the Seller, the Interest Rate Swap Provider, the Arranger, the Liquidity Facility Provider, the Servicer, the Cash Manager, the Account Bank, the Note Trustee, the Security Trustee, any company in the same group of companies as any such entities 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 the Seller, the Interest Rate Swap Provider, the Arranger, the Liquidity Facility Provider, the Servicer, the Cash Manager, the Account Bank, the Note Trustee, the Security Trustee or by any other person other than the Issuer.

The structure of the credit support arrangements may be summarised as follows:

### 1. Credit Support for the Notes provided by Available Revenue Receipts

It is anticipated that, during the life of the Notes, the interest payable by Borrowers on the Loans will, assuming that all of the Loans are fully performing, be sufficient so that the Available Revenue Receipts will be sufficient to pay the amounts payable under items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments. The actual amount of any excess will vary during the life of the Notes. Two of the key factors determining such variation are the interest rates applicable to the Loans in the Portfolio (as to which, see "*Interest Rate Risk for the Notes*" below) and the performance of the Portfolio.

#### *Performance of the Portfolio*

Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre-Acceleration Revenue Priority of Payments) on each Distribution Date towards reducing any Principal Deficiency Ledger entries which may arise from Losses on the Portfolio.

To the extent that the amount of Available Revenue Receipts on each Distribution Date exceeds the aggregate of the payments and provisions required to be met in priority to item (i) of the Pre-Acceleration Revenue Priority of Payments, such excess is available to replenish and increase the General Reserve Fund up to and including an amount equal to the General Reserve Required Amount.

### 2. General Reserve Fund

On the Closing Date, the Issuer will establish a fund called the **General Reserve Fund**. The General Reserve Fund will be funded on the Closing Date from the proceeds of the issue of the Tranche B of the Subordinated Loan in the sum of £1,311,000,000 (being an amount equal to 19 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date). The General Reserve Fund will be credited to the GIC Account (with a corresponding credit to the General Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments.

The Cash Manager will maintain the General Reserve Ledger pursuant to the Cash Management Agreement to record the balance from time to time of the General Reserve Fund.

After the Closing Date, the General Reserve Fund will be funded up to the General Reserve Required Amount from Available Revenue Receipts and will be replenished from Available Revenue Receipts in accordance with the provisions of the Pre-Acceleration Revenue Priority of Payments.

The **General Reserve Required Amount** will be an amount equal to £1,311,000,000 (being an amount equal to 19 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date).

On any Distribution Date on which the Notes are fully repaid or provided for, the Issuer will not be required to maintain the General Reserve Fund and any amounts held in the General Reserve Fund will be applied in accordance with the Pre-Acceleration Revenue Priority of Payments.

### 3. **Yield Reserve Fund**

On the Closing Date, the Issuer will establish a fund called the **Yield Reserve Fund** (together with the General Reserve Fund, the **Reserve Funds**). The Yield Reserve Fund will be funded on the Closing Date by the proceeds of issue of the Tranche C of the Subordinated Loan in the sum of £138,000,000 (being an amount equal to 2 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date). The Yield Reserve Fund will be credited to the GIC Account (with a corresponding credit to the Yield Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments.

Amounts standing to the credit of the Yield Reserve Ledger will be included in Available Revenue Receipts to the extent that there is a shortfall in Available Revenue Receipts (excluding, for this purpose, amounts standing to the credit of the General Reserve Ledger) to pay (or provide for) interest due and payable on the Notes (and senior costs ranking in priority thereto).

The Cash Manager will maintain the Yield Reserve Ledger pursuant to the Cash Management Agreement to record the balance from time to time of the Yield Reserve Fund.

On any Distribution Date on which the weighted average yield on the Loans in the Portfolio is above LIBOR for three-month Sterling deposits plus 0.65 per cent, the Issuer shall apply amounts credited to the Yield Reserve Ledger towards repayment of Tranche C of the Subordinated Loan (such funds to be applied first to pay accrued but unpaid and uncapitalised interest on that advance).

On any Distribution Date on which the Notes are fully repaid or provided for, the Issuer will not be required to maintain the Yield Reserve Fund and any amounts held in the Yield Reserve Fund will be applied in accordance with the Pre-Acceleration Revenue Priority of Payments.

### 4. **Liquidity Facility**

If the Cash Manager determines:

- (a) that on the Calculation Date immediately preceding a Distribution Date (the **Interest Shortfall Date**), that there will be insufficient Available Revenue Receipts to pay or provide for payment of the items described in (a) to (f) of the Pre-Acceleration Revenue Priority of Payments (the extent of such deficiency being the **Interest Shortfall**); and/or
- (b) that on the date one Business Day after a Flexible Drawing Date (the **Flexible Drawing Shortfall Date**), there are insufficient funds standing to the credit of the Retained Principal Receipts Fund or otherwise insufficient Principal Receipts to pay the relevant Flexible Drawing Purchase Price (the extent of such deficiency being the **Flexible Drawing Shortfall**); and/or
- (c) that on the date one Business Day after a Further Advance Date (the **Further Advance Shortfall Date**), there are insufficient funds standing to the credit of the Retained Principal Receipts Fund or otherwise insufficient Principal Receipts to pay the relevant Further Advance Purchase Price (the extent of such deficiency being the **Further Advance Shortfall**); and/or

**Shortfall** and together with the Interest Shortfall and Flexible Drawing Shortfall, the **Liquidity Shortfall**),

then the Cash Manager must direct the Issuer to request a drawing under the Liquidity Facility by way of separate Liquidity Loans in the amount of:

- (a) the relevant Interest Shortfall (such Liquidity Loan, an **Interest Shortfall Advance**); and/or
- (b) the relevant Flexible Drawing Shortfall (such Liquidity Loan, a **Flexible Drawing Shortfall Advance**); and/or
- (c) the relevant Further Advance Shortfall (such Liquidity Loan, a Further Advance Shortfall Advance),

to be advanced to (in the case an Interest Shortfall Advance) the Issuer on the relevant Interest Shortfall Date or (in the case of a Flexible Drawing Shortfall Advance and Further Advance Shortfall Advance) on the relevant Flexible Drawing Shortfall Date or Further Advance Shortfall Date (as applicable).

The drawing in respect of any Interest Shortfall Advance will be the lesser of the amount of the Interest Shortfall and the amount specifically available for drawings of Interest Shortfall Advances under the Liquidity Facility (the **Interest Shortfall Commitment**). The drawing in respect of any Flexible Drawing Shortfall Advance and/or Further Advance Shortfall Advance will be the lesser of the amount of the relevant Shortfall and the amount specifically available for Flexible Drawing Shortfall Advances and Further Advance Shortfall Advances under the Liquidity Facility (the **Flexible Drawing/Further Advance Shortfall Commitment**, together with the Interest Shortfall Commitment, the **Commitment**). A drawing may only be made by a duly completed drawdown notice signed by an authorised signatory of the Issuer. With respect to an Interest Shortfall Advance only, no drawing may be made if an event of default exists under the Liquidity Facility or if the amount debited to the Note Principal Deficiency Ledger on both the date of the request and the utilisation date is equal to or greater than 50 per cent of the then Principal Amount Outstanding of the Notes.

Any drawings made under the Liquidity Facility Agreement in respect of a Flexible Drawing Shortfall or a Further Advance Shortfall will be paid directly to the Seller on the relevant Flexible Drawing Shortfall Date or Further Advance Shortfall Date (as applicable) pursuant to the obligation of the Issuer to pay the Flexible Drawing Purchase Price and the Further Advance Purchase Price in accordance with the Mortgage Sale Agreement.

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 A-1 by S&P and F1 by Fitch (the **Requisite Ratings**); or
- (b) the Liquidity Facility Provider does not agree to renew the Liquidity Facility beyond each 364-day commitment period,

then the Issuer may require the Liquidity Facility Provider to pay an amount equal to the then undrawn commitment under the Liquidity Facility Agreement (the **Standby Loan**) into a designated bank account of the Issuer for such purpose (the **Liquidity Facility Standby Account**). The Liquidity Facility Standby Account must be maintained with a bank having the Requisite Ratings, which will be the Liquidity Facility Provider if it has the Requisite Ratings. Amounts standing to the credit of the Liquidity Facility Standby Account will be available for drawing during the period that

the Liquidity Facility is available in the circumstances described and for investing in short-term authorised investments.

All interest accrued on the amount on deposit in the Liquidity Facility Standby Account will belong to the Issuer.

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.

Interest will be payable to the Liquidity Facility Provider on the principal amount drawn under the Liquidity Facility. This interest is payable at a rate based on Monthly LIBOR plus a margin of 0.50 per cent. (for a Liquidity Loan) or 0.40 per cent. (for a Standby Loan). Unpaid interest will be added to the principal amount owed to the Liquidity Facility Provider and interest accrues on that amount. A commitment fee is also payable at the rate of 0.20 per cent. per annum on the average undrawn, uncanceled amount of the Liquidity Facility. The commitment fee is payable quarterly in arrear on each Interest Payment Date. Interest in respect of a drawing under the Liquidity Facility and fees on the Liquidity Facility are senior to amounts due to the Noteholders under the Pre-Acceleration Revenue Priority of Payments and under the Post-Acceleration Priority of Payments.

If an Interest Shortfall Advance has been made, then the amount of that Interest Shortfall Advance will be due for repayment on the following Distribution Date from Available Revenue Receipts. All interest payable on the various types of Liquidity Loans will also be paid on each Distribution Date from Available Revenue Receipts. If there are insufficient Available Revenue Receipts for this purpose, then the Issuer may re-draw the Liquidity Facility to fund that borrowing.

If a Further Advance Shortfall Advance or a Flexible Drawing Shortfall Advance has been made, then the principal amount of the relevant Further Shortfall Advance and/or Flexible Drawing Shortfall Advance will be due for repayment on the following Distribution Date from Available Principal Receipts provided that the Issuer may make repayment of any part of the Further Shortfall Advance and/or Flexible Drawing Shortfall Advance on any Business Day after the relevant drawing date until the following Distribution Date. If the Issuer determines on the Business Day prior to the Distribution Date immediately following a Flexible Drawing Date and/or Further Advance Date that it will not have sufficient Available Principal Receipts on the Distribution Date to repay any Flexible Drawing Shortfall Advance or Further Advance Shortfall Advance then the Seller will repurchase the Loan relating to such Flexible Drawing Shortfall and/or Further Advance Shortfall on the following Distribution Date.

There will be limited events of default under the Liquidity Facility, including:

- (a) the Issuer does not pay on the due date any amount payable by it under the Liquidity Facility Agreement; and
- (b) a Note Acceleration Notice is served; or
- (c) it becomes unlawful for the Issuer to make or receive payment under the Liquidity Facility Agreement or to comply with any other material provision of the Liquidity Facility Agreement.

After the occurrence of an event of default under the Liquidity Facility Agreement, the Liquidity Facility Provider may by notice to the Issuer:

- (a) cancel the Commitment; and/or

- (b) demand that all or part of the loans made to the Issuer under the Liquidity Facility, together with accrued interest and all other amounts accrued under the Liquidity Facility Agreement, be immediately due and payable, in which case they shall become immediately due and payable; and/or
- (c) demand that all or part of the loans made under the Liquidity Facility be repayable on demand, in which case they will immediately become repayable on demand.

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 Subordinated Liquidity Facility Amounts) will, on the service of an acceleration notice on the Issuer, rank in priority to the payment of all amounts of interest and principal in respect of the Notes.

The Liquidity Facility Agreement will be governed by English law.

## 5. **Retained Principal Receipts Fund**

The Issuer shall establish a fund called the Retained Principal Receipts Fund. The Retained Principal Receipts Fund may be funded from the first Business day following the Closing Date and on each subsequent Business Day during the Revolving Period with Available Principal Receipts after repaying any principal amounts outstanding under the Liquidity Facility. The Retained Principal Receipts Fund will be credited to the GIC Account (with a corresponding credit to the Retained Principal Receipts Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments.

The Cash Manager will maintain a ledger pursuant to the Cash Management Agreement to record the balance from time to time of the Retained Principal Receipts Fund (the **Retained Principal Receipts Ledger**).

During the Revolving Period, amounts standing to the credit of the Retained Principal Receipts Fund may be applied by the Issuer during the immediately following two consecutive Interest Periods after such credit was made first, towards Flexible Drawing Purchase Price payable to the Seller in respect of the sale of any Flexible Drawing to the Issuer during such period, second towards Further Advance Purchase Price payable to the Seller in respect of the sale of Further Advances to the Issuer during such period, and third towards New Portfolio Purchase Price payable to the Seller in respect of a sale of any New Portfolio to the Issuer during such period (and for this purpose, any amounts standing to the credit of the Retained Principal Receipts Fund will be applied in the order in which such amounts were credited to the Retained Principal Receipts Fund (i.e. on a 'first in, first out' basis)). If not so applied, any such amounts that remain standing to the credit of the Retained Principal Receipts Fund on the Interest Payment Date immediately following the end of such two consecutive Interest Periods will comprise Available Principal Receipts in respect of such Interest Payment Date to be applied by the Issuer (after repaying any Flexible Drawing Shortfall Advance and/or Further Advance Shortfall Advance under the Liquidity Facility) to redeem the Notes in accordance with items (c) to (f) of the Pre-Acceleration Principal Priority of Payments on such Interest Payment Date.

## 6. **Principal Deficiency Ledger**

The Principal Deficiency Ledger, comprising the sub-ledger known as the Note Principal Deficiency Sub-Ledger (relating to the Notes) (the **Note Principal Deficiency Sub-Ledger**), will be established on the Closing Date in order to record any Losses on the Portfolio.

On each Distribution Date, Available Revenue Receipts shall, after making the payments or provisions required to be met in priority to item (g) of the Pre-Acceleration Revenue Priority of

Payments, be applied in an amount necessary to reduce to nil the balance on the Note Principal Deficiency Sub-Ledger.

## 7. Available Funds

To the extent that the Available Revenue Receipts and Available Principal Receipts are sufficient on any Calculation Date, they shall be paid on the immediately following Distribution Date to the persons entitled thereto (or a relevant provision made) in accordance with the relevant Pre-Acceleration Priority of Payments. It is not intended that any surplus will be accumulated in the Issuer, which for the avoidance of doubt does not include the £5,004 which the Issuer expects to generate annually as its profit in respect of the business of the Issuer, (other than amounts standing to the credit of the Reserve Funds and Retained Principal Receipts Fund).

Failure to pay interest on the Notes shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

## 8. GIC Account

Pursuant to the Bank Account Agreement the Account Bank will pay interest on funds in the GIC Account at a guaranteed rate per annum equal to LIBOR for Three-Month Sterling deposits. The Issuer may invest amounts standing to the credit of the GIC Account in Authorised Investments.

If, at any time short term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of A-1 by S&P or F1 by Fitch, the Issuer will be required (within 30 days) to transfer (at its own cost) the GIC Account to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement, in order to maintain the ratings of the Notes at their then current ratings.

## 9. Subordinated Loan

The Subordinated Loan Provider will make a subordinated loan (the **Subordinated Loan**) to the Issuer on the Closing Date pursuant to the Subordinated Loan Agreement, pursuant to a subordinated loan facility consisting of 3 tranches. The first tranche of the Subordinated Loan (**Tranche A**) will be in an amount up to £750,000 and will be used for meeting the costs and expenses of the Issuer arising in connection with the sale of the Initial Portfolio to the Issuer and other closing expenses. The second tranche of the Subordinated Loan (**Tranche B**) will be in an amount of £1,311,000,000 and will be used to partially fund the General Reserve Fund and will be credited to the GIC Account (with a corresponding credit to the General Reserve Ledger). The third tranche of the Subordinated Loan (**Tranche C**) will be in an amount up to £138,000,000 and will be used to fund the Yield Reserve Fund and will be credited to the GIC Account (with a corresponding credit to the Yield Reserve Ledger). The Issuer may invest amounts standing to the credit of the GIC Account in Authorised Investments.

The Subordinated Loan Provider will have the right to assign or novate its rights and/or obligations under the Subordinated Loan to a third party at any time.

The Subordinated Loan Agreement is governed by English law.

## 10. Interest Rate Risk for the Notes

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time which may be linked to the variable rate set by the Issuer applicable to any Standard Variable Rate Loan in the Portfolio (the **Issuer Standard Variable Rate**) or a variable interest rate other than the Issuer Standard Variable Rate, such as a rate set by the Bank of England. Other loans pay a fixed rate of



interest for a period of time. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to Three-Month Sterling LIBOR.

To provide a hedge against the possible variance between:

- (a) the Issuer Standard Variable Rate payable on the variable rate loans, the rates of interest payable on the Tracker Rate Loans and the fixed rates of interest payable on the Fixed Rate Loans; and
- (b) a rate of interest calculated by reference to Three-Month Sterling LIBOR,

The Issuer will enter into the Interest Rate Swap Agreement on the Closing Date.

Under the Interest Rate Swap, for each period running from (and including) the first day of a month (or, in the case of the first such period, the Closing Date) to (but excluding) the first day of the next following month (or, in the case of the last such period, the date on which the aggregate Principal Amount Outstanding of the Notes is reduced to zero) (each a **Calculation Period**), the following amounts will be calculated:

- (a) the amount produced by applying Three-Month Sterling LIBOR plus a spread for the relevant Calculation Period to the notional amount of the Interest Rate Swap for such Calculation Period (known as the **Calculation Period Swap Provider Amount**); and
- (b) the amount produced by applying a rate equal to the weighted average of:
  - (i) the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of Abbey National plc, HSBC Bank plc, Cheltenham & Gloucester plc, National Westminster Bank Plc, Nationwide Building Society, Northern Rock plc and Woolwich plc (and, where those banks have more than one standard variable rate, the highest of those rates);
  - (ii) the rates of interest payable on the Tracker Rate Loans; and
  - (iii) the rates of interest payable on the Fixed Rate Loans,

for the relevant Calculation Period to the notional amount of the Interest Rate Swap for such Calculation Period (known as the **Calculation Period Issuer Amount**).

After these two amounts are calculated for each of the Calculation Periods in relation to an Interest Payment Date, the following payments will be made on that Interest Payment Date:

- (a) if the aggregate of the Calculation Period Swap Provider Amounts for the relevant Calculation Periods is greater than the aggregate of the Calculation Period Issuer Amounts for the relevant Calculation Periods, then the Interest Rate Swap Provider will pay the difference to the Issuer;
- (b) if the aggregate of the Calculation Period Issuer Amounts for the relevant Calculation Periods is greater than the aggregate of the Calculation Period Swap Provider Amounts for the relevant Calculation Periods, then the Issuer will pay the difference to the Interest Rate Swap Provider; and
- (c) if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Interest Rate Swap Provider, that payment will be included in the Available Revenue Receipts and will be applied on the relevant Interest Payment Date according to the relevant Priority of Payments. If a payment is to be made by the Issuer, it will be made according to the relevant Priority of Payments of the Issuer.

The notional amount of the Interest Rate Swap in respect of a Calculation Period during an Interest Period will be an amount in sterling equal to:

- (a) the aggregate Principal Amount Outstanding of the Notes on the first day of the relevant Calculation Period, less
- (b) the balance of the Principal Deficiency Ledger on the first day of the relevant Calculation Period, less
- (c) the amount of the Principal Receipts in the GIC Account on the first day of the relevant Calculation Period.

Unless an Early Termination Event (as defined below) occurs, the Interest Rate Swap will terminate on the date on which the aggregate Principal Amount Outstanding of the Notes is reduced to zero. In the event that the Interest Rate Swap is terminated prior to the service of a Note Acceleration Notice or the date on which the aggregate Principal Amount Outstanding of the Notes is reduced to zero, the Issuer shall enter into a replacement interest rate swap on terms acceptable to the Issuer and the Security Trustee and which are in accordance with the then current ratings criteria of the relevant Rating Agencies, with a swap provider whom Fitch has confirmed in writing to the Issuer and the Security Trustee will not cause the then current ratings of the Rated Notes to be downgraded, withdrawn or qualified and whom the Issuer shall have notified S&P and S&P has acknowledged receipt of such notification. If the Issuer is unable to enter into a replacement interest rate swap on terms which are in accordance with the then current ratings criteria of the relevant Rating Agencies, this may affect amounts available to pay interest on the Notes.

Under the terms of the Interest Rate Swap Agreement, in the event that the relevant rating(s) of the Interest Rate Swap Provider is or are, as applicable, downgraded by a Rating Agency below the Required Swap Rating, the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to elect to take certain remedial measures within the timeframe stipulated in the Interest Rate Swap Agreement and at its own cost which may include providing collateral for its obligations under the Interest Rate Swap Agreement, arranging for its obligations under the Interest Rate Swap Agreement to be transferred to an entity with the Required Swap Rating, procuring another entity with the Required Swap Rating to become co-obligor or guarantor, as applicable, in respect of its obligations under the Interest Rate Swap Agreement or taking such other action that would result in the relevant Rating Agency continuing the then current rating of the Rated Notes.

An Interest Rate Swap may be terminated in certain circumstances, including the following, each as more specifically defined in the Interest Rate Swap Agreement (an **Early Termination Event**):

- (a) if there is a failure by a party to pay amounts due under the Interest Rate Swap Agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to a party;
- (c) if a breach of a provision of the Interest Rate Swap Agreement by the Interest Rate Swap Provider is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;

- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments made by the Interest Rate Swap Provider under an Interest Rate Swap or if certain tax representations by the Interest Rate Swap Provider prove to have been incorrect or misleading in any material respect;
- (f) if the Interest Rate Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Interest Rate Swap Agreement and described above;
- (g) if the Note Trustee serves a Note Acceleration Notice on the Issuer pursuant to Condition 10 (Events Of Default) of the Notes; and
- (h) if there is a redemption of the Notes pursuant to Condition 7.4 (Optional Redemption for Taxation or Other Reasons).

Upon an early termination of an Interest Rate Swap, the Issuer or the Interest Rate Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on the market value of the terminated transaction as determined on the basis of quotations sought from leading dealers as to the costs of entering into a transaction with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Noteholders.

The Interest Rate Swap Provider may, subject to certain conditions specified in the Interest Rate Swap Agreement, including (without limitation) the satisfaction of certain requirements of the Rating Agencies and prior written consent of the Issuer, transfer its obligations under the Interest Rate Swap Agreement to another entity with the Required Swap Rating.

The Issuer is not obliged under the Interest Rate Swap Agreement to gross up payments made by it if a withholding or deduction for or on account of tax is imposed on payments made under the Interest Rate Swap.

The Interest Rate Swap Provider will generally be obliged to gross up payments made by it to the Issuer if a withholding or deduction for or on account of tax is imposed on payments made by it under the Interest Rate Swap. However, if the Interest Rate Swap Provider is required to gross up a payment under the Interest Rate Swap due to a change in the law, the Interest Rate Swap Provider may terminate the Interest Rate Swap.

The Interest Rate Swap Agreement is governed by English law.

For the purposes of the above provisions, **Required Swap Rating** means that the unsecured and unsubordinated debt obligations of the relevant entity are rated no lower than "A" by Fitch (long-term), "A-1" by S&P (short-term) (or, if the relevant entity has no short-term, unsecured and unsubordinated debt obligations which are rated by S&P, then "A+" by S&P (long-term)) and "F1" by Fitch (short-term), as applicable.

## CASHFLOWS

### Definition of Revenue Receipts

**Revenue Receipts** means payments received by the Issuer directly or from the Seller recognised by the Seller as representing:

- (a) payments of interest on the Loans (including arrears of interest and accrued interest but excluding capitalised interest, capitalised expenses and capitalised arrears) and fees paid from time to time under the Loans and other amounts received by the Issuer in respect of the Loans other than the Principal Receipts;
- (b) recoveries of interest and outstanding fees (excluding capitalised interest, capitalised expenses and capitalised arrears, if any) from defaulting Borrowers under Loans being enforced;
- (c) recoveries of interest and outstanding fees (excluding capitalised interest, capitalised expenses and capitalised arrears, if any) and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;
- (d) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement to the extent such proceeds are attributable to accrued interest, arrears of interest and other interest amounts in respect of the Loans (excluding, for the avoidance of doubt, capitalised interest, capitalised expenses and capitalised arrears) as at the relevant repurchase date; and
- (e) any early repayment charges which have been paid by the Borrower in respect of the Loans (but excluding any Early Repayment Charges and/or Servicing Related Fees).

### Definition of Available Revenue Receipts

**Available Revenue Receipts** means, for each Distribution Date, an amount equal to the aggregate of (without double-counting):

- (a) Revenue Receipts received during the immediately preceding Collection Period;
- (b) interest payable to the Issuer on the Bank Accounts and income from any Authorised Investments in each case received during the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Interest Rate Swap Agreement (other than (i) any early termination amount received by the Issuer under the Interest Rate Swap Agreement which is to be applied in acquiring a replacement swap, (ii) the return or transfer of any collateral, as set out under the Interest Rate Swap Agreement and (iii) any Replacement Swap Premium but only to the extent applied to pay any termination payment due and payable by the Issuer to the Interest Rate Swap Provider) on such Distribution Date;
- (d) the amounts standing to the credit of the General Reserve Fund as at the immediately preceding Collection Period End Date;
- (e) the amounts (if any) drawn under the Liquidity Facility on a Distribution Date which is an Interest Payment Date in respect of any Interest Shortfall arising in the immediately preceding Collection Period (other than amounts standing to the credit of the Liquidity Facility Standby Account except to the extent that a withdrawal from the Liquidity Facility Standby Account would be a deemed Liquidity Loan for the purpose of funding an Interest Shortfall); and

- (f) other net income of the Issuer received during the immediately preceding Collection Period, excluding any Principal Receipts (except for amounts deemed to be Available Revenue Receipts in accordance with paragraph (j) of the Pre-Acceleration Principal Priority of Payments) and without double-counting the amounts described in paragraphs (a) to (e) above; and
- (g) the amounts standing to the credit of the Yield Reserve Fund as at the immediately preceding Collection Period End Date, providing that such amounts shall be limited to the shortfall arising (if any) on such Distribution Date between amounts payable pursuant to items (a) to (g), of the Pre-Acceleration Revenue Priority of Payments and the amount equal to the sum of each of the items (a), (b), (c), (e), and (f) above less item (h) below,

less:

- (h) amounts applied from time to time during the immediately preceding Collection Period in making payment of certain moneys which properly belong to third parties (including the Seller) such as (but not limited to):
  - (i) Servicing Related Fees;
  - (ii) payments of certain insurance premiums;
  - (iii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
  - (iv) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,

(items within (h) being collectively referred to herein as **Third Party Amounts**). Third Party Amounts may be deducted by the Cash Manager on a daily basis from the GIC Account to make payment to the persons entitled thereto.

#### **Application of Moneys Released from the General Reserve Fund and Yield Reserve Fund**

Prior to service of a Note Acceleration Notice, money standing to the credit of the General Reserve Fund as at the end of the immediately preceding Collection Period, will be applied on each Distribution Date as Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments.

Prior to service of a Note Acceleration Notice and repayment of Tranche C of the Subordinated Loan (as described below), money standing to the credit of the Yield Reserve Fund in an amount equal to any shortfall arising with respect to interest payable on the Notes and other amounts payable in priority thereto (to the extent such an amount is standing to the credit of the Yield Reserve Ledger) will be applied on each Distribution Date as Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments.

Notwithstanding the above and notwithstanding the Pre-Acceleration Revenue Priority of Payments, on any date on which the yield of the Loans in the Portfolio exceeds LIBOR for three-month sterling deposits plus 0.65 per cent, amounts standing to the credit of the Yield Reserve Ledger will be used to repay Tranche C of the Subordinated Loan. If there are still amounts held in the Yield Reserve Fund once the Subordinated Loan has been repaid, the excess will then form part of the Available Revenue Receipts.

## **Application of Available Revenue Receipts Prior to the Service of a Note Acceleration Notice on the Issuer**

Except for any termination payment payable to the Interest Rate Swap Provider which shall be payable when due pursuant to the Interest Rate Swap Agreement to the extent such termination payment is paid using any Replacement Swap Premium, on each Distribution Date prior to the service of a Note Acceleration Notice by the Note Trustee on the Issuer, the Cash Manager, on behalf of the Issuer, shall apply or provide for the application of the Available Revenue Receipts in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the **Pre-Acceleration Revenue Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Distribution Period to the Note Trustee or any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) value added tax (VAT) thereon as provided therein; and
  - (ii) any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Distribution Period to the Security Trustee or any Appointee under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any fees, costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Distribution Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Distribution Period and any amounts required to pay or discharge any liability of the Issuer for corporation tax on any income or chargeable gain of the Issuer (but only to the extent not capable of being satisfied out of amounts retained by the Issuer under item (I) below);
  - (iii) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Corporate Services Provider in the immediately succeeding Distribution Period under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein; and
  - (iv) any Transfer Costs which the Seller has failed to pay;
- (c) *third*, to pay all amounts (including interest and fees) due to the Liquidity Facility Provider under the Liquidity Facility Agreement (except for Subordinated Liquidity Facility Amounts and Liquidity Loans utilised to fund any Flexible Drawing Shortfall Advances and/or Further Advance Shortfall Advances);

- (d) *fourth*, to provide for amounts due on the next Interest Payment Date or if the relevant Distribution Date is also an Interest Payment Date, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Distribution Period under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein;
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Distribution Period under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein; and
  - (iii) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Account Bank in the immediately succeeding Distribution Period under the provisions of the Bank Account Agreement, together with VAT (if payable) thereon as provided therein;
- (e) *fifth*, to pay amounts due to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer but excluding any related Interest Rate Swap Excluded Termination Amount to the extent it is not satisfied by the payment by the Issuer to the Interest Rate Swap Provider of any Replacement Swap Premium);
- (f) *sixth*, to provide for amounts due on the next Interest Payment Date or if the relevant Distribution Date is also an Interest Payment Date, to pay, *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
- (i) interest due and payable on the Class A1 Notes;
  - (ii) interest due and payable on the Class A2 Notes;
  - (iii) interest due and payable on the Class A3 Notes; and
  - (iv) interest due and payable on the Class A4 Notes;
- (g) *seventh*, (so long as the Notes will remain outstanding following such Distribution Date) to credit the Note Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon;
- (h) *eighth*, to credit the General Reserve Ledger up to the General Reserve Required Amount;
- (i) *ninth*, to pay *pro rata* and *pari passu*:
- (i) the Interest Rate Swap Provider in respect of an Interest Rate Swap Excluded Termination Amount (to the extent not satisfied by payment to the Interest Rate Swap Provider by the Issuer of any Replacement Swap Premium); and
  - (ii) any Subordinated Liquidity Facility Amounts;
- (j) *tenth*, to pay the Issuer an amount equal to £417 to be retained by the Issuer as profit in respect of the business of the Issuer;
- (k) *eleventh*, to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Subordinated Loan Provider under the Subordinated Loan Agreement;

- (l) *twelfth*, to pay the principal amounts outstanding to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (m) *thirteenth*, to pay any deferred consideration due and payable under the Mortgage Sale Agreement to the Seller (the **Deferred Consideration**); and
- (n) *fourteenth*, the excess (if any) to the Issuer.

As used in this Prospectus:

**Appointee** means any attorney, manager, agent, delegate, nominee, receiver, custodian or other person properly appointed by the Note Trustee under the Trust Deed or the Security Trustee under the Deed of Charge (as applicable) to discharge any of its functions;

**Distribution Period** means the period from and including one Distribution Date (or, in the case of the first Distribution Period, the Closing Date) to but excluding the next Distribution Date;

**Interest Rate Swap Excluded Termination Amount** means, in relation to the Interest Rate Swap Agreement, the amount of any termination payment due and payable to the Interest Rate Swap Provider as a result of an Interest Rate Swap Provider Default or Interest Rate Swap Provider Downgrade Event;

**Interest Rate Swap Provider Default** means the occurrence of an Event of Default (as defined in the Interest Rate Swap Agreement) where the Interest Rate Swap Provider is the Defaulting Party (as defined in the Interest Rate Swap Agreement);

**Interest Rate Swap Provider Downgrade Event** means the occurrence of an Additional Termination Event (as defined in the Interest Rate Swap Agreement) following the failure by the Interest Rate Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the Interest Rate Swap Agreement;

**Replacement Swap Premium** means an amount received by the Issuer from a replacement swap provider upon entry by the Issuer into an agreement with such replacement swap provider to replace the Interest Rate Swap Provider;

**Subordinated Liquidity Facility Amounts** means all amounts payable under, or in any way in connection with, the Liquidity Facility Agreement, other than:

- (a) principal and interest in respect of a Liquidity Loan, except that part of the interest (in each case, for the relevant Interest Period):
  - (i) on a Loan which represents Mandatory Cost in excess of 0.20 per cent. per annum on the maximum amount then available to be drawn under the Liquidity Facility Agreement; and
  - (ii) on a Standby Loan which is in excess of an amount equal to the interest actually earned on the Liquidity Facility Standby Account plus the Commitment Fee that would have been due on the undrawn portion of the Commitment had that Standby Loan not been utilised; and
- (b) the Commitment Fee; and

**Transfer Costs** means the Issuer's costs and expenses associated with the transfer of servicing to a substitute servicer.



## **Definition of Principal Receipts**

**Principal Receipts** means payments received by the Issuer directly or from the Seller recognised by the Seller as representing:

- (a) principal repayments under the Loans (including capitalised interest, capitalised expenses and capitalised arrears but excluding accrued interest and arrears of interest);
- (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Mortgaged Property);
- (c) any payment pursuant to an insurance policy assigned to the Issuer (in respect of which the Issuer has a beneficial interest) in respect of a Mortgaged Property in connection with a Loan in the Portfolio; and
- (d) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement (excluding amounts attributable to Revenue Receipts).

## **Definition of Available Principal Receipts**

**Available Principal Receipts** means for any Distribution Date an amount equal to the aggregate of:

- (a) all Principal Receipts (i) received by the Issuer during the immediately preceding Collection Period (less (A) an amount equal to the aggregate of all Further Advance Purchase Prices and Flexible Drawings Purchase Prices payable in such Collection Period but not exceeding such Principal Receipts and (B) the repurchase price received by the Issuer in respect of a repurchase of Loans and their Related Security subject to Flexible Drawings and/or Further Advances on the immediately preceding Distribution Date that were repurchased under Clause 5.1(i) of the Mortgage Sale Agreement due to the Issuer having insufficient funds to fully repay any Flexible Drawing Shortfall Advance or Further Advance Shortfall Advance), (ii) received during the immediately preceding Collection Period in respect of a repurchase of Loans subject to Flexible Drawings and/or Further Advances in that Collection Period and their Related Security to the extent that there are insufficient funds available by way of the Liquidity Facility to pay for the relevant Flexible Drawing Purchase Price and/or Further Advance Purchase Price and (iii) received on such Distribution Date the repurchase price received by the Issuer in respect of a repurchase of Loans and their Related Security subject to Flexible Drawings and/or Further Advances on such Distribution Date that were repurchased under Clause 5.1(i) of the Mortgage Sale Agreement due to the Issuer having insufficient funds to fully repay any Flexible Drawing Shortfall Advance or Further Advance Shortfall Advance, as applicable;
- (b) (in respect of the first Distribution Date only) the amount paid into the GIC Account on the Closing Date from the excess of the Notes proceeds over the Initial Consideration;
- (c) ((in respect of each Distribution Date during the Revolving Period) amounts standing to the credit of the Retained Principal Receipts Fund for two consecutive Interest Periods following the date that such sums are credited to the Retained Principal Receipts Fund (and for this purpose, any amounts standing to the credit of the Retained Principal Receipts Fund will be applied first towards any Flexible Drawing Purchase Price and secondly towards any Further Advance Purchase Price and thirdly towards any New Portfolio Purchase Price in accordance with the terms of the Transaction Documents in the order in which such amounts were credited to the Retained Principal Receipts Fund (i.e. on a first in first out basis)); and
- (d) (in respect of the Distribution Date immediately following the end of the Revolving Period only) all amounts standing to the credit of the Retained Principal Receipts Fund.

The Issuer shall pay or provide for amounts due under the Pre-Acceleration Revenue Priority of Payments before paying amounts due under the Pre-Acceleration Principal Priority of Payments.

**Application of Available Principal Receipts Prior to the service of a Note Acceleration Notice on the Issuer**

Prior to the service of a Note Acceleration Notice on the Issuer, the Issuer is required pursuant to the terms of the Cash Management Agreement to apply Available Principal Receipts on each Distribution Date (except in the case of amounts applied pursuant to items (a) and (b) below which may be applied on any Business Day during the Distribution Period) in the following order of priority (the **Pre-Acceleration Principal Priority of Payments**) (in each case only if and to the extent that payments or provisions of higher priority have been paid in full):

- (a) *first*, to repay amounts due to the Liquidity Facility Provider under the Liquidity Facility Agreement in respect of any Flexible Drawing Shortfall Advances and/or Further Advance Shortfall Advances made under the Liquidity Facility Agreement (which, for the avoidance of doubt, excludes any Interest Shortfall Advance or any Subordinated Liquidity Facility Amounts);
- (b) *second*, during the Revolving Period, towards a credit to the Retained Principal Receipts Fund in an amount equal to all remaining Available Principal Receipts less the amount calculated in accordance with paragraph (c) of the definition of Available Principal Receipts;
- (c) *third*, towards providing for repayment (or if such Distribution Date is an Interest Payment Date, making payment) of any principal amounts outstanding on the Class A1 Notes or if the relevant Distribution Date is also an Interest Payment Date, towards repayment of principal amounts outstanding on the Class A1 Notes;
- (d) *fourth*, towards providing for repayment (or if such Distribution Date is an Interest Payment Date, making payment) of any principal amounts outstanding on the Class A2 Notes or if the relevant Distribution Date is also an Interest Payment Date, towards repayment of principal amounts outstanding on the Class A2 Notes;
- (e) *fifth*, towards providing for repayment (or if such Distribution Date is an Interest Payment Date, making payment) of any principal amounts outstanding on the Class A3 Notes or if the relevant Distribution Date is also an Interest Payment Date, towards repayment of principal amounts outstanding on the Class A3 Notes;
- (f) *sixth*, towards providing for repayment (or if such Distribution Date is an Interest Payment Date, making payment) of any principal amounts outstanding on the Class A4 Notes or if the relevant Distribution Date is also an Interest Payment Date, towards repayment of principal amounts outstanding on the Class A4 Notes; and
- (g) *seventh*, the excess (if any) to be applied as Available Revenue Receipts.

**Distribution of Available Principal Receipts and Available Revenue Receipts Following the Service of a Note Acceleration Notice on the Issuer**

Following the service of a Note Acceleration Notice (which has not been withdrawn) on the Issuer, the Security Trustee (or the Cash Manager on its behalf) will apply amounts (other than amounts representing (a) any excess swap collateral which shall be returned directly to the Interest Rate Swap Provider under the Interest Rate Swap Agreement and (b) in respect of the Interest Rate Swap Provider, prior to the designation of an early termination date under the Interest Rate Swap Agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by the Interest Rate Swap Provider to the Issuer pursuant to the Interest Rate Swap

Agreement and any interest or distributions in respect thereof) received or recovered following the service of a Note Acceleration Notice on the Issuer (including, for the avoidance of doubt, on enforcement of the Security) in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the **Post-Acceleration Priority of Payments** and, together with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, the **Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to the Note Trustee or any Appointee under the provisions of the Trust Deed and the other Transaction Documents, together with (if payable) VAT thereon as provided therein; and
  - (ii) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to the Security Trustee, any Receiver appointed by the Security Trustee or any Appointee under the provisions of the Deed of Charge and the other Transaction Documents, together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due and payable to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein; and
  - (ii) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due and payable to the Corporate Services Provider under the provisions of the Corporate Services Agreement together with (if payable) VAT thereon as provided therein;
- (c) *third*, to pay amounts due to the Liquidity Facility Provider under the Liquidity Facility Agreement (except for Subordinated Liquidity Facility Amounts):
- (d) *fourth*, to provide for amounts due on the next Interest Payment Date or if the relevant Distribution Date is also an Interest Payment Date, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any amounts due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein; and
  - (iii) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due and payable to the Account Bank under the provisions of the Bank Account Agreement, together with (if payable) VAT thereon as provided therein;

- (e) *fifth*, to pay amounts due and payable to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer but excluding any related Interest Rate Swap Excluded Termination Amount);
- (f) *sixth*, to pay pro rata and pari passu according to the respective outstanding amounts thereof
  - (i) interest and principal due and payable on the Class A1 Notes;
  - (ii) interest and principal due and payable on the Class A2 Notes;
  - (iii) interest and principal due and payable on the Class A3 Notes; and
  - (iv) interest and principal due and payable on the Class A4 Notes;
- (g) *seventh*, to pay the Interest Rate Swap Provider in respect of an Interest Rate Swap Excluded Termination Amount;
- (h) *eighth*, to pay any Subordinated Liquidity Facility Amounts;
- (i) *ninth*, to pay *pro rata* and *pari passu* all amounts of interest due and payable or accrued (if any) but unpaid and any capitalised interest and amounts of principal due to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (j) *tenth*, to pay any Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller; and
- (k) *eleventh twelfth*, the excess (if any) to the Issuer.

## DESCRIPTION OF THE NOTES

### General

Each sub class of Notes, as at the Closing Date, will be represented by a Global Note. All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes.

The Global Notes will be deposited on or about the Closing Date with a Common Depositary for both Euroclear and Clearstream, Luxembourg).

The Global Notes will be registered in the name of the nominee for the Common Depositary for both Euroclear and Clearstream, Luxembourg. The Registrar will maintain a register in which it will register the nominee for the Common Depositary as the owner of the Global Notes.

Upon confirmation by the Common Depositary that it has custody of the Global Notes, Euroclear or Clearstream, Luxembourg, as the case may be, will record Book-Entry Interests representing beneficial interests in the Global Notes attributable thereto.

Book-Entry Interests in respect of Global Notes will be recorded in denominations of £50,000 and integral multiples of £1,000 in excess thereof (an **Authorised Denomination**). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg (**Participants**) or persons that hold interests in the Book-Entry Interests through Participants (**Indirect Participants**), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect Participants shall also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the Arranger. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

So long as a nominee for the Common Depositary is the registered holder of the Global Notes underlying the Book-Entry Interests, the nominee for the Common Depositary will be considered the sole Noteholder of the Global Notes for all purposes under the Trust Deed. Except as set forth under "*Issuance of Definitive Notes*", below, Participants or Indirect Participants will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive registered form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and Indirect Participants must rely on the procedures of the Participants or Indirect Participants through which such person owns its interest in the relevant Book-Entry Interests, to exercise any rights and obligations of a holder of Notes under the Trust Deed. See — "*Action in Respect of the Global Notes and the Book-Entry Interests*", below.

Unlike legal owners or holders of the Notes, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by the Issuer or consents or requests by the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg, as the case may be, and, if applicable, their Participants. There can be no assurance that procedures implemented for the

granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under the Global Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear or Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the Conditions. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

In the case of the Global Notes, unless and until Book-Entry Interests are exchanged for Definitive Notes, the Global Notes held by the Common Depositary may not be transferred except as a whole by the Common Depositary to a successor of the Common Depositary.

Purchasers of Book-Entry Interests in a Global Note will hold Book-Entry Interests in the Global Notes relating thereto. Investors may hold their Book-Entry Interests in respect of a Global Note directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set forth under "*Transfers and Transfer Restrictions*", below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in each Global Note on behalf of their account holders through securities accounts in the respective account holders' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Arranger, the Note Trustee, the Security Trustee or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective Participants or account holders of their respective obligations under the rules and procedures governing their operations.

### **Payments on Global Notes**

Payment of principal and interest on, and any other amount due in respect of, the Global Notes will be made in Sterling by or to the order of Citibank, N.A., London branch (the **Principal Paying Agent**) on behalf of the Issuer to the Common Depositary or its nominee as the registered holder thereof with respect to the Global Notes. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the Common Depositary or their nominees in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Paying Agents nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the Common Depositary, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer, the Arranger, the Note Trustee or the Security Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

## **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 account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities.

Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depository and custodial relationships. The respective systems of Euroclear and of Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective account holders may settle trades with each other.

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

An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

The Issuer understands that under existing industry practices, if any of the Issuer, the Note Trustee or the Security Trustee requests any action of owners of Book-Entry Interests or if an owner of a Book-Entry Interest desires to give instructions or take any action that a holder is entitled to give or take under the Trust Deed or the Deed of Charge, Euroclear or Clearstream, Luxembourg as the case may be, would authorise the Participants owning the relevant Book-Entry Interests to give instructions or take such action, and such Participants would authorise Indirect Participants to give or take such action or would otherwise act upon the instructions of such Indirect Participants.

## **Redemption**

In the event that any Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the nominee of the Common Depository and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Principal Paying Agent for cancellation. Appropriate entries will be made in the Register. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Principal 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 Book-Entry Interest 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 basis as Euroclear or Clearstream, Luxembourg, as the case may be, deems fair and appropriate). Upon any redemption in part, the Principal 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 and the corresponding entry on the Register.

## **Transfers and Transfer Restrictions**

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its Participants. See " — *General*", above.

## **Issuance of Definitive Notes**

Holders of Book-Entry Interests in a Global Note will be entitled to receive Definitive Notes in registered form (**Registered Definitive Notes**) in exchange for their respective holdings of Book-Entry Interests if (a) 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 to do business and no alternative clearing system satisfactory to the Note Trustee is available or (b) 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 or administration by a revenue authority or a court or in the 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 registered form. Any Registered Definitive Notes issued in exchange for Book-Entry Interests in a Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Registered Definitive Notes issued in exchange for Book-Entry Interests in Global Notes will not be entitled to exchange such Registered Definitive Note for Book-Entry Interests in a Global Note. Any Notes issued in definitive form will be issued in registered form only and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Notes will not be issued in a denomination that is not an integral multiple of the minimum authorised denomination or for any amount in excess thereof, in integral multiples of £1,000 up to and including £99,000 (See "*Risk Factors — Denominations*" above).

## **Action in Respect of the Global Notes and the Book-Entry Interests**

Not later than 10 days after receipt by the Issuer of any notices in respect of the Global Notes or any notice of solicitation of consents or requests for a waiver or other action by the holder of the Global Notes, the Issuer will deliver to Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date Euroclear and Clearstream, Luxembourg will be entitled to instruct the Issuer as to the consent, waiver or other action, if any, pertaining to the Book-Entry Interests or the Global Notes and (c) a statement as to the manner in which such instructions may be given. Upon the written request of Euroclear or Clearstream, Luxembourg, as applicable, the Issuer shall endeavour insofar as practicable to take such action regarding the requested consent, waiver or other action in respect of the Book-Entry Interests or the Global Notes in accordance with any instructions set forth in such request. Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under "*General*" above, with respect to soliciting instructions from their respective



Participants. The Registrar will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Book-Entry Interests or the Global Notes.

### **Reports**

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices and reports received relating to the Issuer, the Global Notes or the Book-Entry Interests. In addition, notices regarding the Notes will be published in a leading newspaper having a general circulation in London (which so long as the Notes are listed on the London Stock Exchange and the rules of such Stock Exchange shall so require, is expected to be the *Financial Times*); provided that if, at any time, the Issuer procures that the information contained in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee, publication in the *Financial Times* shall not be required with respect to such information so long as the rules of the London Stock Exchange allow. See also Condition 15 (Notice To Noteholders) of the Notes.

## 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 (as defined below).

### 1. GENERAL

The £1,725,000,000 class A1 asset backed floating rate Notes due November 2053 (the **Class A1 Notes**) the £1,725,000,000 class A2 asset backed floating rate Notes due November 2053 (the **Class A2 Notes**), the £1,725,000,000 class A3 asset backed floating rate Notes due November 2053 (the **Class A3 Notes**), the £1,725,000,000 class A4 asset backed floating rate Notes due November 2053 (the **Class A4 Notes**) and, together with the Class A1 Notes, Class A2 Notes and Class A3 Notes, the **Notes**, in each case of Deva Financing plc (the **Issuer**) are constituted by a trust deed (the **Trust Deed**) dated on or about 10 October 2008 (the **Closing Date**) and made between the Issuer and Citicorp Trustee Company Limited as trustee for the Noteholders (in such capacity, the **Note Trustee**). Any reference in these terms and conditions (the **Conditions**) to a **class** of Notes or of Noteholders shall be a reference to the Notes, or to the respective holders thereof and to a **sub-class** of Notes or Noteholders shall be a reference to any sub-class of such Notes, as the case may be, or to the respective holders thereof. Any reference in these Conditions to the Noteholders means the registered holders for the time being of the Notes, or if preceded by a particular Class or sub-class designation of Notes, the registered holders for the time being of such class or sub-class of Notes.

The security for the Notes is constituted by a deed of charge and assignment (the **Deed of Charge**) dated the Closing Date and made between, among others, the Issuer and Citicorp Trustee Company Limited as trustee for the secured creditors (in such capacity, the **Security Trustee**).

Pursuant to an agency agreement (the **Agency Agreement**) dated on or about the Closing Date and made between the Issuer, the Note Trustee, Citibank, N.A., acting through its London branch as principal paying agent (in such capacity, the **Principal Paying Agent** and, together with any further or other paying agent appointed under the Agency Agreement, the **Paying Agents**), Citibank, N.A., acting through its London branch as registrar (in such capacity, the **Registrar**) and Citibank, N.A., acting through its London branch as agent bank (in such capacity, the **Agent Bank**), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Deed of Charge, the Agency Agreement and the Master Definitions and Construction Schedule (the **Master Definitions and Construction Schedule**) entered into by, *inter alios*, the Issuer, the Note Trustee and the Security Trustee on or about the Closing Date and the other Transaction Documents (as defined therein).

Copies of the Trust Deed, the Deed of Charge, the Agency Agreement, the Master Definitions and Construction Schedule and the other Transaction Documents are available for inspection during normal business hours at the specified office for the time being of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions and Construction Schedule available as described above. These Conditions shall be construed in accordance with the principles of construction set out in the Master Definitions and Construction Schedule.

## 2. FORM, DENOMINATION AND TITLE

### 2.1 *Form and Denomination*

Each sub class of Notes will initially be represented by a separate global note in registered form for each such sub class (each a **Global Note**).

For so long as any Notes are represented by a Global Note, transfers and exchanges of beneficial interests in Global Notes and entitlement to payments thereunder will be effected subject to and in accordance with the rules and procedures from time to time of Euroclear Bank S.A./N.V. (**Euroclear**) or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), as appropriate.

For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradeable only in minimum nominal amounts of £50,000 and integral multiples of £1,000 thereafter.

A Global Note will be exchanged for Notes of the relevant class or sub-class in definitive registered form (such exchanged Global Notes, the **Definitive Notes**) only if any of the following applies:

- (a) 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 to do business and no alternative clearing system satisfactory to the Note Trustee is available; or
- (b) 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 or administration by a revenue authority or a court or in the application 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 for or on account of tax from any payment in respect of the Notes which would not be required were the Notes in definitive registered form.

If Definitive Notes are issued in respect of Notes originally represented by the Global Notes, the beneficial interests represented by the Global Note of each sub class shall be exchanged by the Issuer for Notes of such sub classes in definitive form (the **Definitive Notes**). The aggregate principal amount of the Definitive Notes of each sub class shall be equal to the Principal Amount Outstanding at the date on which notice of exchange is given of the Global Note of the corresponding sub class, subject to and in accordance with the detailed provisions of these Conditions, the Agency Agreement, the Trust Deed and the relevant Global Note.

Definitive Notes of each sub class (which, if issued, will be in the denominations set out below) will be serially numbered and will be issued in registered form only.

The minimum denominations of the Notes in global and (if issued) definitive form will be £50,000 and, for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000. Notes in definitive form, if issued, will be printed and issued in minimum denominations of £50,000 and any amount in excess thereof in integral multiples of

£1,000 up to and including £99,000. No Definitive Notes will be issued with a denomination above £99,000.

References to **Notes** in these Conditions shall include the Global Notes and the Definitive Notes.

## **2.2 Title**

Title to the Global Notes shall pass by and upon registration in the register (the **Register**) which the Issuer shall procure to be kept by the Registrar. The registered holder of any Global Note may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Global Note regardless of any notice of ownership, theft or loss or any trust or other interest therein or of any writing thereon (other than the endorsed form of transfer).

Title to a Definitive Note shall only pass by and upon registration in the Register. Such Definitive Notes may be transferred in whole (but not in part) upon the surrender of the relevant Definitive Note, with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. All transfers of such Definitive Notes are subject to any restrictions on transfer set forth on such Definitive Notes and the detailed regulations concerning transfers in the Agency Agreement.

Each new Definitive Note to be issued upon transfer of such Definitive Note will, within five Business Days of receipt and surrender of such Definitive Note (duly completed and executed) for transfer, be available for delivery at the specified office of the Registrar or be mailed at the risk of the transferee entitled to such Definitive Note to such address as may be specified in the relevant form of transfer.

Registration of a Definitive Note on transfer will be effected without charge by the Registrar, but subject to payment of (or the giving of such indemnity as the Registrar may require for) any tax, stamp duty or other government charges which may be imposed in relation to it.

The Notes are not issuable in bearer form.

## **3. STATUS AND RELATIONSHIP BETWEEN THE NOTES AND SECURITY**

### **3.1 *Status and relationship between the Notes***

- (a) The Notes constitute direct, secured and, subject to the limited recourse provision in Condition 11 (Enforcement), unconditional obligations of the Issuer. The Notes of each sub-class rank *pari passu* without preference or priority amongst themselves.
- (b) The Trust Deed and the Deed of Charge contain provisions requiring the Note Trustee and the Security Trustee, respectively, to have regard to the interests of the Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee and the Security Trustee (except where expressly provided otherwise). As long as the Notes are outstanding but subject to Condition 12.7, the Security Trustee shall not have regard to the interests of the other Secured Creditors.

### **3.2 *Security***

- (a) The security constituted by or pursuant to the Deed of Charge is granted to the Security Trustee, on trust for the Noteholders and the other Secured Creditors, upon and subject to the terms and conditions of the Deed of Charge.

- (b) The Noteholders and the other Secured Creditors will share in the benefit of the security constituted by or pursuant to the Deed of Charge, upon and subject to the terms and conditions of the Deed of Charge.

#### 4. COVENANTS

Save with the prior written consent of the Note Trustee or unless otherwise permitted under any of the Transaction Documents, the Issuer shall not, so long as any Note remains outstanding:

- (a) **Negative pledge:** create or permit to subsist any encumbrance (unless arising by operation of law) or other security interest whatsoever over any of its assets or undertaking;
- (b) **Restrictions on activities:** (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities of which the Transaction Documents provide or envisage that the Issuer will engage or (ii) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 1985 and the Companies Act 2006 (as applicable)) or any employees (but shall procure that, at all times, it shall retain at least one independent director) or premises;
- (c) **Disposal of assets:** transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (d) **Equitable Interest:** permit any person, other than itself and the Security Trustee, to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (e) **Dividends or distributions:** pay any dividend or make any other distribution to its shareholders or issue any further shares;
- (f) **Indebtedness:** incur any financial indebtedness or give any guarantee in respect of any financial indebtedness or of any other obligation of any person;
- (g) **Merger:** consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (h) **No modification or waiver:** permit any of the Transaction Documents to which it is a party to become invalid or ineffective or permit the priority of the security interests created or evidenced thereby or pursuant thereto to be varied or agree to any modification of, or grant any consent, approval, authorisation or waiver pursuant to, or in connection with, any of the Transaction Documents to which it is a party or permit any party to any of the Transaction Documents to which it is a party to be released from its obligations or exercise any right to terminate any of the Transaction Documents to which it is a party;
- (i) **Bank accounts:** have an interest in any bank account other than the Bank Accounts, unless such account or interest therein is charged to the Security Trustee on terms acceptable to the Security Trustee; or
- (j) **US activities:** engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles.

## 5. INTEREST

### 5.1 *Interest Accrual*

Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date. Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest from and including the due date for redemption unless, upon due presentation in accordance with Condition 6 (Payments), payment of the principal in respect of the Note is improperly withheld or refused or default is otherwise made in respect of the payment, in which event interest shall continue to accrue as provided in the Trust Deed.

### 5.2 *Interest Payment Dates*

Interest on the Notes is payable quarterly in arrear on the 19th day of November, February, May and August in each year (or, if such day is not a Business Day, the next succeeding Business Day) (each such day an **Interest Payment Date**).

The first Interest Payment Date will be the Interest Payment Date falling in November 2008.

In these Conditions, **Interest Period** shall mean in respect of interest payments made in respect of the Notes, the period from (and including) an Interest Payment Date (or, in respect of the first Interest Period, the Closing Date) to (but excluding) the next following (or first) Interest Payment Date.

### 5.3 *Rate of Interest*

The rate of interest payable from time to time in respect of each sub class of the Notes (each a **Rate of Interest** and together the **Rates of Interest**) will be determined on the basis of the following provisions:

- (a) the rate of interest payable shall be a floating rate of interest calculated in accordance with paragraphs (i), (ii) and (iii) below:
  - (i) on the initial Determination Date (as defined below), the Agent Bank will determine the Initial Relevant Screen Rate in respect of each sub class of the Notes as at or about 11.00 a.m. (London time) on that date. If the Initial Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for one month and two month Sterling deposits of £10,000,000 in the London interbank market as at or about 11.00 a.m. (London time) on such initial Determination Date and the Rates of Interest for the first Interest Period shall be the aggregate of (A) the Relevant Margin and (B) the Initial Relevant Screen Rate, or, if the Initial Relevant Screen Rate is unavailable, the linear interpolation of the arithmetic mean of such offered quotations for one month and two month Sterling deposits (rounded upwards, if necessary, to five decimal places);
  - (ii) on each subsequent Determination Date, the Agent Bank will determine the Relevant Screen Rate as at or about 11.00 a.m. (London time) on the Determination Date in question. If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for three-month Sterling deposits of £10,000,000 in the London interbank market as at or about 11.00 a.m. (London time) on the relevant Determination Date and the Rates of Interest for the relevant Interest Period shall be the aggregate of (A) the Relevant Margin and (B)

the Relevant Screen Rate or, if the Relevant Screen Rate is unavailable, the arithmetic mean of such offered quotations for three-month Sterling deposits (rounded upwards, if necessary, to five decimal places); and

- (iii) if, on any Determination Date, the Relevant Screen Rate is unavailable and only two or three of the Reference Banks provide offered quotations, the Rates of Interest for the relevant Interest Period shall be determined in accordance with the provisions of subparagraphs (i) and (ii) above on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Determination Date, only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Note Trustee and the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank and the Rates of Interest 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 Rates of Interest for the relevant Interest Period shall be the Rates of Interest in effect for the last preceding Interest Period to which subparagraph (i) or (ii), as the case may be, shall have applied but, taking account of any change in the Relevant Margin.

There will be no minimum or maximum Rate of Interest;

- (b) in these Conditions (except where otherwise defined), the expression:
  - (i) **Business Day** means a day (other than a Saturday or a Sunday) on which banks are generally open for business in London;
  - (ii) **Initial Relevant Screen Rate** means the linear interpolation of the arithmetic mean of the offered quotations to leading banks for one month Sterling deposits and the arithmetic mean of the offered quotations to leading banks for two month Sterling deposits (in each case) (rounded upwards, if necessary, to five decimal places), displayed on the Reuters Screen page LIBOR01 (or such replacement page on that service which displays the information) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer with the approval of the Note Trustee;
  - (iii) **Relevant Margin** means in respect of each sub-class of the Notes the following per cent. per annum:

<b>Class</b>	<b>Margin</b>
Class A1 Notes	0.18%
Class A2 Notes	0.18%
Class A3 Notes	0.18%
Class A4 Notes	0.18%

- (iv) **Relevant Screen Rate** means:
  - (A) in respect of the first Interest Period, the Initial Relevant Screen Rate, if any; and

- (B) in respect of subsequent Interest Periods, the arithmetic mean of offered quotations for three-month Sterling deposits in the London interbank market displayed on the Reuters Screen page LIBOR01;
- (v) **Reference Banks** means the principal London office of each of five major banks engaged in the London interbank market selected by the Agent Bank with the approval of the Issuer, provided that, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such; and
- (vi) **Determination Date** means the first day of the Interest Period for which the rate will apply.

#### **5.4 *Determination of Rate of Interest and Interest Amounts***

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on each Determination Date but in no event later than the third Business Day thereafter, determine the Sterling amount (the **Interest Amounts**) payable in respect of interest on the Principal Amount Outstanding of each sub class of the Notes for the relevant Interest Period. The Interest Amounts shall be determined by applying the relevant Rate of Interest to such Principal Amount Outstanding, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 and rounding the resulting figure downwards to the nearest penny.

#### **5.5 *Publication of Rate of Interest and Interest Amounts***

The Agent Bank shall cause the Rates of Interest and the Interest Amounts for each Interest Period and each Interest Payment Date to be notified to the Issuer, the Cash Manager, the Note Trustee, the Registrar and the Paying Agents (as applicable) and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed and to be published in accordance with Condition 15 (Notice To Noteholders) as soon as possible after their determination and in no event later than the second Business Day thereafter. The Interest Amounts and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

#### **5.6 *Determination by the Note Trustee***

The Note Trustee may, without liability therefor, if the Agent Bank defaults at any time in its obligation to determine the Rates of Interest and Interest Amounts in accordance with the above provisions, determine the Rates of Interest and Interest Amounts, the former at such rates as, in its absolute discretion (having such regard as it shall think fit to the procedure described above it shall deem fair and reasonable in all the circumstances and the latter in the manner provided in Condition 5.4 (Determination of Rate of Interest and Interest Amounts) (or, in each case, the Note Trustee may, at the expense of the Issuer, employ an expert to do so) and any such determination shall be deemed to be determinations made by the Agent Bank.

#### **5.7 *Notifications, etc. to be Final***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Reference Banks (or any of them), the Agent Bank, the Cash Manager or the Note Trustee, will (in the absence of wilful default, gross negligence, bad faith or manifest error) be binding on the Issuer, the Cash Manager, the Note Trustee, the Agent Bank, the Registrar, the Paying Agents and all Noteholders and (in the absence of wilful default, gross negligence, bad faith or manifest error) no liability to the Issuer or the Noteholders shall attach to the Reference Banks (or any of them), the



Cash Manager, the Agent Bank, the Registrar or, if applicable, the Note Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this Condition 5.

## **5.8 *Agent Bank***

The Issuer shall procure that, so long as any of the Notes remains outstanding, there is at all times an Agent Bank for the purposes of the Notes and the Issuer may, subject to the prior written approval of the Note Trustee, terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Rates of Interest and the Interest Amounts for any Interest Period, the Issuer shall, subject to the prior written approval of the Note Trustee, appoint another major bank engaged in the relevant interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

## **6. PAYMENTS**

### **6.1 *Payment of Interest and Principal***

Payments of principal and interest shall be made by Sterling cheque or upon application by the relevant Noteholder to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a Sterling account maintained by the payee with a bank in London and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Global Notes or Definitive Notes (as the case may be) at the specified office of any Paying Agent.

### **6.2 *Laws and Regulations***

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. Noteholders will not be charged commissions or expenses on payments.

### **6.3 *Payment of Interest following a Failure to pay Principal***

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with Condition 5.1 (Interest Accrual) will be paid, in respect of a Global Note, as described in Condition 6.1 (Payment of Interest and Principal) above and, in respect of any Definitive Note, in accordance with this Condition 6.

### **6.4 *Change of Paying Agents***

The Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent or the Registrar and to appoint additional or other Agents provided that:

- (a) there will at all times be a person appointed to perform the obligations of the Principal Paying Agent and Registrar with a specified office in London; and
- (b) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Except where otherwise provided in the Trust Deed, the Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or the Registrar or their specified offices to be given in accordance with Condition 15 (Notice To Noteholders) and will notify the Rating Agencies of such change or addition.

#### **6.5 *No Payment on non-Business Day***

If the date for payment of any amount in respect of a Note is not a Business Day, Noteholders shall not be entitled to payment until the next following Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. In this Condition 6.5, the expression **Business Day** means a day which is (a) a Business Day and (b) a day on which banks are generally open for business in the relevant place.

#### **6.6 *Partial Payment***

If a Paying Agent makes a partial payment in respect of any Note, the Registrar will, in respect of the relevant Note, annotate the Register, indicating the amount and date of such payment.

#### **6.7 *Payment of Interest***

If interest is not paid in respect of a Note of any sub-class on the date when due and payable (other than because the due date is not a Business Day (as defined in Condition 6.5 (No Payment on non-Business Day)) or by reason of non-compliance with Condition 6.1 (Payment of Interest and Principal), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with Condition 15 (Notice To Noteholders).

### **7. REDEMPTION**

#### **7.1 *Redemption at Maturity***

Unless previously redeemed in full or purchased and cancelled as provided below, the Issuer will redeem the Notes at their respective Principal Amounts Outstanding on the Interest Payment Date falling in November 2053.

#### **7.2 *Mandatory Redemption***

- (a) Each Note shall, subject to Condition 7.3 (Optional Redemption in Full or in Part) and 7.4 (Optional Redemption for Taxation or Other Reasons), be repaid on each Interest Payment Date prior to the service of a Note Acceleration Notice:
- (i) during the Revolving Period, if and to the extent that the same Principal Receipts have been standing to the credit of the Retained Principal Receipts Fund for two consecutive Interest Periods. Such Principal Receipts shall be released from the Retained Principal Receipts Fund, deemed to be Available Principal Receipts, and applied to redeem the Notes after payment or provision for amounts ranking in priority to the relevant Notes in accordance with the terms of the Cash Management Agreement; and
  - (ii) following the end of the Revolving Period, to the extent of Available Principal Receipts, after payment, or provision for, amounts ranking in priority to the relevant Note.
- (b) Subject to the terms of the Cash Management Agreement, prior to the service of a Note Acceleration Notice on the Issuer, Available Principal Receipts will be applied to repay the Notes sequentially in the following order of priority:

- (i) *first*, in or towards repayment *pro rata* and *pari passu* of the Class A1 Notes;
- (ii) *second*, in or towards repayment *pro rata* and *pari passu* of the Class A2 Notes;
- (iii) *third*, in or towards repayment *pro rata* and *pari passu* of the Class A3 Notes; and
- (iv) *fourth*, in or towards repayment *pro rata* and *pari passu* of the Class A4 Notes.

### **7.3 *Optional Redemption in Full or in Part***

(a) On giving not more than 60 nor less than 30 days' notice to the Noteholders in accordance with Condition 15 (Notice To Noteholders), the Note Trustee and the Interest Rate Swap Provider, and provided that:

- (i) on or prior to the Interest Payment Date on which such notice expires, no Note Acceleration Notice has been served; and
- (ii) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the Notes on the relevant Interest Payment Date and to discharge all other amounts required to be paid in priority to or *pari passu* with the Notes on such Interest Payment Date (such certification to be provided by way of certificate signed by two directors of the Issuer); and
- (iii) the date of redemption will be the first Interest Payment Date falling in November 2008 or any Interest Payment Date thereafter, if the Issuer elects (at its absolute discretion) to accept an offer from the Seller under the Mortgage Sale Agreement to repurchase some or all the relevant Loans and their Related Security,

the Issuer may redeem on any Interest Payment Date all, or any sub-class, of the Notes.

(b) Any Note redeemed pursuant to Condition 7.3(a) will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to but excluding the date of redemption.

### **7.4 *Optional Redemption for Taxation or Other Reasons***

If:

- (a) by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any sub-class of the Notes (other than because the relevant holder has some connection with the United Kingdom other than the holding of Notes of such sub-class) 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 sub-division thereof or any authority thereof or therein; or
- (b) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Issuer or the Interest Rate Swap Provider would be required to deduct or withhold from any payment under the Interest Rate Swap Agreement any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature,

then the Issuer shall, if the same would avoid the effect of such relevant event described in subparagraph (a) or (b) above, appoint a Paying Agent in another jurisdiction or use its reasonable endeavours to arrange the substitution of a company incorporated and/or tax resident in another jurisdiction approved in writing by the Note Trustee as principal debtor under the Notes, provided that (i) the Note Trustee is satisfied that such substitution will not be materially prejudicial to the Noteholders (and in making such determination, the Note Trustee may rely, without further investigation or inquiry, on any confirmation from each of the Rating Agencies that the then current ratings of the Notes would not be adversely affected by such substitution) and (ii) such substitution would not require registration of any new security under US securities laws or materially increase the disclosure requirements under US law.

If the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that one or more of the events described in subparagraph (a) or (b) above is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such a substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 30 days' notice to the Note Trustee, the Interest Rate Swap Provider and Noteholders in accordance with Condition 15 (Notice To Noteholders) redeem all (but not some only) of the Notes on the next following Interest Payment Date at their respective Principal Amount Outstanding together with any interest accrued (and unpaid) thereon up to (but excluding) the date of redemption provided that (in either case), prior to giving any such notice, the Issuer shall have provided to the Note Trustee (a) a certificate signed by two directors of the Issuer stating that one or more of the circumstances referred to in subparagraph (a) or (b) above prevail(s) and setting out details of such circumstances and (b) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer, the Paying Agents or the Interest Rate Swap Provider (as the case may be) has or will become obliged to deduct or withhold amounts as a result of such change or amendment. The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in the paragraph immediately above, in which event they shall be conclusive and binding on the Noteholders.

The Issuer may only redeem the Notes as described above if the Issuer has certified to the Note Trustee that it will have the necessary funds, not subject to the interest of any other person, required to redeem the Notes as aforesaid and any amounts required under the Pre-Acceleration Revenue Priority of Payments to be paid in priority to or *pari passu* with the Notes outstanding in accordance with the terms and conditions thereof, such certification to be provided by way of a certificate signed by 2 directors of the Issuer.

## **7.5 *Principal Amount Outstanding***

The **Principal Amount Outstanding** of the Notes on any date shall be their original principal amount of:

- (a) in respect of Class A1 Notes, £1,725,000,000;
- (b) in respect of Class A2 Notes, £1,725,000,000;
- (c) in respect of Class A3 Notes, £1,725,000,000; and
- (d) in respect of Class A4 Notes, £1,725,000,000,

less the aggregate amount of all principal payments in respect of such Notes which have been made since the Closing Date.

## 7.6 *Notice of Redemption*

Any such notice as is referred to in Condition 7.3 (Optional Redemption in Full or in Part) and Condition 7.4 (Optional Redemption for Taxation or Other Reasons) above shall be irrevocable and, upon the expiry of such notice, the Issuer shall be bound to redeem the relevant Notes at the applicable amounts specified above. Any certificate or legal opinion given by or on behalf of the Issuer pursuant to Condition 7.3 (Optional Redemption in Full or in Part) or Condition 7.4 (Optional Redemption for Taxation or Other Reasons) may be relied on by the Note Trustee without further investigation and shall be conclusive and binding on the Noteholders.

## 7.7 *No Purchase by the Issuer*

The Issuer will not be permitted to purchase any of the Notes.

## 7.8 *Cancellation*

All Notes redeemed in full will be cancelled upon redemption and may not be resold or re-issued.

## 8. **TAXATION**

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

## 9. **PRESCRIPTION**

Claims in respect of principal and interest on the Notes will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the relevant payment.

In this Condition 9, the **Relevant Date**, in respect of a payment, is the date on which such payment first becomes due or (if the full amount of the moneys payable on that date has not been duly received by the Principal Paying Agent or the Note Trustee on or prior to such date) the date on which, the full amount of such moneys having been received, notice to that effect is duly given to the relevant Noteholders in accordance with Condition 15 (Notice To Noteholders).

## 10. **EVENTS OF DEFAULT**

### 10.1 *Notes*

The Note Trustee at its absolute discretion may, and if so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject, in each case, to being indemnified and/or secured to its satisfaction), (but, in the case of the happening of the event described in subparagraph 10.1(b) below, only if the Note Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) give notice (a **Note Acceleration Notice**) to the Issuer that all classes of the Notes are immediately due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed, in any of the following events (each, an **Event of Default**):

- (a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of three days in the case of principal or five days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or any Transaction Document to which it is a party and (except in any case where the Note Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days (or such longer period as the Note Trustee may permit) following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if any order is made by any competent court or any resolution is passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolutions of the Noteholders; or
- (d) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolutions of the Noteholders, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay its debts (or any class of its debts) as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account its contingent and prospective liabilities) or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law or is adjudicated or found bankrupt or insolvent; or
- (e) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application to the court for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) or an administration order is granted or the appointment of an administrator takes effect or an administrative or other receiver, manager or other similar official is appointed, in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer and (ii) in the case of any such possession or any such last-mentioned process, unless initiated by the Issuer, is not discharged or otherwise ceases to apply within 14 days; or
- (f) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance, assignation or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

## **10.2 General**

Upon the service of a Note Acceleration Notice by the Note Trustee in accordance with Condition 10.1 (Notes) above, all the Notes then outstanding shall thereby immediately become due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed.

## 11. ENFORCEMENT

Each of the Note Trustee and the Security Trustee may, at any time, at its discretion and without notice, take such proceedings against the Issuer or any other party to any of the Transaction Documents as it may think fit to enforce the provisions of (in the case of the Note Trustee) the Notes or the Trust Deed (including these Conditions) or (in the case of the Security Trustee) the Deed of Charge or (in either case) any of the other Transaction Documents to which it is a party and at any time after the service of a Note Acceleration Notice, the Security Trustee may, at its discretion and without notice, take such steps as it may think fit to enforce the Security, but neither of them shall be bound to take any such proceedings or steps unless:

- (a) in the case of the Note Trustee, (subject in all cases to restrictions contained in the Trust Deed to protect the interests of the Noteholders while any of the Notes remain outstanding) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Notes then outstanding or, in the case of the Security Trustee, (subject to the restrictions contained in the Deed of Charge to protect the interests of Noteholders whilst the Notes remain outstanding) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Notes then outstanding;
- (b) in all cases, it shall have been indemnified and/or secured to its satisfaction.

No Noteholder shall be entitled to proceed directly against the Issuer unless the Note Trustee having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing.

Amounts available for distribution after enforcement of the Security shall be distributed in accordance with the terms of the Deed of Charge.

Notwithstanding any other Condition or any provision of any Transaction Document, all obligations of the Issuer to the Noteholders are limited in recourse to the property, assets and undertakings of the Issuer the subject of any security created under the Deed of Charge (the **Charged Assets**). If:

- (i) there are no Charged Assets remaining which are capable of being realised or otherwise converted into cash;
- (ii) all amounts available from the Charged Assets have been applied to meet or provide for the relevant obligations specified in, and in accordance with, the provisions of the Deed of Charge; and
- (iii) there are insufficient amounts available from the Charged Assets to pay in full, in accordance with the provisions of the Deed of Charge, amounts outstanding under the Notes (including payments of principal, premium (if any) and interest),

then the Noteholders shall have no further claim against the Issuer in respect of any amounts owing to them which remain unpaid (including, for the avoidance of doubt, payments of principal, premium (if any) and/or interest in respect of the Notes) and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

## 12. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

- 12.1 The Trust Deed contains provisions for convening meetings of the Noteholders of each class and, in certain cases, more than one class to consider any matter affecting their interests, including the

sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Transaction Documents.

- 12.2 Subject as provided below, the quorum at any meeting of Noteholders of any class or sub class for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 50% of the aggregate Principal Amount Outstanding of such class or sub class of Notes, or, at any adjourned meeting, one or more persons being or representing a Noteholder of the relevant class or sub-class, whatever the aggregate Principal Amount Outstanding of the Notes of such class or sub class held or represented by it or them.
- 12.3 The quorum at any meeting of Noteholders of any class or sub class for passing an Extraordinary Resolution to sanction a modification of the date of maturity of any Notes or 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 of such Notes, altering the currency of payment of such Notes or altering the quorum or majority required in relation to this exception (each, a **Basic Terms Modification**) shall be one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, not less than one-quarter of the aggregate Principal Amount Outstanding of the Notes of such class or sub-class. Any Extraordinary Resolution in respect of a Basic Terms Modification shall only be effective if duly passed at a meeting of the Noteholders.
- 12.4 The Trust Deed and the Deed of Charge provide that:
- (a) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of one sub-class only of the Notes shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Notes of that sub-class so affected;
  - (b) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of more than one sub-class of the Notes but does not give rise to a conflict of interest between the holders of any sub-classes of the Notes so affected, shall be deemed to have been duly passed if passed at a single meeting of the holders of the Notes of all sub-classes so affected; and
  - (c) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of more than one sub-class of the Notes, and gives or may give rise to a conflict of interest between the holders of one sub-class of the Notes so affected and the holders of another sub-class of the Notes so affected, shall be deemed to have been duly passed only if in lieu of being passed at a single meeting of the holders of the Notes of all sub-classes so affected, it shall be duly passed at separate meetings of the holders of each sub-class of the Notes so affected.

The Trust Deed and the Deed of Charge contain similar provisions in relation to directions in writing from the Noteholders upon which the Note Trustee or, as the case may be, the Security Trustee is bound to act.

- 12.5 The Note Trustee or, as the case may be, the Security Trustee, may agree, with the Issuer and any other parties but without the consent of the Noteholders or the other Secured Creditors (but, in the case of the Security Trustee only, with the written consent of the Interest Rate Swap Provider and the Liquidity Facility Provider):
- (a) to any modification, or to any waiver or authorisation of any breach or proposed breach, of these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee and, in the opinion of the Security Trustee, is not materially prejudicial to the interests of the Noteholders; or



- (b) to any modification which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, proven.
- 12.6 The Note Trustee may also, without the consent of the Noteholders, if it is of the opinion that such determination will not be materially prejudicial to the interests of the Noteholders, determine that an Event of Default shall not, or shall not subject to specified conditions, be treated as such.
- 12.7 Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee or, as the case may be, the Security Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 15 (Notice To Noteholders).
- 12.8 In connection with any such substitution of principal debtor referred to in Condition 7.4 (Optional Redemption for Taxation or Other Reasons), the Note Trustee and the Security Trustee may also agree, without the consent of the Noteholders or the other Secured Creditors, to a change of the laws governing the Notes, these Conditions and/or any of the Transaction Documents, provided that such change would not, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, be materially prejudicial to the interests of the Noteholders.
- 12.9 In determining whether a proposed action will not be materially prejudicial to the Noteholders, the Note Trustee and the Security Trustee may, among other things, have regard to whether the Rating Agencies have confirmed to the Issuer or any other party to the Transaction Documents that any proposed action will not result in the withdrawal or reduction of, or entail any other adverse action with respect to, the then current rating of the Notes. It is agreed and acknowledged by the Note Trustee and the Security Trustee that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to the Noteholders. In being entitled to take into account that each of the Rating Agencies has confirmed that the then current rating of the Notes (or any class thereof) would not be adversely affected, it is agreed and acknowledged by the Note Trustee and the Security Trustee this does not impose or extend any actual or contingent liability for each of the Rating Agencies to the Security Trustee, the Note Trustee, the Noteholders or any other person or create any legal relations between each of the Rating Agencies and the Security Trustee, the Note Trustee, the Noteholders or any other person whether by way of contract or otherwise.
- 12.10 Where, in connection with the exercise or performance by each of them of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination, substitution or change of laws as referred to above), the Note Trustee or the Security Trustee is required to have regard to the interests of the Noteholders of any class, it shall have regard to the general interests of the Noteholders of such class as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Note Trustee or, as the case may be, the Security Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer, the Note Trustee or the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

### 13. INDEMNIFICATION AND EXONERATION OF THE NOTE TRUSTEE AND THE SECURITY TRUSTEE

The Trust Deed and the Deed of Charge contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee and the Security Trustee respectively and providing for their indemnification in certain circumstances, including provisions relieving them from taking action or, in the case of the Security Trustee, enforcing the Security unless indemnified and/or secured to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which the Note Trustee and the Security Trustee are entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any other party to any of the Transaction Documents and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any other party to any of the Transaction Documents, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, individual Noteholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

### 14. REPLACEMENT OF NOTES

If any Note is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of the Registrar. Replacement of any mutilated, defaced, lost, stolen or destroyed Note will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. A mutilated or defaced Note must be surrendered before a new one will be issued.

### 15. NOTICE TO NOTEHOLDERS

#### 15.1 *Publication of Notice*

Any notice to Noteholders shall be validly given if published in the *Financial Times*, or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other English newspaper or newspapers as the Note Trustee shall approve in advance having a general circulation in the United Kingdom, provided that if, at any time, the Issuer procures that the information concerned in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and notified to Noteholders (in each case a **Relevant Screen**), publication in the newspaper set out above or such other newspaper or newspapers shall not be required with respect to such information. 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 shall have been made in the newspaper or newspapers in which (or on the Relevant Screen) publication is required.

In respect of Notes in definitive form, notices to Noteholders will be sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register. Any such notice will be deemed to have been given on the fourth day after the date of posting.

Whilst the Notes are represented by Global Notes, notices to Noteholders will be valid if published as described above, or, at the option of the Issuer, to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg, as aforesaid shall be deemed to have been given on the day of such delivery.

## 15.2 *Note Trustee's Discretion to Select Alternative Method*

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or category of them if, in its sole opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

## 16. GOVERNING LAW

The Trust Deed, the Deed of Charge, the Notes and these Conditions (other than each Scottish Declaration of Trust and certain documents to be granted pursuant to the Deed of Charge) are governed by, and shall be construed in accordance with, English law, unless specifically stated to the contrary. Each Scottish Declaration of Trust is governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

## 17. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes or these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 18. DEFINITIONS

Unless otherwise defined in these Conditions or unless the context otherwise requires, in these Conditions the following words shall have the following meanings and any other capitalised terms used in these Conditions shall have the meanings ascribed to them in the Master Definitions and Construction Schedule:

**Agency Agreement** has the meaning given to it in the preamble to these Conditions;

**Final Maturity Date** means in respect of each sub-class of Notes, the Interest Payment Date falling in the following months:

<b>Class</b>	<b>Interest Payment Date Falling in</b>
Class A1 Notes	November 2053
Class A2 Notes	November 2053
Class A3 Notes	November 2053
Class A4 Notes	November 2053

**Interest Rate Swap Agreement** means the ISDA master agreement, schedule, credit support annex and confirmations (as amended or supplemented from time to time) relating to the Interest Rate Swap to be entered into on or before the Closing Date between the Issuer, the Interest Rate Swap Provider and the Security Trustee;

**Interest Rate Swap** means the interest rate swap which enables the Issuer to hedge the possible variance between the interest rates payable on the Loans in the Portfolio and a rate of interest calculated by reference to Three-Month Sterling LIBOR;

**Interest Rate Swap Provider** means Bank of Scotland plc in its capacity as interest rate swap provider under the Interest Rate Swap Agreement;

**Rating Agencies** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and Fitch Ratings Ltd.;

**Subordinated Loan** means the subordinated loan that the Subordinated Loan Provider will make available to the Issuer on the Closing Date pursuant to the Subordinated Loan Agreement;

**Subordinated Loan Agreement** means the agreement to be entered into on the Closing Date between the Issuer, the Subordinated Loan Provider and the Security Trustee relating to the provision of the Subordinated Loan to the Issuer (as the same may be amended and/or supplemented from time to time);

**Subordinated Loan Provider** means Bank of Scotland plc in its capacity as provider of the Subordinated Loan;

**Subscription Agreement** means a subscription agreement in relation to the Notes between, *inter alios*, the Issuer and the Arranger (as defined therein); and

**Transaction Documents** means the Servicing Agreement, the Agency Agreement, the Bank Account Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge), the Interest Rate Swap Agreement, the Holdings Declaration of Trust, the Issuer Nominee Declaration of Trust, the Issuer Power of Attorney, the Master Definitions and Construction Schedule, the Liquidity Facility Agreement, the Mortgage Sale Agreement, each Scottish Declaration of Trust, the Seller Power of Attorney, the Subordinated Loan Agreement, the Subscription Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes.

## **USE OF PROCEEDS**

The Issuer will use the gross proceeds of the Notes principally to pay the Initial Consideration payable by the Issuer for the Initial Portfolio to be acquired from the Seller on the Closing Date. The remaining proceeds (if any) of the issue of the Notes will be deposited into the GIC Account to form part of the Available Principal Receipts in respect of the first Interest Payment Date.

## FEES

The following table sets out the on-going fees to be paid by the Issuer to the transaction parties.

<u>Type of Fee</u>	<u>Amount of Fee</u>	<u>Priority in Cashflow</u>	<u>Frequency</u>
Servicing Fees	0.025% each year (inclusive of VAT) on the aggregate amount of the Portfolio at the opening of business on the preceding Collection Period	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Cash management fee	0.025% each year (inclusive of VAT) on the aggregate amount of the Portfolio at the opening of business on the preceding Collection Period	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Commitment fee under Liquidity Facility	0.20 per cent. of undrawn amount under Liquidity Facility from time to time (inclusive of VAT, if any, chargeable thereon)	Ahead of all outstanding Notes	Monthly in arrear on each Distribution Date
Other fees and expenses of the Issuer	estimated at £30,000 each year (exclusive of VAT)	Ahead of all outstanding Notes	Monthly in arrear on each Distribution Date

VAT is currently chargeable at 17.5%

## **EXPENSE OF THE ADMISSION TO TRADING**

The estimated total expenses related to the admission to trading of the Notes will be £6,450 (exclusive of VAT).

## RATINGS

The Rated Notes, on issue, were assigned the following ratings by S&P and Fitch. 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 if, in its judgment, circumstances (including, without limitation, a reduction in the credit rating of the Interest Rate Swap Provider and/or the Account Bank in the future) so warrant.

<b>Class of Notes</b>	<b>S&amp;P</b>	<b>Fitch</b>
Class A1 Notes	AAA	AAA
Class A2 Notes	AAA	AAA
Class A3 Notes	AAA	AAA
Class A4 Notes	AAA	AAA



## THE ISSUER

### Introduction

The Issuer was incorporated in England and Wales on 8 September 2008 (registered number 6691601) as a public limited company under the Companies Act 1985 (as amended). The registered office of the Issuer is 35 Great St. Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is +44 (0)20 7398 6300. The authorised share capital of the Issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,998 shares of £1 each, partly-paid up in cash of 25p each and 2 fully paid shares of £1 each all of which are beneficially owned by Holdings (see "*Holdings*" below).

The Issuer has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or the Issuer.

The principal objects of the Issuer are set out in its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company. The Issuer was established solely for the purpose of issuing the Notes. The activities of the Issuer will be restricted by its Memorandum and Articles of Association and the Transaction Documents and will be limited to the issues of the Notes, the exercise of related rights and powers and other activities referred to herein or reasonably incidental thereto.

Under the Companies Act 1985, the Issuer's governing documents, including its principal objects, may be altered by a special resolution of shareholders.

In accordance with the Corporate Services Agreement, the Corporate Services Provider will provide to the Issuer's directors, a registered and administrative office, the arrangement of meetings of directors and shareholders and procure the service of a company secretary. No other remuneration is paid by the Issuer to or in respect of any director or officer of the Issuer for acting as such.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration as a public company under the Companies Act 1985 and to the proposed issues of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer, as necessary, intends to make a notification under the Data Protection Act 1998 and is in the process of applying for a consumer credit licence under the CCA. As at 10 October 2008, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2008.

There is no intention to accumulate surpluses in the Issuer, which for the avoidance of doubt does not include the £5,004 which the Issuer expects to generate annually as its profit in respect of the business of the Issuer, (other than amounts standing to the credit of the Reserve Funds).

### Directors

The directors of the Issuer and their respective business addresses and occupations are:

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Director of special purpose companies
SFM Directors (No. 2) Limited	35 Great St. Helen's, London EC3A 6AP	Director of special purpose companies

David Balai  
Bank of Scotland plc, Treasury Senior Director, Securitisation  
Division  
33 Old Broad Street  
London EC2N 1HZ

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their principal activities are as follows:

<u>Name</u>	<u>Business Address</u>	<u>Principal Activities</u>
Jonathan Eden Keighley	35 Great St. Helen's, London EC3A 6AP	Company Director
James Garner Smith Macdonald	35 Great St. Helen's, London EC3A 6AP	Company Director
Robert William Berry	35 Great St. Helen's, London EC3A 6AP	Company Director
Cane Valentine Pickersgill	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Company Director
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Company Director
Helena Whittaker	35 Great St. Helen's, London EC3A 6AP	Company Director
Annika Goodwille	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
Debra Parsall	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry

The company secretary of the Issuer is SFM Corporate Services Limited whose registered office is at 35 Great St. Helen's, London EC3A 6AP.

The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at 10 October 2008.

### **Capitalisation Statement**

The following table shows the capitalisation of the Issuer as at 10 October 2008:

**As at 10  
October 2008  
£**

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Authorised share capital

Ordinary shares of £1 each      50,000.00

Issued share capital

50,000 ordinary shares 49,998 paid up to 25 pence and 2 fully paid shares of £1 each      12,501.50

## HOLDINGS

### Introduction

Holdings was incorporated in England and Wales on 8 September 2008 (registered number 6691572) as a private limited company under the Companies Act 1985 (as amended). The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP. The authorised share capital of Holdings comprises 100 ordinary shares of £1 each. The issued share capital of Holdings comprises 1 ordinary share of £1. SFM Corporate Services Limited (the **Share Trustee**) holds the entire beneficial interest in the issued share under a discretionary trust for charitable purposes. Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

The principal objects of Holdings are set out in its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company.

Holdings has not engaged since its incorporation in any material activities and those activities incidental to the authorisation and implementation of the Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

### Directors

The directors of Holdings and their respective business addresses and occupations are:

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Director of special purpose companies
SFM Directors (No. 2) Limited	35 Great St. Helen's, London EC3A 6AP	Director of special purpose companies
David Balai	Bank of Scotland plc, Treasury Division  33 Old Broad Street London EC2N 1HZ	Senior Director, Securitisation

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their respective occupations are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Jonathan Eden Keighley	35 Great St. Helen's, London EC3A 6AP	Company Director
James Garner Smith Macdonald	35 Great St. Helen's, London EC3A 6AP	Company Director
Robert William Berry	35 Great St. Helen's, London EC3A 6AP	Company Director
Cane Valentine Pickersgill	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert

Berry

JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Company Director
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Company Director
Helena Whittaker	35 Great St. Helen's, London EC3A 6AP	Company Director
Annika Goodwille	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
Debra Parsall	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry

The company secretary of Holdings is SFM Corporate Services Limited whose registered office is at 35 Great St. Helen's London EC3A 6AP.

The accounting reference date of Holdings is 31 December.

Holdings has no employees.

## **THE MORTGAGE BUSINESS PUBLIC LIMITED COMPANY AND BANK OF SCOTLAND PLC**

### **The Mortgage Business Public Limited Company**

The Mortgage Business Public Limited Company (**TMB**) was originally incorporated in 1986 (registered in England number 1997277) and started trading in 1989. It is a wholly-owned subsidiary of Bank of Scotland plc (and ultimately owned by HBOS plc). The registered office of TMB is Bridge House, Queens Park Road, Handbridge, Chester, CH4 7AD. The principal activity of TMB is the provision of mortgage loans and associated services. On 13 August 2008 HBOS announced plans to streamline some parts of its mortgage business with the effect that from 22 August 2008, TMB no longer accepted new business.

TMB is the Seller and Note Subscriber.

### **Bank of Scotland plc**

Bank of Scotland plc (**Bank of Scotland**) was originally established in 1695 as The Governor and Company of Bank of Scotland by an Act of the Parliament of Scotland. On 17 September 2007, in accordance with the provisions of the HBOS Group Reorganisation Act 2006 (the **Act**), The Governor and Company of Bank of Scotland registered as a public limited company under the Companies Act and changed its name to Bank of Scotland plc, registered number SC327000. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of Capital Bank plc, Halifax plc and HBOS Treasury Services plc transferred to Bank of Scotland. Bank of Scotland together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act 1985) are collectively referred to as the "Bank of Scotland Group". The registered office of Bank of Scotland is located at The Mound, Edinburgh EH1 1YZ, Scotland, with telephone number +44 (0)870 600 5000.

Bank of Scotland is a United Kingdom clearing bank with its headquarters in Edinburgh and an "authorised person" under the Financial Services and Markets Act 2000. The Bank of Scotland Group is engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the UK and internationally. As at 31 December 2007, it operated from branch outlets throughout the UK, overseas branches in Amsterdam, Frankfurt, Grand Cayman, Hong Kong, Madrid, New York City, Paris, Stockholm and Sydney and representative offices in Boston, Chicago, Dallas, Houston, Los Angeles, Miami, Minneapolis and Seattle. It is a member of the British Bankers' Association and the Committee of Scottish Clearing Bankers. The Bank Notes (Scotland) Act 1845 confirmed Bank of Scotland's right to issue bank notes in Scotland. At 31 December 2007, circulation of such notes was approximately £881 million.

Bank of Scotland is the sponsor of the asset-backed securities transaction in connection with which the Notes are being issued. Bank of Scotland is also the Servicer, the Cash Manager, the Subordinated Loan Provider, the Liquidity Facility Provider and the Swap Provider in the transaction.

Bank of Scotland is a wholly owned subsidiary of HBOS plc (**HBOS**). In this Prospectus, HBOS and its consolidated subsidiaries and subsidiary undertakings are collectively referred to as the **HBOS Group**.

### **Mortgage Business**

As at 31 December 2007, the HBOS Group was the fourth largest banking group in the United Kingdom in terms of assets and was the United Kingdom's largest savings banking group. HBOS was incorporated in Scotland on 3 May 2001.

HBOS had total consolidated assets of £681,404 million at 30 June 2008. HBOS's consolidated underlying profit before tax for the half year to 30 June 2008 was £1,451 million.

TMB focuses on specialist lending, such as buy-to-let and self certification, however it also maintains a mainstream lending business. The vast majority of the lending undertaken by TMB takes place through intermediary agents. Mortgage loans and advances secured on residential properties originated by TMB as at 31 December 2007 was approximately £12,405.5 million compared with £9,635.9 million as at 31 December 2006.

### ***Recent Developments***

#### *Bank charges test case*

On 27 July 2007 it was announced that members of the HBOS Group, along with seven other major UK current account providers, had reached agreement with the OFT to commence legal proceedings in the High Court of England and Wales for a declaration (or declarations) to resolve legal uncertainties concerning the fairness and lawfulness of unarranged overdraft charges (the **Test Case**). It was also announced that HBOS and those other providers will seek a stay of all current and potential future court proceedings which are brought against them in the UK concerning these charges and have obtained the consent of the Financial Ombudsman Service not to proceed with consideration of the merits of any complaints concerning these charges that are referred to them prior to the resolution of the Test Case. By virtue of a waiver granted by the FSA of its complaints handling rules, HBOS (and other banks, including the banks party to the Test Case) will not be dealing with or resolving customer complaints about unarranged overdraft charges while the waiver is in force. On 21 July 2008, the FSA confirmed that it is extending its waiver regarding unarranged overdraft charges complaints until 26 January 2009.

The first step in the Test Case was a trial of certain “preliminary” issues concerning the legal status and enforceability of contractual terms relating to unarranged overdraft charges. This preliminary trial concluded on 8 February 2008 and the judgement was handed down on 24 April 2008. The judgment held that the contractual terms relating to unarranged overdraft charges currently used by the HBOS Group (i) are not unenforceable as penalties, but (ii) are not exempt from assessment for fairness under the 1999 Regulations.

At a court hearing on 22 and 23 May 2008, the Judge granted HBOS and the other Test Case banks permission to appeal his decision that unarranged overdraft charges are assessable for fairness under the 1999 Regulations. This appeal will take place at the end of October/early November 2008.

A further hearing took place in early July 2008, at which the Court was asked to consider whether terms and conditions previously used by the Test Case banks are capable of being penalties. The Court handed down the judgment on 8 October 2008 and the HBOS Group is considering its implications.

Further Court hearings will be required before the Test Case process is concluded, including the appeal of the first stage judgment at the end of October 2008.

A definitive outcome of the Test Case is unlikely to be known for at least twelve months.

Given the early stage of these proceedings and the uncertainty as to their outcome, it is not practicable at this time to estimate any potential financial effect. Consistent with HBOS’s obligations as a company admitted to the Official List, HBOS will give further details in relation to the Test Case when they become available, including its potential impact on the HBOS Group.

#### *Underwritten rights issue*

On 18 July 2008, HBOS completed the rights issue announced on 29 April 2008, raising £4.0 billion of capital after expenses.

## *Merger*

On 18 September 2008 Lloyds TSB Group plc and HBOS announced that they had reached agreement on the terms of a recommended acquisition by Lloyds TSB Group plc of HBOS. The terms of the acquisition value HBOS at £12.2 billion (based on Lloyds TSB Group plc's closing price on 17 September 2008 of 279.75 pence). Existing Lloyds TSB Group plc shareholders will own approximately 56 per cent. of the issued share capital of Lloyds TSB Group plc as enlarged by the acquisition and existing HBOS shareholders approximately 44 per cent.

The acquisition is conditional on, among other things, certain approvals by Lloyds TSB Group plc shareholders and HBOS shareholders as well as merger control approvals and regulatory clearances from, *inter alia*, the Financial Services Authority. It is expected that, subject to the satisfaction, or where relevant waiver, of all relevant conditions, the acquisition will be completed at the end of 2008 or early 2009.

## *Sale of BankWest and St Andrew's Australia*

On 7 October 2008, HBOS plc announced the sale of part of its Australian Operations, Bank of Western Australia Ltd (**BankWest**) and St Andrew's Australia Pty Ltd to Commonwealth Bank of Australia Limited for the equivalent of A\$2.5 billion (£1.2 billion) including A\$2.1 billion of cash consideration for the sale and return of excess capital in BankWest of approximately A\$360 million. The businesses to be sold comprise HBOS plc's Australian retail and business banking operations as well as its insurance and wealth management businesses. HBOS plc will continue to retain a presence in Australia through its corporate banking, asset finance and treasury operations.

Completion is subject to regulatory approvals, including the Australian Treasurer, the Australian Prudential Regulatory Authority and the Australian Competition and Consumer Commission and is expected to occur by December 2008. Upon completion, HBOS plc intends to use the sale proceeds to enhance further the capital and funding position of the Group.

## *Government Announcement of Financial Support to the Banking Industry*

On 8 October 2008 the Government made an announcement that it is bringing forward measures regarding banking capital and an enhanced wholesale money funding initiative to bring stability and certainty to the UK banking system. HBOS will release more detailed information to the Issuer as and when it becomes available.



## **THE NOTE TRUSTEE/SECURITY TRUSTEE**

Citicorp Trustee Company Limited will be appointed pursuant to the Trust Deed as Note Trustee for the Noteholders. It will also be appointed pursuant to the Deed of Charge as Security Trustee for the Secured Creditors.

Citicorp Trustee Company Limited's principal place of business is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

Citicorp Trustee Company Limited will not be responsible for (a) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and Citicorp Trustee Company Limited will be entitled to assume, until it has written notice to the contrary, that all such persons are properly performing their duties thereunder or (b) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents. Citicorp Trustee Company Limited will not be liable to any Noteholder or other Secured Creditor for any failure to make or to cause to be made on its behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the charged property and has no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

## **THE CORPORATE SERVICES PROVIDER**

Structured Finance Management Limited (registered number 03853947), having a place of business at 35 Great St. Helen's London EC3A 6AP will be appointed to provide corporate services to the Issuer, Holdings pursuant to the Corporate Services Agreement.

Structured Finance Management Limited has served and is currently serving as corporate service provider for numerous securitisation transactions and programmes involving pools of mortgage loans.

The Corporate Services Provider will be entitled to terminate its respective appointment under the Corporate Services Agreement on 30 days' written notice to the Issuer, the Security Trustee and each other party to the Corporate Services Agreement, provided that a substitute corporate services provider has been appointed on substantially the same terms as those set out in the Corporate Services Agreement.

The Security Trustee can terminate the appointment of the Corporate Services Provider on 30 days' written notice so long as a substitute corporate services provider has been appointed on substantially the same terms as those set out in the Corporate Services Agreement.

In addition, the appointment of the Corporate Services Provider may be terminated immediately upon notice in writing given by the Security Trustee, if the Corporate Services Provider breaches its obligations under the terms of the Corporate Services Agreement and/or certain insolvency related events occur in relation to the Corporate Services Provider.

## THE LOANS

### Introduction

The Provisional Portfolio as at 14 September 2008 (the **Reference Date**) comprised 42,885 Mortgage Accounts (as defined below) drawn solely from the mortgage book of the Seller (being all sterling-denominated mortgage loans originated by the Seller in respect of properties in the United Kingdom to Borrowers resident in the United Kingdom at the time of origination and their related security administered on the Seller's MSP/Borrowers System as at the date of this Prospectus and having an aggregate outstanding principal balance of £7,103,426,729.43 as at that date) (the **TMB Mortgage Book**). The Loans in the Provisional Portfolio were originated by the Seller no earlier than 1 September 2003 and no later than 31 December 2007. Of the Loans in the Provisional Portfolio, 57.54 per cent. by value are Self-Certification Loans (see "*Status of Applicant(s)*" below) and 48.14 per cent. by value are Multi Buy to Let Loans, Multi House 2 House Loans and Next Move Loans (together **Buy to Let Loans**), described further below. Of the Loans in the Provisional Portfolio, 15.31 per cent. by value are Flexible Loans, described further below.

Each Loan may incorporate one or more of the features referred to in this section (each such Loan or collection of Loans secured on a single Property, a **Mortgage Account**).

Each Loan is secured by a first legal charge over a residential property in England or Wales or a first ranking standard security over a residential property in Scotland (collectively the **Properties** and individually a **Property**).

The English Loans are governed by the laws of England and Wales. The Scottish Loans are governed by Scots law.

Each New Loan has been less than one month in arrears in the last three months.

For a description of the conditions which a Loan or a New Loan must meet prior to its inclusion in the Portfolio, see "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Sale of New Portfolios*", above.

All references in this section to "by value" of the Loans means the percentage by the amount of principal outstanding as at 14 September 2008.

### Characteristics of the Loans

The following is a description of some of the characteristics of the Loans currently or previously originated by the Seller including details of Loan types, the underwriting process lending criteria and selected statistical information. We believe the Loans have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the securities.

### Origination Channels

The Seller currently derives its mortgage-lending business primarily through intermediaries with a small volume through direct channels.

The Seller can provide customers with an agreement in principle to lend almost immediately upon application at point of sale through its bespoke on-line application system.

The Seller is subject to FSMA (and other FSA rules), MCOB and the Financial Ombudsman Service, which is a statutory scheme under the FSMA, and follows the Code of Banking Practice. The Seller has pledged its support for regulation of the UK mortgage industry by the FSA and, in particular, the implementation of

CAT marked loans. CAT is a voluntary UK Government standard that was introduced for mortgages in 2000. The CAT mark indicates that the product meets minimum standards for charges, access and terms.

### **Mortgage Administration Systems**

Since September 2003 all existing Mortgage Accounts were migrated to, and all subsequent Mortgage Accounts are processed through, the MSP (**Mortgage Sales Process**) system and are administered on the "Borrowers" mortgage administration platform (together the **MSP/Borrowers System**). The TMB Mortgage Book comprises Mortgage Accounts originated by the Seller on the MSP/Borrowers System and which carry the system flag TMB. All such Mortgage Accounts are eligible for sale or substitution into the Portfolio.

### **Interest Payments and Interest Rate Setting**

The Seller currently offers the following Special Rate Loans (the **Special Rate Loans**) and is able to combine these to suit the requirements of the Borrower:

- (a) tracker rate loans (the **Tracker Rate Loans**), which are set at a fixed margin above or below rates set by the Bank of England;
- (b) fixed rate loans (the **Fixed Rate Loans**), which are subject to a fixed rate of interest;
- (c) standard variable rate loans (the **Standard Variable Rate Loans**), which allow the Borrower to pay interest at the standard variable rate of the Seller which is administered, at the discretion of the Seller, by reference to the general level of interest rates and competitive forces in the UK mortgage market (the **Standard Variable Rate**); and
- (d) discount loans (**Discount Loans**), which allow the Borrower to pay interest at a specified discount to the Standard Variable Rate of the Seller.

The special rates described in (a), (b) and (d) above under Tracker Rate Loans, Fixed Rate Loans and Discount Loans are offered for a predetermined period, usually between one and five years, at the commencement of the loan (the **Product Period**). At the end of the Product Period, the rate of interest charged will either (a) move to some other interest rate type for a predetermined period or (b) revert to, or remain at, the Standard Variable Rate or a fixed margin above or below rates set by the Bank of England for the remainder of the term. In certain instances, early repayment fees are payable by the Borrower if the loan is redeemed within the product period. See "*– Early Repayment of the Loans*" below.

Interest is calculated on a daily basis rather than on an annual basis. Any payment by the Borrower will reduce the Borrower's balance on which interest will be calculated the following day.

The Seller may change the interest rate under a Standard Variable Rate Loan or a Discount Loan linked to the Standard Variable Rate of the Seller by altering the Standard Variable Rate and giving the Borrowers notice, on any part of the loan, unless otherwise agreed in the loan agreement and subject to certain restrictions set forth in the loan agreement. The Seller may also change the Borrowers' monthly payments, the repayment period and the accounting period by giving the Borrowers notice. In the case of Special Rate Loans, the Seller may cancel the special rate under certain circumstances specified in the loan agreement.

The terms and conditions of the Loans (the **Mortgage Conditions**) applicable to all of the Standard Variable Rate Loans and Discount Loans linked to the Standard Variable Rate of the Seller provide that the Standard Variable Rate may only be varied in accordance with a number of reasons that are specified in the Mortgage Conditions. These reasons include:

- to reflect changes in market conditions outside the Seller's control;

- to reflect changes in the cost of funds used by the Seller in its mortgage lending business;
- to reflect a change in the general lending practice of other major lenders (including the terms on which mortgages are offered by them);
- to maintain or improve the general market position of the Seller's products in all areas of its business;
- to reflect changes in the way the Seller administers its mortgage accounts (including changes to the technology used by the Seller);
- to reflect any regulatory requirements or guidance or any change in the law or a decision or recommendation by or requirement of a court, ombudsman, regulator or similar body or an undertaking given to the Director General of Fair Trading;
- to reflect changes to the interest period;
- to regularise the way that all customers are treated following an acquisition, merger or takeover of or by another bank or organisation offering similar services;
- to reflect changes to the way that the property over which the mortgage is granted is used or occupied; or
- for any other valid reason.

If applicable, the Servicer will be responsible for setting any variable margins in respect of Tracker Rate Loans that are sold to the Issuer in the future. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in "*The Servicing Agreement – Undertakings by the Servicer*" above, the Servicer has undertaken to maintain, determine or set the variable margins at a level which is not higher than the variable margins set in accordance with the Seller's policy from time to time. Currently there are no such variable margins.

The English Loans are governed by the laws of England and Wales. The Scottish Loans are governed by Scots law.

## **Repayment Terms**

Each Loan in the Provisional Portfolio is repayable on one of the following bases:

- repayment: the Borrower makes monthly payments of both interest and principal so that, when the Loan matures, the full amount of the principal of the Loan will have been repaid (**Repayment Loans**);
- interest-only: the Borrower makes monthly payments of interest but not of principal so that, when the Loan matures, the entire principal amount of the Loan is still outstanding and is payable in one lump sum (**Interest-Only Loans**); or
- a combination of both these options.

In the case of either Repayment Loans or Interest-Only Loans, the required monthly payment may alter from month to month for various reasons, including changes in interest rates.

For Interest-Only Loans, because the principal is repaid in a lump sum at the maturity of the Loan, the Borrower is required, at the time of application, to declare the general type of repayment mechanism (such as

an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term. However, the Seller does not request specific details of the arrangements put in place by the Borrower, nor does it take security over these repayment mechanisms.

Principal prepayments may be made in whole or in part at any time during the term of a Loan, subject to the payment of any repayment fees (as described in “– *Early Repayment of the Loans*” below). A prepayment of the entire outstanding balance of all Loans under a Mortgage Account discharges the mortgage. Any prepayment in full must be made together with all accrued interest, arrears of interest, any unpaid expenses and any applicable repayment fee(s).

### **Payment Methods**

All payments on the loans must be made in sterling and most payments are made by a direct debit (**DDR**) instruction through the UK direct debit system from another bank or building society account. A valid DDR instruction must be in place prior to completion.

### **Product Range**

The Initial Portfolio will consist of Loans categorised by the Seller as prime loans being mainstream loans (being loans, backed by first ranking security, for the purchase or re-mortgage of residential property), Buy-to-Let Loans (being loans, backed by first ranking security, for the purchase or re-mortgage of property for letting purposes) and self-certification loans (being loans, backed by first ranking security, for the purchase or re-mortgage of residential property where Borrowers certify their own annual income (see “*Status of Applicant(s)*” below)).

Some Loans are portable, meaning that the Borrower has a right, subject to meeting the Seller's lending policy at the time, to retain the terms of the mortgage when the Borrower moves home (although this does not apply to the interest rate charged, which may vary). The relevant policy is that of the Seller rather than its successors and assigns to the Mortgage.

Other types of loan product may be sold to the Issuer in the future, subject to written confirmation being received from the Rating Agencies that such sale of new products will not result in the reduction, withdrawal or qualification of the ratings of the Notes.

Sub-prime Loans will not be sold to the Issuer.

### **Early Repayment of the Loans**

Principal prepayments may be made in whole or in part at any time during the term of a Loan unless the offer letter states otherwise. A prepayment of the whole of the outstanding balance of a Loan under a Mortgage Account discharges the Mortgage in question but must be made together with all outstanding charges, arrears of interest and accrued interest thereon.

Currently, any lump sum capital prepayment made in respect of a Mortgage Account is credited after repayment of any outstanding charges, arrears of interest and accrued interest thereon to reduce the outstanding balance of the relevant Mortgage Account. Unless otherwise specified in the Mortgage Conditions, Borrowers are encouraged to make lump sum prepayments in a minimum amount of £1,000 but partial prepayments will be processed by the Seller regardless of amount. Once a lump sum capital prepayment is made, a new monthly interest payment/repayment will be calculated based on the reduced outstanding balance. Borrowers with Flexible Loans also have the option to increase their normal monthly repayment above the scheduled minimum, thereby facilitating repayment of the Loan in a shorter time period than originally envisaged, or they may underpay or take a payment holiday subject to certain limits. See “*Characteristics of the Loans – Flexible Loans*”, below.

Subject as follows, Early Repayment Charges will be charged to a Borrower making a lump sum prepayment. Such charges and fees may, at the discretion of the Seller, not be charged if early repayment is due to the death of the Borrower (except in the case of Buy-to-Let Loans). The Seller also retains the discretion not to charge such fees in other circumstances, for example, where the Borrower is refinancing the existing Loan shortly before the end of the Product Period with a New Loan originated by the Seller. Where a Borrower moves to a new Property and takes out a new Mortgage with the Seller in the same names as the original Borrowers and for the same amount within 6 months of repayment of the existing Loan, the Seller will refund such charges and fees in full.

### **Further Advances**

None of the Loans (other than the Flexible Loans) obliges the Seller to make further advances. If a Borrower wishes to take out a further loan secured by the same mortgage (other than additional borrowing under a Flexible Loan), the Borrower will need to repeat the application process and the Seller will apply the lending criteria in determining whether to approve the application.

Where an application is made for a further advance and there have been no arrears or other difficulties in relation to the existing Mortgage Account, the Seller retains a discretion to determine the amount of the further advance on the basis of the value of the property shown on the Halifax Property Index provided that the existing formal valuation of the property was carried out within the preceding two years and the aggregate amount advanced and secured on the property does not exceed 90 per cent. (or lower, depending on which scheme the Borrower's product belongs to) of the figure given by the Halifax Property Index.

In the case of further advances that would result in the aggregate amount advanced and secured on the Property exceeding 90 per cent. of the figure given by the Halifax Property Index a formal revaluation of the Property is required before an application for a further advance is approved. The minimum amount of a further advance is £1,000.

In relation to a Flexible Loan, a further advance will only be allowed once a drawdown facility has been utilised in full and any accrued overpayments have been redrawn.

### **Flexible Loans**

Certain Loans are subject to a range of options selected by the Borrower that give the Borrower greater flexibility in the timing and amount of payments made under the Loan as well as access to pre-approved further advances under the Loan (**Flexible Loans**). These Flexible Loans are Tracker Rate Loans or, in limited circumstances, Fixed Rate Loans or Discount Loans and offer all of the optional features described below, subject to certain conditions and financial limits. The flexible option provisions are contained in the mortgage offer. Loans governed by the CCA cannot be taken out as Flexible Loans. During the time that the Seller has offered Flexible Loans, Borrowers have not frequently exercised the various options available to them, although no assurance can be given that they will not exercise their options with greater frequency in the future.

Flexible Loans include the following options, all subject to the further conditions described below and other offer specific conditions. Flexible features can be withdrawn under certain circumstances outlined in the relevant terms and conditions.

- Overpayments. Borrowers may, subject to providing the Seller with 14 days' prior notification, either increase their regular monthly payments above the normal monthly payment then applicable or make lump sum payments (of not less than £500) at any time. Where a borrower has made an overpayment, he or she can redraw the lump sums or amounts overpaid at any time, subject to a minimum redraw of £500. However, if a Borrower has a drawdown facility, such Borrower must use this facility before he or she can drawdown overpayments.

- Drawdown facility. Borrowers may access a drawdown facility for a minimum of £500 up to an amount agreed with the Seller, provided there is sufficient equity in addition to the minimum initial advance of £500 and subject to a maximum of 12 advances per year. The drawdown facility must be taken in withdrawals of not less than £500. The drawdown facility is valid for the term of the mortgage and, subject to the credit limit available to a Borrower and sums repaid under a drawdown facility can be redrawn by the Borrower. Drawdown requests may be made without notice by calling the Seller's lending call centre and funds will be paid by either cheque made out to the borrowers or by the Bankers' Automated Clearing Services direct credit to the relevant Borrower's account from which such Borrower makes their mortgage repayments. A drawdown request may be declined if any payment has been missed in the previous 6 months (other than approved underpayments or payment holidays). The drawdown facility is not available on further advance applications.
- Underpayments. Borrowers may, subject to agreement and providing the Seller with 14 days' prior notification, make underpayments to the extent that previous overpayments have been made provided that at least six months consecutive payments have been made since completion of the mortgage loan at the monthly payment advised from completion. The amount underpaid cannot exceed the total of accrued overpayments.
- Payment holidays. Borrowers may, subject to agreement and providing the Seller with 14 days' prior notification, skip up to six monthly payments in any 12 month rolling period provided that the Borrower's account has been conducted satisfactorily, there have been no arrears in the previous three months and at least six consecutive payments have been made since completion of the mortgage loan at the monthly payment advised from completion.

The Seller may agree to make a credit limit available to the Borrower immediately, without providing 14 days' prior notification, to enable the options described above to be utilised by the Borrower immediately following drawdown (except with regard to the underpayment and payment holiday options).

In addition to the above restrictions, the Seller has the right to withdraw all or any part of the drawdown facility where (a) an event of default (as set out in the applicable terms and conditions) occurs or (b) the Borrower's income falls to a material extent such that the Seller believes that the Borrower will be unable to maintain monthly repayments or (c) the Borrower is declared bankrupt or enters in to an arrangement with creditors or (d) the Borrower creates any subsequent charges over the mortgaged property or (e) the Borrower dies or, if more than one, all parties to the account die or (f) any party to the account requests that the facility be cancelled or (g) the Borrower leaves the property or sells or transfers an interest in the property. If the credit limit is withdrawn, the underpayment, payment holiday and/or drawdown facility options will cease to be available and any unused part of the credit limit will not be able to be utilised.

### **Lending Criteria**

The Loans were originated according to the Seller's lending policy at the relevant time. The current lending criteria are set out below. The Seller's Lending Criteria and underwriting policies are subject to change within the Seller's sole discretion. New Loans may only be included in the Portfolio if they were originated in accordance with the Lending Criteria applicable at the time the Loan is offered and the representations and warranties contained in "*Summary of the Transaction Documents — Mortgage Sale Agreement — Sale of New Loans*", were correct as of the relevant Sale Date.

### **Tenure of Property**

Properties may be either freehold or leasehold or (in Scotland) heritable or long leasehold. Commonhold properties are considered on an individual basis. In the case of leasehold properties, the requirement is that the lease must normally be of such length to ensure that at least 30 years of the lease remain after the term of



the Loan expires, with the exception of leases held by certain limited leaseholders for which this requirement is 10 years (or 70 years where the property is in Scotland and held under a long lease).

### **Valuations**

All Properties have been valued by a valuer appointed or otherwise approved by the Seller. No revaluation of the properties has been conducted for the purposes of the issue alone.

### **Term of Loan**

The minimum term in respect of a Loan is 5 years. The maximum term is 40 years.

### **Age of Applicant**

All Borrowers must be aged 18 or older.

The maximum age limit at the end of the mortgage term is 70 years (in the case of mainstream loans and self-certification loans) and 75 years (in the case of Buy-to-Let Loans). On an exceptional basis (in the case of mainstream loans only), the maximum age limit at the end of the mortgage term may be extended to 75 years. The Seller will attempt to ascertain the Borrower's anticipated income in retirement. If the Seller determines that the Borrower will not be able to afford the mortgage into retirement, the application will be declined. If the Borrower is already retired, the Seller will consider the Borrower's ability to support the Loan.

### **Loan Amount**

The minimum amount that can be borrowed under a loan is £25,005 and the maximum amount is £5 million (£1 million in the case of Buy-to-Let Loans and Self-Certification Loans). Applications for mainstream loans between £1 million and £5 million may be considered on an individual basis. Loans above the level of £2 million will not be eligible for the pool.

### **Security**

Security for each Loan consists of a first mortgage (or, in Scotland, a first ranking standard security) on freehold properties in England and Wales, heritable properties in Scotland, leasehold properties in England and Wales with, as at the application date, at least 30 years remaining unexpired after the term of the Loan and long-leasehold properties in Scotland with at least 70 years remaining on the lease at the time of application.

The Seller requires that a newly built property (or one being occupied for the first time) has the benefit of a 10 year warranty from the National House Building Council (NHBC) or Zurich Municipal Insurance. The Zurich warranty may be extended to 15 years. The exception to NHBC or Zurich Municipal cover is where an architect or qualified surveyor (or, in some cases, another qualified consultant) is employed by the applicant to supervise the building of the property.

### **Loan-to-Value Ratio**

The maximum original loan-to-value ratio (**LTV Ratio**) of Loans is as at the date hereof 95 per cent. (85 per cent. in the case of Buy-to-Let Loans and self-certification loans). Previously, the maximum LTV Ratio for self-certification loans has been 90 per cent..

In the case of a property which is being purchased, the "value" for the purposes of the LTV Ratio is determined on the lower of the valuer's valuation and 100 per cent. of the purchase price.

## **Deposits**

The deposit for any purchase should normally be met from a Borrower's own resources. However, a builder's deposit or a vendor deposit of up to a maximum of 5 per cent. of the purchase price plus £1,000 for allowances is allowable. In addition, parental gifts are acceptable (provided that the deposit is not a loan and does not have to be repaid) and, in the case of military personnel, the long service advance of pay can be used to fund a deposit. In all other respects loans taken out to fund the deposit are not allowed. Where there is a purchase at undervalue, the maximum loan will be based on the discounted purchase price. The valuer must be aware of any incentive and refer to this in the valuation report.

## **Higher Lending Charge**

The Seller does not maintain a domestic mortgage indemnity insurance policy for the Loans. Instead, where the LTV Ratio exceeds a certain product specific limit, the Seller levies a higher lending charge on the Borrower, calculated on the amount by which the LTV Ratio exceeds the limit. The Issuer will not have the benefit of any higher lending charges levied by the Seller. Any higher lending charge received by the Issuer will be paid to the Seller upon receipt.

## **Status of Applicant(s)**

The maximum amount of the aggregate Loan(s) under a Mortgage Account is determined by the application of an affordability model. This model delivers an individualised result that reflects the applicant's net income, existing credit commitments and burden of family expenditure. The model also calculates the full debt servicing cost at a stressed rate of interest before comparing this cost to the net disposable income that the applicant has available. Credit scoring (as described below) also influences the decision of how much to lend using the principle that high credit scores infer a proven ability to manage financial affairs. The Seller maintains rules on the amount of overtime, bonus or commission income (whether regular or non-guaranteed) that it will allow into the model and as a general rule will allow no more than 60 per cent. of these items (for Self-Certification Loans, 100 per cent. can be allowed). Certain benefit payments are allowed (including tax credits) as these quite often compensate for the taxation and National Insurance deductions that would normally cause lower levels of income to fall below minimum wage levels. This model returns "answers" of zero up to amounts that would equate to over five times income. Regardless, the Seller maintains a general policy rule that it will not lend more than an amount equal to five times income.

When there are two applicants, the Seller adds joint incomes together for the purpose of calculating the applicants' total income. When there are more than two applicants, the Seller will only take into account the two highest incomes when assessing affordability.

Employed applicants will be expected to have been employed for a minimum of 6 months in their current role and to have had continuous employment for the last 12 months with no more than two employers in the last 12 months. Self-employed applicants would be expected to have been self-employed for a minimum of 2 years or for a minimum of 1 year for self-certified applicants.

The Seller may exercise discretion within its Lending Criteria in applying those factors that are used to determine the maximum amount of the Loan(s). Accordingly, these parameters may vary for some loans. The Seller may take the following into account when exercising discretion: credit score result, existing customer relationship, percentage of LTV Ratio, stability of employment and career progression, availability of living allowances and/or mortgage subsidy from the employer, employer's standing, regularity of overtime, bonus or commission (up to a maximum of 60 per cent. of the income except in the case of Self-Certification Loans, in respect of which 100 per cent. can be allowed), credit commitments, quality of security (such as type of property, repairs, location or saleability) and the increase in income needed to support the Loan.

All local authority and housing association tenants must provide rent payment history for the last 12 months. The conduct of an existing mortgage holder will be confirmed from the credit search. All first-time buyers must provide three months' bank statements. In the case of mainstream mortgages, an employed applicant must provide a form P60 and the latest payslip or the last three months' payslips or the latest payslip and three months' bank statements showing salary credit. A self-employed applicant for a mainstream loan must provide the last two years' accounts or HM Customs & Revenue self-assessment forms or an accountant's certificate. For loans of up to £100,000, accounts provided by a bookkeeper will be accepted.

Borrowers may be able to exercise the "self-certification" option in respect of their loan in cases where the original LTV Ratio is less than or equal to 90 per cent. (**Self-Certification Loans**) which, for the avoidance of doubt does not include Multi House 2 House Loans, pursuant to which they certify their own annual income figure on the application form and the Seller will not normally request proof of income. This is particularly useful for persons such as the self-employed or company directors for whom such a figure will be difficult to determine. In the case of a "self-certification" applicant who is employed, the Seller may telephone the stated employer for confirmation that the applicant was indeed employed within the stated organisation. In addition, the Seller reserves the right to carry out such checks and to request evidence necessary to satisfy itself as to the Borrower's ability to pay.

In cases where the original LTV Ratio is up to 95 per cent., the Seller may, taking into account the results of credit scoring, exercise its discretion and no verification (other than random verification in respect of five per cent. of the Loans) will be carried out on the Borrower's ability to pay.

The "self-certification" option is available where the Borrower wishes to borrow up to £1,000,000.

All self-certification Borrowers are alerted to the following criteria when they receive their offer:

- the offer is made based upon the declared income on the application form;
- the Seller retains the right to withdraw the offer if any of the declared details relating to income, employment or any other information are found to be incorrect, misleading or untrue or if the Seller believes them likely to be incorrect, misleading or untrue;
- if the offer is withdrawn as a result of the Seller's enquiries, then the applicant will be responsible for all costs incurred in processing the application, including valuation fees, arrangement fees and any abortive legal costs;
- if the applicant is in any doubt at all about the information that has been provided on the application form or elsewhere, he or she must immediately notify the Seller by telephone (in this event, the applicant must not proceed with the transaction until he or she receives the Seller's prior approval);
- making a false, misleading or inaccurate declaration is a criminal offence and may lead to prosecution of the applicant and/or the financial adviser, resulting in a fine and/or imprisonment and the applicant and/or his or her financial adviser may also face civil action for recovery of any losses that the Seller may have incurred.

### **Multi Buy-to-Let Loans**

Multi Buy-to-let Loans have been available, up to 15 July 2008, where, at the time of application, the expected annual rental income equates to a certain percentage, which could not be less than 125 per cent. (the interest cover percentage) of the annual (interest only) mortgage payment calculated using the Bank of England base rate + 0.5 per cent. (or, for selected products, the actual product rate). Confirmation of the expected rental income will be confirmed as part of the standard valuation at the time of application. From 16 July 2008 Multi Buy-to-let Loans have been available based on the earned income of the applicant. The Seller categorises each buy-to-let loan according to its interest cover percentage and limits the number of

loans with a low interest cover percentage that it has on its books. Borrowers of loans with a higher interest cover percentage usually pay a lower rate of interest to reflect the reduced risk the Seller is taking. The maximum LTV Ratio for Buy-to-Let Loans is currently 85 per cent. A Borrower can borrow up to £1 million for an individual buy-to-let property, with a limit of £10 million across the HBOS group applying to a portfolio of properties. All lettings must be on assured shorthold tenancies (or, in Scotland, short assured tenancies) or to a company on a corporate let and certain types of properties are not considered. The minimum acceptable property value or purchase price (whichever is the lower) is currently £40,000 (£75,000 in London postal districts). Multi buy-to-let loans are available to UK residents only. If the applicant is a first time buyer, then the maximum loan will be based on earned income. Confirmation of anticipated rental income will be provided by the valuer as part of the valuation.

The maximum term of the applicable assured shorthold tenancy, short assured tenancy or corporate let is 12 months. This can be renewed without the consent of the seller. Multiple lets are not acceptable, with a maximum of five tenants being allowed. For the avoidance of doubt, children are not included in the maximum number of tenants. All tenants must be party to the same tenancy agreement. Student lets, holiday lets and tenants who are asylum seekers, have the benefit of diplomatic immunity or are claiming housing benefit, rent rebate or rent allowance are not acceptable. If the property is in Scotland, the landlord must (save in certain circumstances) register with the relevant local authority.

If a borrower (other than a borrower under a buy-to-let loan) has let the property, then the Seller will change that borrower's loan to a product from the buy-to-let range.

### **Multi House 2 House Loans**

Multi House 2 House loans (**Multi House 2 House Loans**) are available based on the annual income of the Borrower (excluding any rental income) which can be self certified. Each Borrower is subject to a maximum of 3 properties per Borrower and a maximum Loan amount of £500,000 (except for first time buyers where the maximum Loan amount is £300,000) per property up to a maximum Loan to Value of 85 per cent. (previously, the maximum LTV Ratio for Multi House 2 House Loans has been 90 per cent.). Each Borrower must have a minimum gross personal income of £50,000 per annum for second and third properties.

### **Next Move Loans**

Prior to 16 November 2007, Next Move loans (**Next Move Loans**) were available to Borrowers who wanted to rent out their existing Property and take out a new Loan for their new residential Property. Next Move Loans were made available based on the annual income of the Borrower (excluding rental income) which could be self-certified. The maximum LTV Ratio for Next Move Loans was 95 per cent. or in the case of Next Move Loans which were made on the basis of a borrower's self-certified income, the LTV Ratio was 85 per cent.

### **Credit Search**

Credit searches are carried out in respect of all applicants' residential addresses for the 3 years prior to the date of application. Applications may be declined where an adverse credit history (e.g. county court judgment, Scottish court decree for payment, default, bankruptcy notice or sequestration) is revealed which falls outside the criteria for prime customers. The Seller does offer loans to customers with an adverse credit history but these loans will not be eligible for the pool.

### **Credit Scoring**

The Seller uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk

exposure. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of an account going into arrears.

The Seller reserves the right to decline an application that has received a passing score. The Seller does have an appeals process if a potential borrower believes his or her application has been unfairly denied. It is the Seller's policy to allow only authorised individuals to exercise discretion in granting variances from the credit score decision.

### **Buildings Insurance**

It is the Borrower's responsibility to ensure that comprehensive insurance cover under normal terms (including subsidence and flooding cover) with a reputable insurance company is in place throughout the term of their mortgage to cover the full rebuilding cost of the property, together with professional fees, on a new-for-old basis. The sum insured must be index-linked and the interest of the Seller must be noted on the policy.

In the case of most leasehold properties, the insurance will be effected by the landlord in accordance with the terms of the relevant lease.

When a mortgaged property is taken into possession by the Seller individual policies will be taken out with Halifax General Insurance Services Limited to ensure that the appropriate insurance cover is provided on the property. The Seller may claim under such policy for any damage occurring to the property while in the Seller's possession.

## CHARACTERISTICS OF THE PORTFOLIO

The statistical and other information contained in this Prospectus has been compiled by reference to the Loans in the Provisional Portfolio as at the Reference Date. Columns may not add up to the total due to rounding. A Loan will be removed from the Portfolio if in the period from (and including) the Reference Date up to (but excluding) the Closing Date such Loan is repaid in full or if such Loan does not comply with the terms of the Mortgage Sale Agreement on the Closing Date. Except as otherwise indicated, these tables have been prepared using the current balance as at the Reference Date, which includes all principal and accrued interest for the Loans in the Provisional Portfolio.

### Outstanding Balances as at the Reference Date

The following table shows the range of outstanding Mortgage Account balances (including capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) as at the Reference Date.

#### Range of Outstanding Current Balances

From	To	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
£0.00	£24,999.99	£104,325.91	0.00%	14	0.03%
£25,000.00	£49,999.99	£61,291,091.85	0.86%	1,533	3.57%
£50,000.00	£74,999.99	£250,382,466.51	3.52%	3,928	9.16%
£75,000.00	£99,999.99	£518,011,208.65	7.29%	5,874	13.70%
£100,000.00	£124,999.99	£813,587,857.05	11.45%	7,265	16.94%
£125,000.00	£149,999.99	£861,009,033.81	12.12%	6,287	14.66%
£150,000.00	£174,999.99	£765,156,531.47	10.77%	4,745	11.06%
£175,000.00	£199,999.99	£618,946,169.53	8.71%	3,313	7.73%
£200,000.00	£249,999.99	£918,561,930.34	12.93%	4,164	9.71%
£250,000.00	£299,999.99	£551,556,906.34	7.76%	2,031	4.74%
£300,000.00	£349,999.99	£361,217,309.83	5.09%	1,123	2.62%
£350,000.00	£399,999.99	£263,687,800.94	3.71%	707	1.65%
£400,000.00	£449,999.99	£185,081,188.39	2.61%	439	1.02%
£450,000.00	£499,999.99	£191,471,641.89	2.70%	402	0.94%
£500,000.00	£599,999.99	£235,840,350.82	3.32%	438	1.02%
£600,000.00	£699,999.99	£177,421,153.06	2.50%	276	0.64%
£700,000.00	£799,999.99	£94,469,957.06	1.33%	127	0.30%
£800,000.00+		£235,629,805.98	3.32%	219	0.51%
<b>Totals</b>		<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

The largest Mortgage Account (including capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) had an outstanding current balance as at the Reference Date of £2,000,049.52 and the smallest Mortgage Account had an outstanding current balance as at the Reference Date of £49.77. The average current balance (including capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) as at the Reference Date was approximately £258,119.55.

## LTV Ratios at Origination

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of Loans in a Mortgage Account (excluding capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) as at the date of the initial loan origination divided by the value of the property securing the Loans in that Mortgage Account at the same date. The Seller has not revalued any of the mortgaged properties since the date of the origination of the related Loan other than where an additional lending has been applied for or advanced on an account since origination, in which case the original valuation has been updated with a more recent valuation. Where this is the case, this revised valuation has been used in formulating this data.

### Range of LTV Ratios at Origination

<b>From</b>	<b>To</b>	<b>Aggregate outstanding balance at origination</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0.00'	24.99'	£34,314,185.00	0.48%	503	1.17%
25.00'	49.99'	£354,550,925.00	5.00%	3,085	7.19%
50.00'	74.99'	£2,181,795,365.00	30.79%	12,753	29.74%
75.00'	79.99'	£988,245,505.00	13.94%	5,373	12.53%
80.00'	84.99'	£1,490,645,060.00	21.03%	8,502	19.83%
85.00'	89.99'	£1,813,693,490.00	25.59%	11,236	26.20%
90.00'	94.99'	£214,735,320.00	3.03%	1,366	3.19%
95.00'	96.99'	£8,081,575.00	0.11%	63	0.15%
97.00%		£1,072,455.00	0.02%	4	0.01%
<b>Totals</b>		<b>£7,087,133,880.00</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

The weighted average LTV Ratio of the Mortgage Accounts (excluding any capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) at origination was 75.22 per cent. The highest LTV Ratio of any Mortgage Account (excluding any capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) at origination was 116.28 per cent. and the lowest was 3.12 per cent.

## Reference Date LTV Ratios

The following table shows the range of LTV Ratios, which express the outstanding balance of the aggregate of Loans in a Mortgage Account (including capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) as at the Reference Date divided by the indexed valuation of the property securing the Loans in that Mortgage Account at the same date.

### Range of LTV Ratios as at the Reference Date

<b>From</b>	<b>To</b>	<b>Aggregate outstanding current balance</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0.00%	24.99%	£45,448,330.92	0.64%	733	1.71%
25.00%	49.99%	£394,935,072.78	5.56%	3,578	8.34%
50.00%	74.99%	£2,248,117,890.37	31.65%	13,491	31.46%
75.00%	79.99%	£1,044,883,971.78	14.71%	5,791	13.50%
80.00%	84.99%	£1,126,737,761.73	15.86%	6,353	14.81%
85.00%	89.99%	£1,253,389,608.89	17.64%	7,409	17.28%
90.00%	94.99%	£803,075,223.87	11.31%	4,364	10.18%
95.00%	96.99%	£80,029,200.73	1.13%	531	1.24%
97.00%	99.99%	£105,044,695.02	1.48%	626	1.46%
100.00%+		£1,764,973.34	0.02%	9	0.02%
<b>Totals</b>		<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

The weighted average LTV Ratio of the Mortgage Accounts (including any capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) as at the Reference Date was 76.23 per cent. The highest LTV Ratio of any Mortgage Account (including any capitalised interest, capitalised high LTV Ratio fees, insurance fees, booking fees and valuation fees) was 114.37 per cent. and the lowest was 0.03 per cent.



## Geographical Distribution

The following table shows the distribution of properties securing the Loans throughout England, Wales and Scotland as at the Reference Date. No such properties are situated outside England, Wales or Scotland. The Seller's Lending Criteria and current credit scoring tests do not take into account the geographical location of the property securing a Loan.

## Geographical spread

<b>Region</b>	<b>Aggregate outstanding current balance</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
East Anglia	£192,727,880.07	2.71%	1,230	2.87%
East Midlands	£384,859,433.41	5.42%	2,920	6.81%
Greater London	£1,457,332,310.24	20.52%	6,285	14.66%
North	£193,700,744.31	2.73%	1,506	3.51%
North West	£748,722,743.21	10.54%	5,473	12.76%
Scotland	£258,381,055.45	3.64%	1,949	4.54%
South East	£1,571,054,810.99	22.12%	7,767	18.11%
South West	£1,007,556,881.64	14.18%	5,971	13.92%
Wales	£339,265,391.14	4.78%	2,616	6.10%
West Midlands	£498,972,985.20	7.02%	3,594	8.38%
Yorks & Humber	£431,347,668.39	6.07%	3,460	8.07%
Unknown*	£19,504,825.38	0.27%	114	0.27%
<b>Totals</b>	<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

\*Where the postal code for the property has not yet been allocated or is not shown in the Seller's records.

## Seasoning of Loans

The following table shows the number of months since the date of origination of the initial Loan in a Mortgage Account. The ages (but not the balances) of the Loans in this table have been forecast using the date of 8 October 2008 for the purpose of calculating the seasoning.

### Age of Loans in Months

<b>From</b>	<b>To</b>	<b>Aggregate outstanding current balance</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
6	<12	£1,255,189,790.46	17.67%	6,923	16.14%
12	<18	£2,134,285,514.74	30.05%	12,163	28.36%
18	<24	£1,234,204,984.30	17.37%	7,555	17.62%
24	<30	£916,424,319.66	12.90%	5,707	13.31%
30	<36	£397,561,617.76	5.60%	2,418	5.64%
36	<42	£283,557,163.27	3.99%	1,743	4.06%
42	<48	£196,370,092.17	2.76%	1,307	3.05%
48	<54	£390,432,156.78	5.50%	2,808	6.55%
54	<60	£295,185,197.69	4.16%	2,259	5.27%
60	<66	£215,892.60	0.00%	2	0.00%
<b>Totals</b>		<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

The forecasted maximum, minimum and weighted average seasoning of Loans as at 8 October 2008 were 60.45, 9.26 and 23.20 months, respectively.

## Years to Maturity of Loans

The following table shows the number of remaining years of the term of the initial loan in a Mortgage Account as at the Reference Date.

### Years to Maturity

<b>From</b>	<b>To</b>	<b>Aggregate outstanding current balance</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0	<5	£155,625,756.08	2.19%	867	2.02%
5	<10	£721,168,641.49	10.15%	4,098	9.56%
10	<15	£966,653,759.29	13.61%	5,546	12.93%
15	<20	£1,721,799,472.45	24.24%	10,009	23.34%
20	<25	£3,207,650,027.34	45.16%	20,027	46.70%
25	<30	£244,048,033.92	3.44%	1,680	3.92%
30+		£86,481,038.86	1.22%	658	1.53%
<b>Totals</b>		<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

The maximum, minimum and weighted average remaining term of the Loans as at the Reference Date was 39.58, 0.17 and 18.75 years, respectively.

## Purpose of Loan

The following table shows whether the purpose of the initial loan in a Mortgage Account on origination was to finance the purchase of a new property or to remortgage a property already owned by the Borrower.

Use of proceeds	Aggregate	% of total	Number of	% of total
	outstanding current balance		mortgage accounts	
Purchase	£5,330,653,690.31	75.04%	34,011	79.31%
Remortgage	£1,772,773,039.12	24.96%	8,874	20.69%
<b>Totals</b>	<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

As at the Reference Date, the weighted average balance of Loans used to finance the purchase of a new property was £229,624.72 and the weighted average balance of loans used to remortgage a property already owned by the Borrower was £343,802.29.

## Property Type

The following table shows the types of properties to which the Mortgage Accounts relate.

Property type	Aggregate	% of total	Number of	% of total
	outstanding current balance		properties	
Detached	£2,355,178,197.16	33.16%	9,518	22.19%
Semi-Detached	£1,572,103,092.96	22.13%	10,502	24.49%
Terraced	£1,814,713,238.13	25.55%	13,517	31.52%
Other*	£1,361,432,201.18	19.17%	9,348	21.80%
<b>Totals</b>	<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00</b>

\*Primarily flats and maisonettes

As at the Reference Date, the weighted average balance of Loans secured by detached, semi-detached and terraced properties was £383,999.16, £200,053.46 and £191,483.35, respectively.

## Loan type

The following table shows the distribution of discounted variable, fixed, tracker and standard variable rate loans in the Initial Portfolio as at the Reference Date.

Type of Loan	Aggregate	% of total	Number of	% of Total
	outstanding current balance		accounts	
Discounted variable rate loans*	£0.00	0.00%	0	0.00%
Fixed rate loans	£3,419,357,575.78	48.14%	19,577	45.65%
Tracker rate loans	£3,442,085,369.17	48.46%	21,751	50.72%
Standard variable rate loans	£241,983,784.49	3.41%	1,557	3.63%
<b>Totals</b>	<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

\*Although there are no discounted variable rate loans in the Portfolio as at the Reference Rate, the Seller may purchase a Loan which is a discounted variable rate loan during the Revolving Period.

## Repayment Terms

The following table shows the repayment terms for the Loans in the Mortgage Accounts as at the Reference Date. Where any Loan in a Mortgage Account is interest-only, then that entire Mortgage Account is classified as interest-only.

Repayment method	Aggregate	% of total	Number of	% of total
	outstanding current balance		mortgage accounts	
Interest only	£6,024,701,919.00	84.81%	34,177	79.69%
Repayment	£1,078,724,810.43	15.19%	8,708	20.31%
<b>Totals</b>	<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

As at the Reference Date, the weighted average balance of Interest-Only Loans and Repayment Loans was £176,066.47 and £272,811.18, respectively.

## Payment Methods

The following table shows the payment methods for the Mortgage Accounts as at the Reference Date.

Payment method	Aggregate	% of total	Number of	% of total
	outstanding current balance		mortgage accounts	
Direct Debit	£6,896,638,256.75	97.09%	41,694	97.22%
Other	£206,788,472.68	2.91%	1,191	2.78%
<b>Totals</b>	<b>£7,103,426,729.43</b>	<b>100.00%</b>	<b>42,885</b>	<b>100.00%</b>

## Distribution of Fixed Rate Loans

As at the Reference Date, approximately 48.14 per cent. of the Loans in the Provisional Portfolio were Fixed Rate Loans. The following tables show the distribution of fixed rate loans by their fixed rate of interest as at such date and the year in which the Loans cease to bear a fixed rate of interest and instead bear a floating rate of interest.

Fixed Rate Loans remain at the relevant fixed rate for a period of time as specified in the offer conditions, after which they move to a standard variable rate or some other rate as specified in the offer conditions.

### Fixed Rate %

<b>Rate</b>	<b>Aggregate outstanding current balance</b>	<b>% of total</b>	<b>Number of accounts</b>	<b>% of total</b>
4.00% - 4.99%	£500,321,845.14	14.63%	3,310	16.91%
5.00% - 5.99%	£2,446,212,102.81	71.54%	13,184	67.34%
6.00% - 6.99%	£456,666,258.96	13.36%	2,985	15.25%
7.00% - 7.99%	£16,157,368.86	0.47%	98	0.50%
<b>Totals</b>	<b>£3,419,357,575.78</b>	<b>100.00%</b>	<b>19,577</b>	<b>100.00%</b>

<b>Year in which fixed rate period ends</b>	<b>Aggregate outstanding current balance</b>	<b>% of total</b>	<b>Number of accounts</b>	<b>% of total</b>
2008	£268,876,968.90	7.86%	1,629	8.32%
2009	£2,772,650,500.30	81.09%	15,488	79.11%
2010	£186,841,204.16	5.46%	1,205	6.16%
2011	£15,022,514.92	0.44%	110	0.56%
2012	£66,629,367.72	1.95%	481	2.46%
2013	£109,337,019.77	3.20%	664	3.39%
<b>Totals</b>	<b>£3,419,357,575.78</b>	<b>100.00%</b>	<b>19,577</b>	<b>100.00%</b>

## Arrears Experience of Residential Mortgage Loans in the TMB Mortgage Book

The following table summarises Loans in arrears and repossession experience for Loans serviced by the Seller, including the Loans that were contained in the Provisional Portfolio as at the Reference Date. All of the Loans in the table were originated by the Seller, but not all of the Loans form part of the Portfolio. The Seller services all of the Loans it originates.

	31st Dec 2005	31st Dec 2006	31st Dec 2007	30th June 2008
Outstanding Balance £m	£8,712.0	£9,654.2	£12,668.1	£13,582.6
Number of loans outstanding (000's)	66	69	83	87
<b>Outstanding balance of loans in arrears (£m)</b>				
1- < 2 months	£1102.5	£937.6	£1135.6	£1302.6
2 < 3 months	£386.0	£360.9	£441.9	£476.7
3- <= 4 months (actually >=3 <5)	£199.7	£152.3	£184.4	£203.2
4+ months (actually >=5)	£109.3	£100.6	£112.5	£124.6
	£407.5	£323.8	£396.8	£498.2
Total outstanding balance of loans 3 or more months in arrears as percentage of outstanding balance	0.2483%	0.1869%	0.1922%	0.2243%
Outstanding balance of loans relating to properties in possession	37.3	31.6	26.1	54.9
Outstanding balance of loans relating to properties sold during period (1)	32.5	108.1	70.1	23.6
Net loss on sales of all repossessed properties (2)	5.7	13.8	10.3	4.6
Ratio of aggregate net losses to aggregate outstanding balance of loans	17.54%	12.77%	14.69%	19.49%
Average net loss on all properties sold (£000)	21,897	28,888	33,284	45,162
<b>Number of loans outstanding in arrears (thousands)</b>				
1- < 2 months	2.6	2.3	2.6	2.6
2 < 3 months	1.3	0.9	1.0	1.0

3- <= 4 months (actually >=3 <5)	0.7	0.6	0.7	0.7
4+ months (actually >=5)	2.2	1.6	2.0	2.0
<b>Total number of loans outstanding in arrears</b>	<u>6.7</u>	<u>5.4</u>	<u>6.3</u>	<u>6.3</u>
<b>Total number of loans outstanding 3 or more months in arrears as a percentage of the number of loans outstanding</b>	<u>4.3205%</u>	<u>3.1510%</u>	<u>3.2123%</u>	<u>3.5988%</u>
Number of properties in possession	174	136	114	237
Number of properties sold during the year	154	492	299	104

- (1) Properties sold may relate to properties taken into possession in prior periods.  
(2) Net loss is net of recoveries in the current period on properties sold in prior periods.

There can be no assurance that the arrears experience with respect to the Loans comprising the Portfolio in the future will correspond to the experience of the Portfolio as set forth in the foregoing table. If the property market experiences an overall decline in property values so that the value of the properties in the Portfolio falls below the principal balances of the Loans, the actual rates of arrears could be significantly higher than those previously experienced. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by Borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the Loans in the Portfolio. Noteholders should observe that the United Kingdom experienced relatively low and stable interest rates during the periods covered in the preceding table. If interest rates were to rise, it is likely that the rate of arrears would rise.

The level of mortgage arrears on Loans originated by the Seller has reduced since the recession in the United Kingdom in the early nineties. The introduction of the scorecard in judging applications – and thus reducing discretion – has helped to keep the arrears level low, as have a healthy economic climate and historically low interest rates.

House price inflation has indirectly contributed to the improved arrears situation by enabling borrowers to sell at a profit if they encounter financial hardship. In the late 1980s house prices rose substantially faster than inflation as housing turnover increased to record levels. This was at a time when the economy grew rapidly, which led to falling unemployment and relatively high rates of real income growth. These fed into higher demand for housing, and house prices rose rapidly. Demand was further increased by changes in taxation legislation with regard to tax relief on mortgage payments in 1988. When monetary policy was subsequently tightened (in terms of both "locking in" sterling to the European Exchange Rate Mechanism and higher interest rates), the pace of economic activity first slowed and then turned into recession. Rising unemployment combined with high interest rates led to a fall in housing demand and increased default rates and repossessions. The ability of Borrowers to refinance was limited as house prices began to fall and many were in a position of negative equity (borrowings greater than the resale value of the property) in relation to their mortgages.

During 2007 and early 2008 the rate of house price inflation fell as a consequence of housing demand being constrained by a combination of subdued earnings growth, greater pressure on household finances, higher interest rates and the effect of the continuing global market volatility that began in the summer of 2007. The continuing market volatility and associated liquidity constraints may have a negative impact on the availability of mortgage loans, housing demand and consequently house price inflation. This could lead to rises in the rates of arrears and losses, as the availability of refinancing to borrowers is limited, particularly if house prices are falling. The Seller regularly reviews its lending policies in the light of prevailing market conditions and reviews actions so as to mitigate possible problems. The performance of the Seller's new business and the arrears profiles are continuously monitored in monthly reports. Any deterioration of the arrears level is investigated and the internal procedures are reviewed if necessary.



## CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

The UK housing market is primarily one of owner-occupied housing, with the remainder in some form of public, private landlord or social ownership. The mortgage market, whereby loans are provided for the purchase of a property and secured on that property, is the primary source of household borrowings in the United Kingdom.

Set out in the following tables are certain characteristics of the United Kingdom mortgage market.

### *Industry CPR rates*

In the following tables, quarterly industry constant repayment rate (**industry CPR**) data was calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by building societies in a quarter by the quarterly balance of mortgages outstanding for building societies in the United Kingdom. These quarterly repayment rates were then annualised using standard methodology.

<u>Quarter</u>	<u>Industry CPR rate for the quarter (%)</u>	<u>12-month rolling average (%)</u>	<u>Quarter</u>	<u>Industry CPR rate for the quarter (%)</u>	<u>12-month rolling average (%)</u>
March 1985.....	10.02	11.61	June 1985.....	11.67	11.49
September 1985.....	13.46	11.76	December 1985.....	13.68	12.21
March 1986.....	11.06	12.47	June 1986.....	15.53	13.43
September 1986.....	17.52	14.45	December 1986.....	15.60	14.92
March 1987.....	10.57	14.80	June 1987.....	14.89	14.64
September 1987.....	16.79	14.46	December 1987.....	16.18	14.61
March 1988.....	13.55	15.35	June 1988.....	16.03	15.64
September 1988.....	18.23	16.00	December 1988.....	12.60	15.10
March 1989.....	8.85	13.93	June 1989.....	13.04	13.18
September 1989.....	11.53	11.51	December 1989.....	10.38	10.95
March 1990.....	8.91	10.96	June 1990.....	9.37	10.05
September 1990.....	9.66	9.58	December 1990.....	10.58	9.63
March 1991.....	9.07	9.67	June 1991.....	10.69	10.00
September 1991.....	11.57	10.48	December 1991.....	10.24	10.39
March 1992.....	9.14	10.41	June 1992.....	9.12	10.02
September 1992.....	9.75	9.56	December 1992.....	7.96	8.99
March 1993.....	8.53	8.84	June 1993.....	9.97	9.05
September 1993.....	10.65	9.28	December 1993.....	10.01	9.79
March 1994.....	8.97	9.90	June 1994.....	10.48	10.03
September 1994.....	11.05	10.13	December 1994.....	10.68	10.29
March 1995.....	9.15	10.34	June 1995.....	10.51	10.35
September 1995.....	11.76	10.53	December 1995.....	11.61	10.76
March 1996.....	10.14	11.00	June 1996.....	11.32	11.21
September 1996.....	13.20	11.57	December 1996.....	12.58	11.81
March 1997.....	9.75	11.71	June 1997.....	15.05	12.65
September 1997.....	12.18	12.39	December 1997.....	11.17	12.04
March 1998.....	10.16	12.14	June 1998.....	12.05	11.39
September 1998.....	13.79	11.79	December 1998.....	13.44	12.36
March 1999.....	11.14	12.60	June 1999.....	14.39	13.19
September 1999.....	15.59	13.64	December 1999.....	14.94	14.02
March 2000.....	13.82	14.69	June 2000.....	13.86	14.55

<b>Quarter</b>	<b>Industry CPR rate for the quarter (%)</b>	<b>12-month rolling average (%)</b>	<b>Quarter</b>	<b>Industry CPR rate for the quarter (%)</b>	<b>12-month rolling average (%)</b>
September 2000 .....	14.89	14.38	December 2000 .....	15.55	14.53
March 2001.....	15.47	14.94	June 2001.....	17.36	15.81
September 2001 .....	19.12	16.87	December 2001 .....	19.01	17.74
March 2002.....	18.68	18.54	June 2002.....	19.88	19.17
September 2002 .....	22.40	19.99	December 2002.....	22.16	20.78
March 2003.....	19.51	20.99	June 2003.....	20.18	21.06
September 2003 .....	21.65	20.88	December 2003 .....	21.33	20.67
March 2004.....	19.90	20.77	June 2004.....	21.42	21.07
September 2004 .....	21.41	21.01	December 2004.....	18.71	20.36
March 2005.....	17.76	19.83	June 2005.....	17.75	18.91
September 2005 .....	20.24	18.62	December 2005.....	20.36	19.03
March 2006.....	19.65	19.50	June 2006.....	19.37	19.90
September 2006 .....	21.25	20.16	December 2006.....	21.07	20.34
March 2007.....	19.57	20.32	June 2007.....	19.25	20.29
September 2007 .....	21.22	20.28	December 2007.....	18.63	19.67
March 2008.....	14.54	18.41	June 2008.....	16.31	17.67

Source of repayment and outstanding mortgage information: Council of Mortgage Lenders and Bank of England

You should note that the CPR table above presents the historical CPR experience only of building societies in the United Kingdom. During the late 1990s, a number of former building societies (including the seller) converted stock to form UK banks and the CPR experience of these banks is therefore not included in the foregoing building society CPR data.

### ***Repossession rate***

The table below sets out the repossession rate of residential properties in the United Kingdom since 1985.

<b>Year</b>	<b>Repossessions (%)</b>	<b>Year</b>	<b>Repossessions (%)</b>	<b>Year</b>	<b>Repossessions (%)</b>
1985 .....	0.25	1993.....	0.58	2001 .....	0.16
1986 .....	0.30	1994.....	0.47	2002 .....	0.11
1987 .....	0.32	1995.....	0.47	2003 .....	0.07
1988 .....	0.22	1996.....	0.40	2004 .....	0.07
1989 .....	0.17	1997.....	0.31	2005 .....	0.13
1990 .....	0.47	1998.....	0.31	2006 .....	0.19
1991 .....	0.77	1999.....	0.27	2007 .....	0.23
1992 .....	0.69	2000.....	0.20		

Source: Council of Mortgage Lenders

### *House price to earnings ratio*

The following table shows the ratio for each year of the average annual value of houses compared to the average annual salary in the United Kingdom. The average annual earnings figures are constructed using the CML's new earnings survey figures referring to weekly earnings in April of each year for those male employees whose earnings were not affected by their absence from work. While this is a good indication of house affordability, it does not take into account the fact that the majority of households have more than one income to support a mortgage loan.

House Price to Earnings		House Price to Earnings	
Year	Ratio	Year	Ratio
1994.....	3.86	2001.....	5.09
1995.....	3.80	2002.....	5.74
1996.....	3.84	2003.....	6.35
1997.....	4.08	2004.....	6.77
1998.....	4.35	2005.....	6.92
1999.....	4.60	2006.....	6.96
2000.....	5.00	2007.....	7.44

Source: Council of Mortgage Lenders

### *House price index*

UK residential property prices, as measured by the Nationwide House Price Index and Halifax Price Index (collectively the **Housing Indices**), have generally followed the UK Retail Price Index over an extended period. (Nationwide is a UK building society and Halifax is a UK bank.)

The UK housing market has been through various economic cycles in the recent past, with large year-to-year increases in the Housing Indices occurring in the late 1980s and large decreases occurring in the early 1990s.

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March 1985.....	92.0	5.4	66.2	11.2	113.5	8.6
June 1985.....	95.1	6.8	68.2	10.3	115.4	8.5
September 1985.....	95.4	6.1	69.2	10.5	116.8	7.5
December 1985.....	95.9	5.4	70.7	8.6	120.6	8.3
March 1986.....	96.5	4.8	71.1	7.1	124.0	8.8
June 1986.....	97.8	2.8	73.8	7.9	128.1	10.4
September 1986.....	97.9	2.6	76.3	9.8	132.2	12.4
December 1986.....	99.1	3.3	79.0	11.1	136.8	12.6
March 1987.....	100.3	3.8	81.6	13.8	142.3	13.8
June 1987.....	101.9	4.1	85.8	15.1	146.7	13.6
September 1987.....	102.1	4.2	88.6	14.9	151.5	13.6
December 1987.....	103.2	4.0	88.5	11.4	158.0	14.4
March 1988.....	103.7	3.3	90.0	9.8	167.0	16.0
June 1988.....	106.2	4.1	97.6	12.9	179.4	20.1
September 1988.....	107.7	5.3	108.4	20.2	197.4	26.5
December 1988.....	109.9	6.3	114.2	25.5	211.8	29.3
March 1989.....	111.7	7.4	118.8	27.8	220.7	27.9
June 1989.....	114.9	7.9	124.2	24.1	226.1	23.1

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
	September 1989.....	116.0	7.4	125.2	14.4	225.5
December 1989.....	118.3	7.4	122.7	7.2	222.5	4.9
March 1990.....	120.4	7.5	118.9	0.1	223.7	1.4
June 1990.....	126.0	9.2	117.7	(5.4)	223.3	(1.2)
September 1990.....	128.1	9.9	114.2	(9.2)	222.7	(1.2)
December 1990.....	130.1	9.5	109.6	(11.3)	223.0	0.2
March 1991.....	130.8	8.3	108.8	(8.9)	223.1	(0.3)
June 1991.....	133.6	5.9	110.6	(6.3)	221.9	(0.6)
September 1991.....	134.2	4.7	109.5	(4.2)	219.5	(1.4)
December 1991.....	135.5	4.1	107.0	(2.4)	217.7	(2.4)
March 1992.....	136.2	4.0	104.1	(4.4)	213.2	(4.5)
June 1992.....	139.1	4.0	105.1	(5.1)	208.8	(6.1)
September 1992.....	139.0	3.5	104.2	(5.0)	206.9	(5.9)
December 1992.....	139.6	3.0	100.1	(6.7)	199.5	(8.7)
March 1993.....	138.7	1.8	100.0	(4.0)	199.6	(6.6)
June 1993.....	140.9	1.3	103.6	(1.4)	201.7	(3.5)
September 1993.....	141.3	1.6	103.2	(1.0)	202.6	(2.1)
December 1993.....	141.8	1.6	101.8	1.7	203.5	2.0
March 1994.....	142.0	2.4	102.4	2.4	204.6	2.5
June 1994.....	144.5	2.5	102.5	(1.1)	202.9	0.6
September 1994.....	144.6	2.3	103.2	0.0	202.7	0.0
December 1994.....	145.5	2.6	104.0	2.1	201.9	(0.8)
March 1995.....	146.8	3.3	101.9	(0.5)	201.8	(1.4)
June 1995.....	149.5	3.4	103.0	0.5	199.3	(1.8)
September 1995.....	149.9	3.6	102.4	(0.8)	197.8	(2.4)
December 1995.....	150.1	3.1	101.6	(2.3)	199.2	(1.3)
March 1996.....	150.9	2.8	102.5	0.6	202.1	0.1
June 1996.....	152.8	2.2	105.8	2.7	206.7	3.6
September 1996.....	153.1	2.1	107.7	5.1	208.8	5.4
December 1996.....	154.0	2.6	110.1	8.0	213.9	7.1
March 1997.....	154.9	2.6	111.3	8.3	216.7	7.0
June 1997.....	156.9	2.6	116.5	9.6	220.2	6.3
September 1997.....	158.4	3.4	121.2	11.8	222.6	6.4
December 1997.....	159.7	3.6	123.3	11.4	225.4	5.2
March 1998.....	160.2	3.4	125.5	12.0	228.4	5.3
June 1998.....	163.2	3.9	130.1	11.0	232.1	5.3
September 1998.....	163.7	3.3	132.4	8.8	234.8	5.3
December 1998.....	164.4	2.9	132.3	7.0	237.2	5.1
March 1999.....	163.7	2.2	134.6	7.0	238.6	4.4
June 1999.....	165.5	1.4	139.7	7.1	245.5	5.6
September 1999.....	165.6	1.2	144.4	8.6	255.5	8.4
December 1999.....	166.8	1.4	148.9	11.8	264.1	10.7
March 2000.....	167.5	2.3	155.0	14.1	273.1	13.5
June 2000.....	170.6	3.0	162.0	14.8	272.8	10.5
September 2000.....	170.9	3.2	161.5	11.2	275.9	7.7
December 2000.....	172.0	3.1	162.8	9.0	278.6	5.3
March 2001.....	171.8	2.5	167.5	7.8	281.7	3.1

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
June 2001 .....	173.9	1.9	174.8	7.6	293.2	7.2
September 2001.....	174.0	1.8	181.6	11.8	302.4	9.2
December 2001 .....	173.8	1.0	184.6	12.5	311.8	11.3
March 2002.....	173.9	1.2	190.2	12.7	327.3	15.0
June 2002.....	176.0	1.2	206.5	16.6	343.7	15.9
September 2002.....	176.6	1.5	221.1	19.7	366.1	19.1
December 2002 .....	178.2	2.5	231.3	22.6	392.1	22.9
March 2003.....	179.2	3.0	239.3	22.9	403.8	21.0
June 2003.....	181.3	3.0	250.1	19.2	419.0	19.8
September 2003.....	181.8	2.9	258.9	15.8	434.5	17.1
December 2003 .....	182.9	2.6	267.1	14.4	455.3	14.9
March 2004.....	183.8	2.5	277.3	14.8	480.3	17.3
June 2004.....	186.3	2.7	296.2	16.9	508.4	19.3
September 2004.....	187.4	3.0	306.2	16.8	522.0	18.3
December 2004 .....	189.2	3.4	304.1	13.0	523.5	14.0
March 2005.....	189.7	3.2	304.8	9.4	526.9	9.3
June 2005.....	191.9	3.0	314.2	5.9	526.8	3.6
September 2005.....	192.6	2.7	314.4	2.7	537.7	3.0
December 2005 .....	193.7	2.4	314.0	3.2	550.3	5.0
March 2006.....	194.2	2.3	319.8	4.8	560.4	6.2
June 2006.....	197.6	2.9	329.2	4.7	574.9	8.7
September 2006.....	199.3	3.4	336.1	6.6	581.7	7.9
December 2006 .....	201.4	3.9	343.2	8.9	606.0	9.6
March 2007.....	203.0	4.4	350.2	9.1	623.5	10.7
June 2007.....	206.3	4.3	362.7	9.7	639.4	10.6
September 2007.....	207.1	3.8	367.3	8.9	643.0	10.0
December 2007 .....	209.8	4.1	367.0	6.7	636.9	5.0
March 2008.....	211.1	3.9	357.8	2.1	630.8	1.2
June 2008.....	215.3	4.3	348.1	-4.1	600.8	-6.2

Source: Office for National Statistics, Nationwide Building Society and HBOS plc, respectively.

The percentage annual change in the table above is calculated in accordance with the following formula:

$LN(x/y)$  where  $x$  is equal to the current quarter's index value and  $y$  is equal to the index value of the previous year's corresponding quarter.

All information contained in this Prospectus in respect of the Nationwide House Price Index has been reproduced from information published by Nationwide Building Society. All information contained in this Prospectus in respect of the Halifax House Price Index has been reproduced from information published by HBOS plc. The Issuer confirms that all information in this Prospectus in respect of the Nationwide House Price Index and the Halifax House Price Index has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Nationwide Building Society and HBOS plc, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Note, however, that the Issuer has not participated in the preparation of that information nor made any enquiry with respect to that information. Neither the Issuer nor Nationwide Building Society nor HBOS plc

makes any representation as to the accuracy of the information or has any liability whatsoever to you in connection with that information. Anyone relying on the information does so at their own risk.

## THE SERVICER

### The Servicer

The Servicer services all loans originated by the Seller. The day-to-day servicing of the Loans will be performed by the Servicer in accordance with the Servicing Agreement through the Servicer's telephone and customer service centres.

Basic information on the organisation and history of the Servicer is set out in this Prospectus under "Bank of Scotland plc" above. For over 100 years, the Bank of Scotland has been engaged in the servicing of residential mortgage loans originated by it.

This section describes the Servicer's procedures in relation to loans generally. A description of the Servicer's obligation under the Servicing Agreement can be found under "*The Servicing Agreement*" above.

### Servicing of Loans

Servicing responsibilities and procedures include responding to customer enquiries, monitoring compliance with and servicing the Loans, managing the facilities applicable to the Loans and managing the arrears process in connection with the Loans. See "*The Servicing Agreement*" above.

Pursuant to the terms and conditions of the Loans, Borrowers must pay the monthly amount required on or before each monthly instalment due date. Interest accrues in accordance with the terms and conditions of each Loan and is collected from Borrowers monthly.

In the case of Standard Variable Rate Loans, the Servicer sets the Standard Variable Rate and (if applicable) the margin applicable to any Tracker Rate Loan on behalf of the Issuer, except in the limited circumstances as set out in the Servicing Agreement. In the case of loans at a fixed rate of interest, the Borrower pays and will pay interest at the relevant fixed rate until the fixed rate period ends in accordance with the Borrower's offer conditions. After that period ends, and unless the Servicer sends an offer of and the Borrower accepts another option, interest will be payable at the Standard Variable Rate or a fixed margin above rates set by the Bank of England.

The Servicer will take all steps necessary under the mortgage terms to notify Borrowers of any change in the interest rates applicable to the Loans, whether due to a change in the Standard Variable Rate or any variable margin or as a consequence of any provisions of those mortgage terms.

Payments of interest and principal on Repayment Loans are payable monthly in arrear. Payments of interest on Interest-Only Loans are paid in the month that they are due. The Servicer is responsible for ensuring that all payments are made by the relevant Borrower into an account in the name of the Servicer (the **Collection Account**) and transferred into the GIC Account on a regular basis but in any event, in the case of payments by direct debits, no later than the next business day after they are deposited in the Collection Account. All amounts which are paid to the Collection Account will be held on trust by the Seller for the Issuer until they are transferred to the GIC Account. Payments from Borrowers are generally made by direct debits from a suitable bank or building society account, although in some circumstances Borrowers pay by cash, cheque or standing order.

The Servicer initially credits the GIC Account with the full amount of the monthly payments made by Borrowers into the Collection Account. However, direct debits may be returned unpaid up to three days after the due date for payment and, under the Direct Debit Indemnity Scheme, a Borrower may make a claim at any time to its bank for a refund of direct debit payments. In each case, the Servicer is permitted to reclaim from the GIC Account the corresponding amounts previously credited. In these circumstances, the usual arrears procedures described in "*– Arrears and Default Procedures*" below will apply.

## **Recent Changes**

From time to time, the Seller reviews and updates its policies and procedures in relation to the servicing of the Loans. Some of these changes are market-driven, for example in connection with the introduction of UK mortgage regulation under the FSMA on 31 October 2004.

Other changes are driven by the Seller from time to time reviewing its procedures and amending them to reflect current trading conditions.

## **Arrears and Default Procedures**

The Servicer regularly provides and will continue to provide the Issuer with written details of Loans that are in arrears. A Loan is identified as being in arrears where an amount equal to or greater than a full month's contractual payment is past its due date. In general, the Servicer attempts to collect all payments due under or in connection with the Loans, having regard to the circumstances of the Borrower in each case. Mortgage collection is conducted through payment collection departments located in Edinburgh. The Servicer will work constructively with the Borrower to agree a course of action. Collections and recovery interventions, including legal action, will be commensurate with the rate of deterioration and the Borrower's willingness to address the arrears as well as risk of further default. The Servicer uses an automated collections system to collect and/or negotiate with the Borrower through letter/telephone contact.

The Servicer's system tracks arrears and advances and calculates when an amount is in arrears. When arrears are first reported or an amount paid does not satisfy the full contractual monthly payment (calculated as at the due date), the relevant Borrower is contacted and asked for payment of the arrears. An automated process exists in which the Borrower is contacted through a series of letters and/or structured phone contacts with specific manual intervention at a certain stage commensurate with risk. Where manual intervention is required, the Servicer's personnel will decide on the appropriate course of action. Where no contact has been made or no agreement has been reached, this could result in telephone contact via a dialler and/or the use of an external agent in an attempt to reach a solution with the Borrower. The Servicer's employees responsible for settling arrears are trained in all collection and negotiation techniques.

Where considered appropriate, the Servicer may enter into arrangements with the Borrower regarding the arrears, including:

- arrangements to make each future monthly payment as it falls due plus an additional amount to pay the arrears over a period of time;
- arrangements to make each monthly payment as it falls due;
- arrangements to pay only a portion of each monthly payment as it falls due; and
- a deferment for an agreed period of time of all payments, including interest and principal (in whole or in part).

Any arrangements may be varied from time to time at the discretion of the Servicer, the primary aim being to rehabilitate the Borrower and recover the situation.

For residential loans, legal proceedings do not usually commence until the arrears become at least two months overdue for high risk loans (loans of above 90 per cent. LTV Ratio or balances above £500,000) and overdue for longer periods in the case of lower risk loans. However, the Servicer's employees review each case and have discretion to vary the usual timeframes, having due regard to the case history, reasonable attempts to find a solution, risk and type of lending. For very low risk loans, legal action may be delayed where appropriate to allow more time for recovery.



Once legal proceedings have commenced, the Servicer or the Servicer's solicitor may send further letters to the Borrower encouraging the Borrower to enter into discussions to pay the arrears and may still enter into an arrangement with a Borrower at any time prior to a court hearing. If a court order is made for payment and the Borrower subsequently defaults in making the payment, then the Servicer may take such action as it considers appropriate, including entering into a further arrangement with the Borrower. If the Servicer applies to the court for an order for possession, the court has discretion as to whether it will grant the order.

After possession, the Servicer may take such action as it considers appropriate, including to:

- secure, maintain or protect the property and put it into a suitable condition for sale;
- (other than in Scotland) create any estate or interest on the property, including a leasehold; and
- dispose of the property (in whole or in part) or of any interest in the property by auction, private sale or otherwise, for a price it considers appropriate.

The Servicer has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The Servicer may also carry out such work on the property as it considers appropriate to maintain the market value of the property.

The Servicer has discretion to deviate from these procedures. In particular, the Servicer may deviate from these procedures where a Borrower suffers from a mental or physical infirmity, is deceased or where the Borrower is otherwise prevented from making payment due to causes beyond the Borrower's control. This applies to both sole and joint Borrowers.

It should also be noted that the lender's ability to exercise its power of sale in respect of the property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the control of the lender, such as whether the Borrower contests the sale and the market conditions at the time of sale, that may affect the length of time between the decision of the lender to exercise its power of sale and final completion of the sale.

It should also be noted that, in relation to Scottish mortgages, the Mortgage Rights (Scotland) Act 2001 confers upon the court a discretion (upon application by the Borrower or certain other specified persons) to suspend the exercise of the lender's statutory enforcement remedies for such period and to such extent as the court considers reasonable, having regard, among other factors, to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation.

The net proceeds of sale of the property are applied against the sums owed by the Borrower to the extent necessary to discharge the mortgage including any accumulated fees, expenses of the Servicer and interest. Where the funds arising from application of default procedures are insufficient to pay all amounts owing in respect of a Loan, the funds are applied first in paying interest and costs and second in repaying principal. The Servicer may then institute recovery proceedings against the Borrower. If, after sale of the property and redemption of the mortgage, there are funds remaining, those funds will be distributed by the acting solicitor to the next entitled parties.

These arrears and security enforcement procedures may change over time as a result of a change in the Servicer's business practices or legislative and regulatory changes.

## UNITED KINGDOM TAXATION

*The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and HM Revenue and Customs practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Each prospective purchaser is urged to consult its own tax advisers about the tax consequences under its circumstances of purchasing, holding and selling the Notes under the laws of the United Kingdom, its political subdivisions and any other jurisdiction in which the prospective purchaser may be subject to tax.*

### **Interest on the Notes**

#### *Payment of Interest on the Notes*

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange for such purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent

upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

### ***Further United Kingdom Income Tax Issues***

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 paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom 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 (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable) in which case tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

### ***United Kingdom Corporation Tax Payers***

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

### ***Other United Kingdom Tax Payers***

#### *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 an allowable loss for the purposes of the taxation of capital gains.

#### *Accrued Income Scheme*

On a disposal of Notes by a Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

### **Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue or transfer of the Notes (whether in global or definitive form).

## SUBSCRIPTION AND SALE

Bank of Scotland (as Arranger) will, pursuant to a subscription agreement dated on or about 10 October 2008 amongst themselves, the Seller and the Issuer (the **Subscription Agreement**), agreed with the Issuer (subject to certain conditions) to subscribe and pay for (a) the Class A1 Notes at the issue price of 100% of the aggregate principal amount of the Class A1 Notes, (b) the Class A2 Notes at the issue price of 100% of the aggregate principal amount of the Class A2 Notes, (c) the Class A3 Notes at the issue price of 100% of the aggregate principal amount of the Class A3 Notes and (d) the Class A4 Notes at the issue price of 100% of the aggregate principal amount of the Class A4 Notes.

The Issuer has agreed to indemnify the Arranger against certain liabilities and to pay certain costs and expenses in connection with the issue of the Notes.

Other than admission of the Notes to the Official List and the admission to trading on the London Stock Exchange's Regulated Market, no action has been taken by the Issuer or the Arranger, which would or is intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

The Arranger will undertake not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Prospectus or any other material relating to the Notes, in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

### ***United States***

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

The Arranger will agree that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or 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 it will have sent to each affiliate or other dealer (if any) to which it sells 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. See "*Transfer Restrictions and Investor Representations*", below.

### ***United Kingdom***

The Arranger will represent, warrant and agree with the Issuer, *inter alia*, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

**General**

The Arranger will undertake that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and Sales by the Initial Purchasers

The Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to such registration requirements. Accordingly, the Notes are being, offered and sold in offshore transactions pursuant to Regulation S.

### *Investor Representations and Restrictions on Resale*

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed as follows:

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided, that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (c) the Issuer, the Registrar, the Arranger and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

The Notes bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) OTHERWISE PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN

ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES."

*Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

## GENERAL INFORMATION

1. It is expected that the admission of the Notes to the Official List and the admission of the Notes to trading on the London Stock Exchange's Regulated Market will be granted on or around 15 October 2008. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in Sterling and for delivery on the third working day after the date of the transaction.
2. None of the Issuer or Holdings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively) is aware), since 8 September 2008 (being the date of incorporation of the Issuer and Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).
3. No statutory or non-statutory accounts within the meaning of Section 240(5) of the Companies Act 1985 in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the London Stock Exchange's Regulated Market, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.
4. For so long as the Notes are admitted to the Official List and to trading on The London Stock Exchange's Regulated Market, the Issuer shall maintain a Paying Agent in the United Kingdom.
5. Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
6. Since 8 September 2008 (being the date of incorporation of the Issuer and Holdings), there has been (a) no material adverse change in the financial position or prospects of the Issuer or Holdings and (b) no significant change in the financial or trading position of the Issuer or Holdings.
7. The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 8 October 2008.
8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN Numbers and Common Codes:

<b>Sub-class of Notes</b>	<b>ISIN</b>	<b>Common Code</b>
Class A1	XS0392644638	39264463
Class A2	XS0392644802	39264480
Class A3	XS0392644984	39264498
Class A4	XS0392645288	39264528

9. From the date of this Prospectus and for so long as the Notes are listed on the London Stock Exchange's Regulated Market, copies of the following documents may be inspected at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD during usual business hours, on any weekday (public holidays excepted):
  - (a) the Memorandum and Articles of Association of each of the Issuer and Holdings;
  - (b) copies of the following documents:
    - (i) the Agency Agreement; and



(ii) the Trust Deed.

10. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Loans.
11. The Issuer confirms that the assets backing the issue of the Notes, taken together with the other arrangements to be entered into by the Issuer on the Closing Date (including those described in *Credit Structure* above), have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However, investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Consequently investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

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