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## LANGTON SECURITIES (2008-1) PLC

(incorporated in England and Wales with limited liability, registered number 6432564)

	class A1	class A2	class B	class Z
Principal amount of issuer notes:	€1,060,000,000	€1,200,000,000	£70,000,000	£90,000,000
Issue price:	100%	100%	100%	100%
Interest rate:	Three month EURIBOR + 0.58%	Three month EURIBOR + 0.30%	Three month sterling LIBOR + 0.65%	Three month sterling LIBOR + 2.00%
Interest payment date:	Interest is payable quarterly in arrear on the 18th day of March, June, September and December. The first interest payment date shall be 18 June 2008.			
Scheduled redemption date:	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Details relating to the pass through notes:	To be redeemed in full or in part on each interest payment date from and including the interest payment date falling in March 2009	To be redeemed in full or in part on each interest payment date from and including the interest payment date falling in March 2011, provided that the class A1 issuer notes have been redeemed in full	To be redeemed in full or in part on each interest payment date from and including the interest payment date falling in March 2011, provided that the class A2 issuer notes have been redeemed in full	To be redeemed in full or in part on each interest payment date from and including the interest payment date falling in March 2011, provided that the class B issuer notes have been redeemed in full
Maturity date:	December 2054	December 2054	December 2054	December 2054
Expected Rating (Fitch/Moody's/S&P)	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	-

- The principal asset from which Langton Securities (2008-1) plc (the **issuer**) will make payments on the notes issued by the issuer (the **issuer notes**) is an intercompany loan (the **issuer intercompany loan**) to an affiliated company called Langton Funding (No.1) Limited (**Funding 1**). The principal asset from which Funding 1 will make payments on the issuer intercompany loan is its interest in a master trust over a pool of residential mortgage loans held by Langton Mortgages Trustee Limited (the **mortgages trustee**). The obligations of Funding 1 and the issuer will be secured.
- The residential mortgage loans were originated by Alliance & Leicester plc (**Alliance & Leicester**) and are secured over properties located in England and Wales, Northern Ireland and Scotland. The transaction documents are governed principally by the laws of England. Certain transaction documents are governed in part by Northern Irish and Scots law.
- Langton Securities Holdings Limited (**Holdings**) is the parent of the issuer and Funding 1. Subject to conditions described further in this prospectus, Holdings may establish new issuers, which will issue notes (the **new issuer notes**) the proceeds of which will be loaned to Funding 1 under intercompany loans (the **new issuer intercompany loans**). The security granted by Funding 1 in respect of its obligations under the issuer intercompany loan will be shared with new issuers in respect of the obligations of Funding 1 under the new issuer intercompany loans.

This prospectus has been approved by the Financial Services Authority (the **UK listing authority**) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) as a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the **Prospectus Directive**) and relevant implementing legislation in the United Kingdom.

Application will be made to the UK listing authority for the class A1 issuer notes, the class A2 issuer notes and the class B issuer notes to be admitted to the official list of the UK listing authority (the **official list**) and application will be made to the London Stock Exchange plc (the **London Stock Exchange**) for such issuer notes to be admitted to trading on the London Stock Exchange's regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). This document constitutes the prospectus of the issuer for the purposes of the Prospectus Directive.

The issuer notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or the securities laws of any state of the United States. Subject to certain exceptions, the issuer notes 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 under the Securities Act (**Reg S**)).

For a description of certain further restrictions on offers, sales and transfers of issuer notes in this prospectus, see "**Purchase and sale**" below.

As a condition to the issue of the class A1 issuer notes, the class A2 issuer notes and the class B issuer notes, the class A1 issuer notes, the class A2 issuer notes and the class B issuer notes (together, the **rated issuer notes**) are expected, on issue, to be assigned certain ratings by each of Moody's Investors Service Limited (**Moody's**), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**Standard & Poor's** or **S&P**) and Fitch Ratings Ltd. (**Fitch**) which are described in "**Transaction overview – Summary of the issuer notes – Rating of the issuer notes**" below. The issue of the class Z issuer notes is not conditional upon a rating and the issuer has not requested any rating of the class Z issuer notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Currently, there is no public secondary market for the issuer notes.

**Please consider carefully the risk factors beginning on page 21 of this prospectus.**

The date of this prospectus is 25 January 2008

THE ISSUER NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND UNLESS SO REGISTERED MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE ISSUER NOTES ARE BEING OFFERED AND SOLD ONLY TO PERSONS (OTHER THAN US PERSONS) OUTSIDE THE UNITED STATES PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THE ISSUER NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE ISSUER NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE ISSUER NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY OF ALLIANCE & LEICESTER PLC (**ALLIANCE & LEICESTER**), THE NOTE PURCHASER, THE NOTE TRUSTEE, THE FUNDING 1 SECURITY TRUSTEE, THE ISSUER SECURITY TRUSTEE, FUNDING 1, THE MORTGAGES TRUSTEE, THE SECRETARIAL SERVICES PROVIDER, THE FUNDING 1 CORPORATE SERVICES PROVIDER, THE ISSUER CORPORATE SERVICES PROVIDER, THE MORTGAGES TRUSTEE CORPORATE SERVICES PROVIDER, THE PECO CORPORATE SERVICES PROVIDER, THE FUNDING 1 SWAP PROVIDER, THE ISSUER SWAP PROVIDERS, THE PAYING AGENT, THE REGISTRAR, THE AGENT BANK, ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ALLIANCE & LEICESTER 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 ISSUER NOTES SHALL BE ACCEPTED BY ANY OF ALLIANCE & LEICESTER, THE NOTE PURCHASER, THE NOTE TRUSTEE, THE FUNDING 1 SECURITY TRUSTEE, THE ISSUER SECURITY TRUSTEE, FUNDING 1, THE MORTGAGES TRUSTEE, THE SECRETARIAL SERVICES PROVIDER, THE ISSUER CORPORATE SERVICES PROVIDER, THE FUNDING 1 CORPORATE SERVICES PROVIDER, THE MORTGAGES TRUSTEE CORPORATE SERVICES PROVIDER, THE PECO CORPORATE SERVICES PROVIDER, THE FUNDING 1 SWAP PROVIDER, THE ISSUER SWAP PROVIDERS, THE PAYING AGENT, THE REGISTRAR, THE AGENT BANK, ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ALLIANCE & LEICESTER OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS (BUT WITHOUT PREJUDICE TO THE OBLIGATIONS OF FUNDING 1 TO THE ISSUER UNDER THE ISSUER INTERCOMPANY LOAN AGREEMENT).

The issuer accepts responsibility for the information contained in this prospectus. To the best of the knowledge of the issuer (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. The issuer accepts responsibility accordingly.

A copy of this prospectus relating to the issuer notes will be available for inspection at the registered office of the issuer and at the specified office of the paying agent or, when implemented, will be available for inspection on the website of the UK listing authority in accordance with the prospectus rules.

No person is or has been authorised in connection with the issue and sale of the issuer notes to give any information or to make any representation not contained in this prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the issuer, the directors of the issuer, Funding 1, Alliance & Leicester, the note purchaser, the note trustee, the Funding 1 security trustee, the issuer security trustee, the mortgages trustee, the secretarial services provider, the Funding 1 corporate services provider, the issuer corporate services provider, the mortgages trustee corporate services provider, the PECO corporate services provider, the Funding 1 swap provider, the issuer swap providers, the paying agent, the registrar, the agent bank, any company in the same group of companies as Alliance & Leicester or any other party to the transaction documents.

Neither the delivery of this prospectus nor any sale or allotment made in connection with the offering of any of the issuer notes shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of the issuer, Funding 1, Alliance & Leicester, the note purchaser, the note trustee, the Funding 1 security trustee, the issuer security trustee, the mortgages trustee, the secretarial services provider, the Funding 1 corporate services provider, the issuer corporate services provider, the mortgages trustee corporate services provider, the PECO corporate services provider, the Funding 1 swap provider, the issuer swap providers, the paying agent, the registrar, the agent bank, any company in the same group of companies as Alliance & Leicester or any other party to the transaction documents or that there has been no change in the information contained herein since the date hereof or that the information contained herein is correct as at any time subsequent to the date hereof or that there has been no change in any other information supplied in connection with the transactions at any time subsequent to the date indicated in the document containing the same or that such information is correct at any time subsequent to the date thereof.

Other than the approval of this prospectus as a prospectus by the UK listing authority and the filing of this prospectus with the UK listing authority, no action has been or will be taken to permit an offering of the issuer notes or

the distribution of this prospectus in any jurisdiction where action for that purpose is required. The distribution of this prospectus and the offering of issuer notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus (or any part hereof) comes are required by the issuer to inform themselves about, and to observe, any such restrictions. For a further description of certain restrictions on offers and sales of the issuer notes and distribution of this prospectus, see "**Purchase and sale**" below. Neither this prospectus nor any part hereof constitutes an offer of, or an invitation by, or on behalf of, the issuer to purchase any of the issuer notes and neither this prospectus, nor any part hereof, may be used for or in connection with an 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.

Accordingly, the issuer notes may not be offered or sold, directly or indirectly, and neither this prospectus nor any part hereof nor any other offering document, prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction (including the United Kingdom), except in circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

### **Defined terms and conventions**

Terms used in this prospectus are defined in the Glossary, unless otherwise defined where they appear in the text.

References in this document to **issuer**, **we** or **our** mean Langton Securities (2008-1) plc and references to **you** mean potential investors in the issuer notes.

References in this prospectus to **£**, **pounds** or **sterling** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland and references to the **sterling issuer notes** are to the class B issuer notes and the class Z issuer notes.

References in this prospectus to **€**, **euro** or **Euro** are to the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended from time to time and references to **euro issuer notes** are to the class A1 issuer notes and the class A2 issuer notes.

Because the transaction may be connected with future transactions, it is necessary in this prospectus to refer to any or all of these transactions. In respect of notes, loan tranches, intercompany loans or other terms derived from or related to them, we use the word "**issuer**" when referring to the present transaction, "**new**" when referring to future transactions and "**any**" or "**all**" when referring to any or all of the present transaction and future transactions. For example, the "**issuer notes**" are the notes issued by Langton Securities (2008-1) plc, the "**new issuer notes**" are notes which may be issued in future transactions and the "**notes**" are the issuer notes and any new issuer notes.

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## TRANSACTION OVERVIEW

*The information in this section is an overview of the principal features of the issuer notes, including the transaction documents and the loans that will generate the income for the issuer to make payments on the issuer notes, and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this document. You should read the entire prospectus carefully, especially the risks of investing in the issuer notes discussed below under “Risk factors”.*

### Overview of the transaction

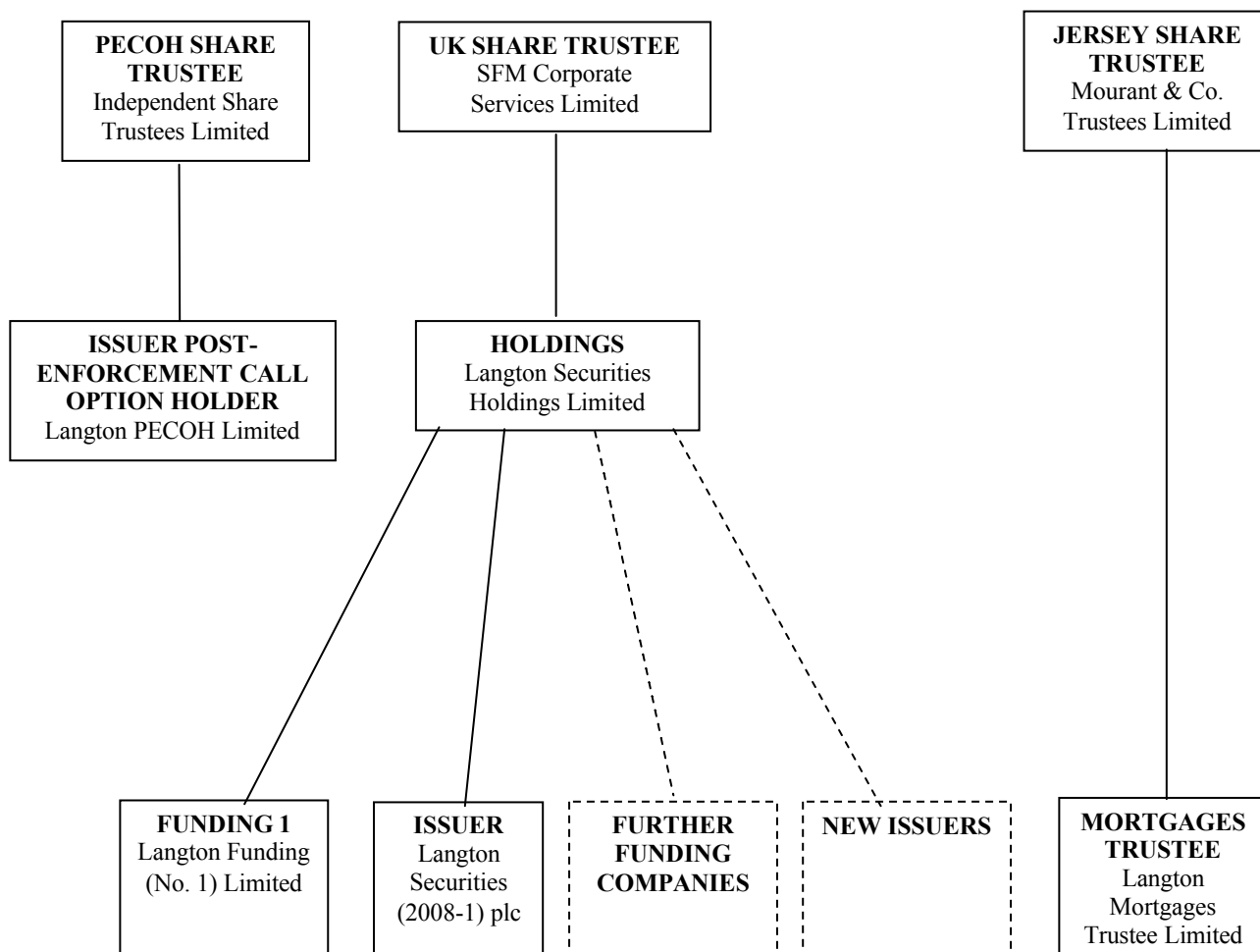
The following is a brief overview of the transaction and is further illustrated by the diagram set out in “Structural diagram of the securitisation by the issuer” below.

- (1) On or around 25 January 2008 (the **closing date**), Alliance & Leicester (the **seller**) will sell loans and their related security (the **initial portfolio**) to the mortgages trustee pursuant to a mortgage sale agreement and retain an interest for itself in the trust property, as further described in “-Sale of the loans” below. On the closing date, the trust property will consist of the initial portfolio and other amounts derived from the loans (the **initial loans**) and their related security. The initial loans will be residential mortgage loans originated by Alliance & Leicester and secured over residential properties located in England, Wales, Scotland and Northern Ireland.
- (2) The mortgages trustee will hold the trust property on trust for the benefit of the seller, Funding 1 and any further Funding companies that may be established from time to time as referred to in (11) below (together with Funding 1, the **Funding companies**) pursuant to a mortgages trust deed. Each of the seller, Funding 1 and any further Funding company will have a joint and undivided interest in the trust property, but their entitlement to the proceeds from the trust property is in proportion to their respective shares of the trust property, as further described below under “The mortgages trust”.
- (3) Unless otherwise expressly provided in the mortgages trust deed, the mortgages trustee will distribute interest and principal receipts on the loans and allocate losses on the loans to each of Funding 1, any further Funding company and the seller based on the percentage share that Funding 1 or such further Funding company or the seller, as the case may be, has in the trust property. These percentages may fluctuate as described in “The mortgages trust – Fluctuation of share in the trust property” below.
- (4) Funding 1 will use the proceeds of the issuer intercompany loan on the closing date to make an initial contribution to the mortgages trustee to acquire Funding 1's initial share of the trust property. Upon receipt of Funding 1's initial contribution, the mortgages trustee will pay these funds to the seller as the initial purchase price for the initial portfolio. Subsequently, on Funding 1 interest payment dates, if Funding 1 has any excess income remaining after paying all amounts that it is required to pay under the terms of the transaction, then that extra income will be allocated and distributed to the mortgages trustee as a deferred contribution. The mortgages trustee will apply such amounts to make payments of the deferred purchase price to the seller pursuant to the terms of the mortgage sale agreement.
- (5) Funding 1 will use a portion of the amounts received from its share in the trust property, among other things, to meet its obligations to pay interest and principal due to (i) the issuer under the issuer intercompany loan and (ii) any new issuers that may be established from time to time as referred to in (11) below. To provide a hedge against the rates of interest payable under the loans in the portfolio and the rate of interest payable by Funding 1 with respect to the issuer loan tranches under the issuer intercompany loan agreement, Funding 1 will enter into the Funding 1 swap, as described below under “Summary of transaction documents – Swap agreements – Funding 1 swap agreement”.
- (6) Funding 1's obligations to the issuer under the issuer intercompany loan, among other things, will be secured under the Funding 1 deed of charge entered into with, among others, the Funding 1 security trustee and the issuer, by, among other things, Funding 1's share of the trust property. Funding 1's rights to its share in the trust property will also secure its obligations to any new issuer under any new issuer intercompany loan.
- (7) The issuer's obligations to pay principal and interest on the issuer notes will be funded primarily from the payments of principal and interest received by it from Funding 1 under the issuer intercompany loan. As the class A1 issuer notes and the class A2 issuer notes are denominated in euro and the issuer AAA (class A1) loan tranche and the issuer AAA (class A2) loan tranche are denominated in sterling, the issuer will enter into the issuer (class A1) swap agreement and the issuer (class A2) swap agreement to deal with the currency mismatch, as further described below under “Summary of transaction documents – Swap agreements – Issuer swap agreements”.
- (8) The issuer's primary asset will be its rights under the issuer intercompany loan agreement. Neither the issuer nor the noteholders will have any direct interest in the trust property, although the issuer will have a security interest (which it will share with any new issuers) under the Funding 1 deed of charge in Funding 1's rights to its share of the trust property.

- (9) The issuer will issue the issuer notes to investors and then lend the proceeds to Funding 1 under the issuer intercompany loan on the closing date. The issuer's obligations under, among other things, the issuer notes will be secured under the issuer deed of charge entered into with, among others, the issuer security trustee and the issuer, by, among other things, the issuer's rights under the issuer intercompany loan agreement.
- (10) On the closing date, the issuer will enter into an issuer start-up loan agreement with Alliance & Leicester. The issuer will use the proceeds of the issuer start-up loan to (a) fund the issuer reserve fund and (b) make a loan to Funding 1 by entering into a Funding 1 start-up loan agreement with Funding 1, which Funding 1 will use to fund the Funding 1 reserve fund and to meet certain fees, costs and expenses of Funding 1 (including initial amounts payable by Funding 1 to the issuer to meet fees, costs and expenses pursuant to the issuer intercompany loan agreement and to the Funding 1 swap provider for the purposes of funding the initial payment under the Funding 1 swap).
- (11) New issuers may be established by Holdings from time to time and the proceeds of any new issuer notes issued by new issuers on-lent to Funding 1 and/or further Funding companies (where applicable) under the terms of new issuer intercompany loan agreements for any of the purposes described in "**New issuers, new issuer intercompany loans, new issuer start-up loans and further Funding companies**" below, subject to satisfaction of certain conditions (including that the ratings of your rated issuer notes will not be downgraded by the rating agencies at the time a new issuer issues new issuer notes).
- (12) Your consent to the establishment of new issuers and the terms of the new issuer notes and new issuer intercompany loans will not be required nor will you have any right of review in respect thereof.
- (13) Further Funding companies may be established by Holdings from time to time to become beneficiaries of the mortgages trust and to receive the proceeds of any new issuer notes issued by new issuers under the terms of new issuer intercompany loan agreements for the purposes described in "**New issuers, new issuer intercompany loans, new issuer start-up loans and further Funding companies**" below, subject to satisfaction of certain conditions (including that the ratings of your rated issuer notes will not be downgraded by the rating agencies, at the time a further Funding company is established). Your consent to the establishment of further Funding companies and the terms of the new issuer notes issued by new issuers and the new issuer intercompany loans will not be required, nor will you have any right of review in respect thereof.
- (14) These items and their function in the structure of the transaction are described later in this prospectus. They are included in the first diagram below so that investors can refer back to see where they fit into the structure.



## Diagram of ownership structure of special purpose vehicles



This diagram illustrates the ownership structure of the principal special purpose entities in respect of the transaction, as follows:

- Each of Funding 1 and the issuer are expected to be wholly-owned subsidiaries of Langton Securities Holdings Limited (**Holdings**). See “**The issuer**” and “**Funding 1**” below.
- The entire issued share capital of Holdings is held on trust by SFM Corporate Services Limited, the UK share trustee, not affiliated with the seller, under the terms of a discretionary trust for charitable purposes. See “**Holdings**” below.
- The entire issued share capital of the mortgages trustee is held on trust by Mourant & Co. Trustees Limited, the Jersey share trustee, not affiliated with the seller, under the terms of a discretionary trust for charitable purposes. See “**The mortgages trustee**” below.
- The entire issued share capital of the issuer post-enforcement call option holder is held on trust by Independent Share Trustees Limited, the PECO share trustee, not affiliated with the seller or Holdings, under the terms of a discretionary trust for charitable purposes.
- Alliance & Leicester (who as the sponsor organises and initiates this transaction) has no ownership interest in any of the entities in the diagrams above or referred to below. This should ensure, among other things, that the ownership structure and its impact on investors are not linked to the credit of Alliance & Leicester and that Alliance & Leicester has no obligation to support the transaction financially, although Alliance & Leicester may still have a connection with the transaction for other reasons (such as acting as servicer of the loans and as a beneficiary under the mortgages trust). See “**Alliance & Leicester**” below.
- Holdings may establish new issuers that issue new issuer notes that may be payable behind, equally with or ahead of the issuer notes as described under “**-New issuers, new issuer intercompany loans, new issuer start-up loans and further Funding companies**”. Any new issuer established after the closing date will be a wholly-owned subsidiary of Holdings.
- Holdings may establish further Funding companies (each a **further Funding company**), which may enter into new issuer intercompany loan agreements from time to time to use the proceeds to make a payment

to the mortgages trustee to acquire an interest in the trust property. Any further Funding company would be a wholly owned subsidiary of Holdings. The new issuer notes issued would be secured by the same trust property as the issuer notes offered under this prospectus. See "**Risk Factors – Holdings may establish further Funding companies, which may become additional beneficiaries under the mortgages trust**".

- In certain circumstances (including when new issuers are established or further Funding companies become beneficiaries under the mortgages trust), the Funding 1 security trustee and/or the issuer security trustee will consent to modifications to be made to some of the transaction documents. Your consent will not be obtained in relation to those modifications (see further "**Risk Factors - The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**").

## **The parties**

### **issuer:**

Langton Securities (2008-1) plc is a public limited company incorporated under the laws of England and Wales as a special purpose vehicle with registered number 6432564. The entire issued share capital of the issuer is owned beneficially by Holdings.

For a more detailed description of the issuer, see “**The issuer**” below.

### **seller:**

Alliance & Leicester plc is a public limited company incorporated under the laws of England and Wales with registered number 03263713 which, amongst other things, originates and acquires residential mortgage loans. Alliance & Leicester will act as sponsor, being the entity that is organising and initiating the transaction, by transferring the initial portfolio to the mortgages trust. The seller originated all of the loans in the initial portfolio according to the lending criteria applicable at the time of origination and will sell those residential mortgage loans and their related security to the mortgages trustee pursuant to the terms of the mortgage sale agreement.

For a more detailed description of the seller, see “**Alliance & Leicester**” below.

### **mortgages trustee:**

Langton Mortgages Trustee Limited is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 99388. The entire issued share capital of the mortgages trustee is held beneficially on trust by the Jersey share trustee under the terms of a discretionary trust for charitable purposes. The purpose of the mortgages trustee is to hold the trust property. The mortgages trustee holds the trust property on trust for the seller, Funding 1 and, if applicable, any further Funding companies that may be established from time to time, under the terms of the mortgages trust deed.

For a more detailed description of the mortgages trustee, see “**The mortgages trustee**” below.

### **Funding 1:**

Langton Funding (No. 1) Limited is a private limited company incorporated under the laws of England and Wales with registered number 6432610 and is a wholly-owned subsidiary of Holdings. Funding 1 was established, *inter alia*, to acquire a joint and undivided beneficial interest, with the seller and any further Funding companies that may be established from time to time (together, the **beneficiaries**), in the trust property pursuant to the mortgages trust deed and to borrow funds under the intercompany loan agreements, as more fully described below. Funding 1 will borrow funds from the issuer pursuant to the issuer intercompany loan agreement and use such funds to pay the mortgages trustee for Funding 1's initial share of the trust property. As at the closing date, Funding 1 and the seller will together be beneficially entitled to all of the trust property. Further Funding companies that may be established from time to time may also acquire an interest in the trust property in the future.

For a more detailed description of Funding 1, see “**Funding 1**” below.

### **servicer:**

On or before the closing date, Alliance & Leicester (in such capacity, the **servicer**) will be appointed as servicer to service the loans and their related security on behalf of the mortgages trustee and the beneficiaries pursuant to the terms of a servicing agreement.

For a more detailed description of the role of the servicer and the terms of the servicing agreement, see “**Summary of the transaction documents – Servicing agreement**” below.

### **cash manager:**

On or before the closing date, Alliance & Leicester (in such capacity, the **cash manager**) will be appointed as cash manager pursuant to the cash management agreement to provide cash management services to the mortgages trustee, the seller, Funding 1, the Funding 1 security trustee and each further Funding company and each security trustee with respect to any further Funding company (a **further Funding security trustee** and, together with the Funding 1 security trustee, **the Funding security trustees**) which accedes to the cash management agreement from time to time.

For a more detailed description of the role of the cash manager and the terms of the cash management agreement, see “**Summary of the transaction documents – Cash management agreement**” below.

**issuer cash manager:**

On or before the closing date, Alliance & Leicester (in such capacity, the **issuer cash manager**) will be appointed to provide cash management services to the issuer and (following the service of a note acceleration notice, if the issuer security trustee so requests) the issuer security trustee pursuant to the issuer cash management agreement.

For a more detailed description of the role of the issuer cash manager and terms of the issuer cash management agreement, see “**Summary of the transaction documents – Issuer cash management agreement**” below.

**issuer security trustee:**

Citicorp Trustee Company Limited, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom (in its capacity as security trustee pursuant to the issuer deed of charge, the **issuer security trustee**) will hold the benefit of the security granted by the issuer under the issuer deed of charge and will be entitled to enforce the security granted in its favour under the issuer deed of charge.

For a more detailed description of the issuer security trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below. For a more detailed description of the terms of the issuer deed of charge, see “**Summary of the transaction documents – Issuer deed of charge**” below.

**note trustee:**

Citicorp Trustee Company Limited, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom (in its capacity as trustee pursuant to the note trust deed, the **note trustee**) will be appointed to act on behalf of the holders of the issuer notes.

For a more detailed description of the note trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below.

**Funding 1 security trustee:**

Citicorp Trustee Company Limited, acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom (in its capacity as security trustee pursuant to the Funding 1 deed of charge, the **Funding 1 security trustee**) will hold the benefit of the security granted by Funding 1 under the Funding 1 deed of charge and will be entitled to enforce the security granted in its favour under the Funding 1 deed of charge.

For a more detailed description of the Funding 1 security trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below. For a more detailed description of the terms of the Funding 1 deed of charge, see “**Summary of the transaction documents – Funding 1 deed of charge**” below.

**paying agent:**

Citibank, N.A., acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom (in such capacity, the **paying agent**) will act as principal paying agent pursuant to the issuer paying agent and agent bank agreement. The paying agent will make payments on the issuer notes to the noteholders.

**agent bank:**

Citibank, N.A., acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom (in such capacity, the **agent bank**) will calculate the interest on the issuer notes and under the issuer intercompany loan agreement.

**registrar:**

Citibank, N.A., acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB will maintain a register in respect of the issuer notes (in such capacity, the **registrar**).

**Funding 1 swap provider:**

Alliance & Leicester (in such capacity, the **Funding 1 swap provider**) will act as swap provider pursuant to the terms of the Funding 1 swap agreement in respect of the possible variances between the rates of interest payable on the loans in the initial portfolio sold by the seller to the mortgages trustee and the rates of interest payable by Funding 1 under the issuer intercompany loan agreement and, in the future, any new issuer intercompany loan agreements to which Funding 1 is party.



For a more detailed description of the Funding 1 swap, see “**Summary of the transaction documents – Swap agreements – Funding 1 swap agreement**” below.

**issuer swap providers:**

Alliance & Leicester (in such capacity, the **issuer (class A1) swap provider**) will act as issuer swap provider pursuant to the terms of the issuer (class A1) swap agreement to enable the issuer to receive and pay amounts under the issuer AAA (class A1) loan tranche of the issuer intercompany loan in sterling and to receive and pay amounts under the class A1 issuer notes in euros.

Alliance & Leicester (in such capacity, the **issuer (class A2) swap provider** and, together with the issuer (class A1) swap provider, the **issuer swap providers**) will act as issuer swap provider pursuant to the terms of the issuer (class A2) swap agreement to enable the issuer to receive and pay amounts under the issuer AAA (class A2) loan tranche of the issuer intercompany loan in sterling and to receive and pay amounts under the class A2 issuer notes in euros.

For a more detailed description of the issuer swaps, see “**Summary of the transaction documents – Swap agreements – Issuer swap agreements**” below.

**Funding 1 account bank:**

On or before the closing date, Alliance & Leicester (in such capacity, the **Funding 1 account bank**) will be appointed to act as account bank to Funding 1 pursuant to the terms of the Funding 1 bank account agreement.

For a more detailed description of the Funding 1 bank account agreement, see “**Summary of the transaction documents – Funding 1 bank account agreement**” below.

**mortgages trustee account bank:**

On or before the closing date, Alliance & Leicester (in such capacity, the **mortgages trustee account bank**) will be appointed to act as account bank to the mortgages trustee pursuant to the terms of the mortgages trustee bank account agreement.

For a more detailed description of the mortgages trustee bank account agreement, see “**Summary of the transaction documents – Mortgages trustee bank account agreement**” below.

**issuer account bank:**

On or before the closing date, Alliance & Leicester (in such capacity, the **issuer account bank**) will be appointed to act as account bank to the issuer pursuant to the issuer bank account agreement.

For a more detailed description of the issuer bank account agreement, see “**Summary of the transaction documents – Issuer bank account agreement**” below.

**issuer start-up loan provider:**

Alliance & Leicester (in such capacity, the **issuer start-up loan provider**) will provide the issuer start-up loan to the issuer pursuant to the terms of the issuer start-up loan agreement.

For a more detailed description of the issuer start-up loan agreement, see “**Summary of the transaction documents – Issuer start-up loan agreement and Funding 1 start-up loan agreement**” below and for information relating to the credit support it provides, see “**Credit structure – Issuer start-up loan**” below.

**Funding 1 start-up loan provider:**

The issuer (in such capacity, the **Funding 1 start-up loan provider**) will provide the Funding 1 start-up loan to Funding 1 pursuant to the terms of the Funding 1 start-up loan agreement.

For a more detailed description of the Funding 1 start-up loan agreement, see “**Summary of the transaction documents – Issuer start-up loan agreement and Funding 1 start-up loan agreement**” below and for information relating to the credit support it provides, see “**Credit structure – Funding 1 start-up loan**” below.

**issuer post-enforcement call option holder:**

On the closing date, Langton PECO Limited (registered number 6432571) (in such capacity, the **issuer post-enforcement call option holder** or **PECOH**) will agree to act in such capacity in respect of the issuer notes pursuant to the terms of an issuer post-enforcement call option agreement.

For a more detailed description of the issuer post-enforcement call option holder, see “**The issuer post-enforcement call option holder**” below, and for a more detailed description of the issuer post-enforcement call option agreement, see “**Summary of the transaction documents – Issuer post-enforcement call option agreement**” below.

- Holdings:** Langton Securities Holdings Limited (**Holdings**) is a private limited company incorporated under the laws of England and Wales with registered number 6432540. For a more detailed description of Holdings, see “**Holdings**” below. The entire issued share capital of Holdings is held beneficially on trust by the UK share trustee under the terms of a discretionary trust for charitable purposes.
- UK share trustee:** SFM Corporate Services Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated under the laws of England and Wales with registered number 03920255 and (in such capacity, the **UK share trustee**) will hold the entire share capital of Holdings under the terms of a discretionary trust for charitable purposes.
- PECOH share trustee:** Independent Share Trustees Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated under the laws of England and Wales with registered number 05829390 and (in such capacity, the **PECOH share trustee**) will hold the entire share capital of PECO under the terms of a discretionary trust for charitable purposes.
- Jersey share trustee:** Mourant & Co. Trustees Limited, having its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands, is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 18478 and (in such capacity, the **Jersey share trustee**) will hold the entire share capital of the mortgages trustee under the terms of a discretionary trust for charitable purposes.
- Funding 1 corporate services provider:** Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated in England and Wales with registered number 03853947 and (in such capacity, the **Funding 1 corporate services provider**) will provide corporate services to Holdings, Funding 1 and any further Funding company established from time to time.
- issuer corporate services provider:** Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated in England and Wales with registered number 03853947 and (in such capacity, the **issuer corporate services provider**) will provide corporate services to the issuer.
- mortgages trustee corporate services provider:** Mourant & Co. Limited, having its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands, is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 36615 and (in such capacity, the **mortgages trustee corporate services provider**) will provide corporate services to the mortgages trustee.
- PECOH corporate services provider:** Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated in England and Wales with registered number 03853947 and (in such capacity, the **PECOH corporate services provider**) will provide corporate services to PECO.
- secretarial services provider:** Alliance & Leicester (in such capacity, the **secretarial services provider**) will provide secretarial services to Holdings, PECO, the issuer, any new issuer established from time to time, Funding 1 and any further Funding company established from time to time.

## Summary of the issuer notes

The class A1 issuer notes and the class A2 issuer notes (collectively referred to as the **class A issuer notes**), the class B issuer notes and the class Z issuer notes collectively represent our asset-backed obligations.

	class of issuer notes			
	class A1	class A2	class B	class Z
Principal amount:	€1,060,000,000	€1,200,000,000	£70,000,000	£90,000,000
Credit enhancement:	Subordination of the class B issuer notes and the class Z issuer notes, the Funding 1 reserve fund, the issuer reserve fund and (if established) the issuer liquidity reserve fund	Subordination of the class B issuer notes and the class Z issuer notes, the Funding 1 reserve fund, the issuer reserve fund and (if established) the issuer liquidity reserve fund	Subordination of the class Z issuer notes, the Funding 1 reserve fund, the issuer reserve fund and (if established) the issuer liquidity reserve fund	None
Interest rate:	Three-month EURIBOR + margin	Three-month EURIBOR + margin	Three-month LIBOR + margin	Three-month LIBOR + margin
Margin:	0.58% p.a.	0.30% p.a.	0.65% p.a.	2.00% p.a.
Until interest payment date falling in:	March 2009	March 2011	March 2015	March 2015
And thereafter:	1.16% p.a.	0.60% p.a.	1.30% p.a.	3.00% p.a.
Scheduled redemption date:	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Details relating to the pass through notes:	Applicable. To be redeemed in full or in part on each interest payment date from and including the interest payment date falling in March 2009	Applicable. To be redeemed in full or in part on each interest payment date from and including the interest payment date falling in March 2011, provided that the class A1 issuer notes have been redeemed in full	Applicable. To be redeemed in full or in part on each interest payment date from and including the interest payment date falling in March 2011, provided that the class A2 issuer notes have been redeemed in full	Applicable. To be redeemed in full or in part on each interest payment date from and including the interest payment date falling in March 2011, provided that the class B issuer notes have been redeemed in full
Interest accrual method:	Actual/360	Actual/360	Actual/365	Actual/365
Interest payment dates:	Quarterly in arrear on the interest payment dates falling in March, June, September and December of each year.			
First interest payment date:	18 June 2008	18 June 2008	18 June 2008	18 June 2008
Final maturity date:	December 2054	December 2054	December 2054	December 2054
Listing:	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	N/A
ISIN:	XS0336390074	XS0336393177	XS0336393680	N/A
Common code:	033639007	033639317	033639368	N/A
Expected ratings (Fitch/Moody's/S&P):	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	-

### ***Relationship between the issuer notes and the issuer intercompany loan***

On the closing date we will make an issuer intercompany loan to Funding 1 from the proceeds of the issue of the issuer notes. The issuer intercompany loan will consist of separate issuer loan tranches. There will be a total of 4 issuer loan tranches - an issuer AAA (class A1) loan tranche, an issuer AAA (class A2) loan tranche, an issuer AA (class B) loan tranche (together with the issuer AAA (class A1) loan tranche and the issuer AAA (class A2) loan tranche, the **senior loan tranches**) and an issuer NR (class Z) loan tranche (the **subordinated loan tranche**). For the avoidance of doubt, the issuer loan tranches under the issuer intercompany loan are not rated by the rating agencies. The ratings assigned by the rating agencies relate instead only to the class A1 issuer notes, the class A2 issuer notes and the class B issuer notes. The class Z issuer notes will not be rated. The proceeds of each class of issuer notes will be used to make the corresponding issuer loan tranche, the proceeds of the class A1 issuer notes will be used to make the corresponding issuer AAA (class A1) loan tranche, the proceeds of the class A2 issuer notes will be used to make the corresponding issuer AAA (class A2) loan tranche, the proceeds of the class B issuer notes will be used to make the corresponding issuer AA (class B) loan tranche and the proceeds of the class Z issuer notes will be used to make the corresponding issuer NR (class Z) loan tranche. For more information on the issuer intercompany loan, see "**The issuer intercompany loan**".

We will repay the issuer notes from payments made to us by Funding 1 under the issuer intercompany loan. If we do not have enough money to pay interest or repay principal amounts on the rated issuer notes, then in certain circumstances we may access funds standing to the credit of the issuer reserve fund and/or the issuer liquidity reserve fund, although we will only be required to establish the issuer liquidity reserve fund in limited circumstances. After the rated notes have been repaid, amounts standing to the credit of the issuer reserve fund will be available to pay all principal amounts then due and repayable on the issuer start-up loan tranche D. Funding 1 may have access to the Funding 1 reserve fund to pay interest and fees under the issuer intercompany loan agreement. For more information on the Funding 1 reserve fund, see "**Credit Structure – Funding 1 reserve fund**", and, for more information on the issuer reserve fund, see "**Credit structure - Issuer reserve fund**". For more information on the issuer liquidity reserve fund and the circumstances in which we will be required to establish the issuer liquidity reserve fund, see "**Credit structure - Issuer liquidity reserve fund**".

The ability of Funding 1 to make payments on the issuer intercompany loan will depend to a large extent on Funding 1 receiving its share of collections on the trust property, which will in turn depend principally on the collections that the mortgages trustee receives on the loans and the related security and the allocation of monies to Funding 1. See "**Risk factors – Funding 1 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your issuer notes**" below.

### **Operative documents relating to the issuer notes**

We will issue the issuer notes under the note trust deed. The issuer notes will also be subject to the issuer paying agent and agent bank agreement. The security for the issuer notes is provided under the issuer deed of charge between ourselves, the issuer security trustee and the issuer's other secured creditors. Operative legal provisions relating to the issuer notes will be included in the note trust deed, the issuer paying agent and agent bank agreement, the issuer deed of charge, the issuer cash management agreement and the issuer notes themselves, each of which will be governed by English law and, in the case of the issuer deed of charge, Northern Irish and Scots law with respect to particular terms.

### ***Payment and ranking of the issuer notes***

Payments of interest on the issuer notes will be made from issuer revenue receipts available to the issuer following payment of amounts owing to higher ranking creditors, such as the issuer security trustee, the note trustee, the agent bank, the paying agent, the registrar, third party creditors of the issuer, the issuer cash manager, the issuer swap provider, the issuer corporate services provider and the secretarial services provider. Payment of interest on the class A issuer notes will rank ahead of payment of interest on the class B issuer notes and the class Z issuer notes. Payment of interest on the class B issuer notes will rank ahead of payment of interest on the class Z issuer notes.

If not already paid in full prior to the final maturity date, the principal amount outstanding of each class of issuer notes will be repaid by the issuer on the final maturity date for that class of issuer notes.

On each interest payment date prior to the final maturity date, however, we will be obliged to make payments of principal of the issuer notes to the extent of repayments of the corresponding issuer loan tranche, subject to and in accordance with the relevant issuer principal priority of payments applicable to us on that date.

Subject to making relevant payments to the issuer reserve fund and, if established, the issuer liquidity reserve fund, prior to the occurrence of an asset trigger event, the service of a note acceleration notice on the issuer, or the service of an intercompany loan acceleration notice on Funding 1 (including before or after the occurrence of a non-asset trigger event), repayment of principal in respect of the class A1 issuer notes will rank ahead of repayment of principal in respect of the class A2 issuer notes. Repayment in principal in respect of the A2 issuer notes will rank ahead of repayment of principal in respect the class B issuer notes and the class Z issuer notes. Repayment of principal in respect of the class B issuer notes will rank ahead of repayment of principal in respect of the class Z issuer notes.

Following the occurrence of an asset trigger event, the service of a note acceleration notice on the issuer or the service of an intercompany loan acceleration notice on Funding 1, payments of interest and principal will be made on all of the class A issuer notes in no order of priority among them but in proportion to the respective amounts due on the class A issuer notes. However, payments of interest and principal on the class A issuer notes will still rank ahead of payments of interest and principal on the class B issuer notes and the class Z issuer notes and payments of interest and principal on the class B issuer notes will still rank ahead of payments of interest and principal on the class Z issuer notes. For more information on the priority of interest payments, see "**Cashflows**" below.

Amounts (if any) allocated to the issuer from the Funding 1 reserve fund, the issuer reserve fund, the issuer liquidity reserve fund (if established) and the class Z issuer notes provide credit enhancement for the class B issuer notes. Amounts (if any) allocated to the issuer from the Funding 1 reserve fund, the issuer reserve fund, the issuer liquidity reserve fund (if established), the class B issuer notes and the class Z issuer notes provide credit enhancement for the class A issuer notes.

For more information on the priority of principal repayments to you, see "**Cashflows**".

You should note that Holdings may establish from time to time new issuers which will make new issuer intercompany loans to Funding 1 (each, a **Funding 1 issuer**), as described under "**New issuers, new issuer intercompany loans, new start-up loans and further Funding companies**". Any new issuer will make a new issuer intercompany loan to Funding 1 from the proceeds of new issuer notes that are issued by that new issuer. Any new issuer notes issued by a new issuer ultimately will be secured by the same trust property as the issuer notes issued by us under this prospectus (including the class Z issuer notes).

You should note that payments by Funding 1 to new issuers under new issuer intercompany loans will rank equally in priority with payments made by Funding 1 to us under our issuer intercompany loan, as described under "**Cashflows – Distribution of Funding 1 available principal receipts – The rules**". In other words, interest and principal payments under our issuer intercompany loan will not have priority over interest and principal payments on any new issuer intercompany loans that are made on later dates. Instead, Funding 1 will initially allocate interest and principal to make payments under each outstanding intercompany loan in no order of priority among them but in proportion to the outstanding principal amount of each intercompany loan. However, prior to the service of an intercompany loan acceleration notice on Funding 1, the amount and timing of payments under an intercompany loan will determine the amount and timing of payments on the notes issued by the relevant issuer. The terms of any new issuer loan tranches under any new issuer intercompany loan agreement entered into by Funding 1 and the corresponding new issuer notes issued by a new issuer may, therefore, result in such new issuer intercompany loan being repaid prior to repayment of the issuer loan and those new issuer notes being repaid prior to repayment of the issuer notes issued by us regardless of the ratings of such new rated issuer notes relative to the rated issuer notes.

Before issuing any new issuer notes, however, such new issuer will be required to satisfy a number of conditions, including that the then current ratings of the rated notes will not be reduced, withdrawn or qualified at the time of the issuance of such new issuer notes by such new issuer.

#### ***Optional redemption or repurchase of the issuer notes***

In the following circumstances, we may redeem (unless otherwise provided) all, but not a portion, of a class of issuer notes at their principal amount outstanding, together with any accrued interest and unpaid interest in respect thereof, by giving notice in accordance with the terms and conditions of the issuer notes, subject to the issuer notes not having been accelerated and the availability of sufficient funds, as described in detail in (and subject to) **condition 5** under "**Terms and conditions of the issuer notes**":

- if at any time it would become unlawful for the issuer to make, fund or to allow to remain outstanding an issuer loan tranche made by it under the issuer intercompany loan agreement and the issuer requires Funding 1 to repay the issuer loan tranche (see **condition 5.5** under "**Terms and conditions of the issuer notes**" below); or
- on any interest payment date in the event of particular tax changes that affect us, the issuer notes or the corresponding issuer loan tranche under the issuer intercompany loan (see **condition 5.5** under "**Terms and conditions of the issuer notes**" below).

In addition, we may redeem the issuer notes outstanding in accordance with the terms and conditions:

- on the interest payment date falling in June 2008 and on each interest payment date thereafter, provided that
  - (i) in the case of redemption of the class B notes, the class A notes have been redeemed in full; and
  - (ii) in the case of redemption of the class Z notes, the class B notes have been redeemed in full,(see **condition 5.4** under "**Terms and conditions of the issuer notes**" below); or
- on any interest payment date on which the aggregate principal amount of the issuer notes outstanding is less than 10 per cent. of the aggregate principal amount outstanding of the issuer notes as at the closing date (see **condition 5.4** under "**Terms and conditions of the issuer notes**" below).

#### ***Withholding tax***

Payments of interest and principal with respect to the issuer notes will be subject to any applicable withholding or deduction for or on account of any taxes and neither the issuer nor any other person will be obliged to pay additional amounts in relation thereto. The applicability of any UK withholding tax is discussed under "**United Kingdom Taxation**" below.

#### ***Credit enhancement***

Subject to the detailed description and limitations set out in "**Credit structure**" below, the issuer notes will have the benefit of the following credit enhancement or support:

- availability of excess portions of **Funding 1 available revenue receipts** (which consist of revenue receipts on the loans paid by the mortgages trustee to Funding 1 and other amounts set out in “**Cashflows – Definition of Funding 1 available revenue receipts**” below);
- in respect of the rated issuer notes only, availability of issuer principal receipts to meet shortfalls in issuer available revenue receipts;
- in respect of the senior loan tranches only, a reserve fund called the **Funding 1 reserve fund** to be used in certain circumstances by Funding 1 to meet any deficit in Funding 1 available revenue receipts payable to the issuer and any other Funding 1 issuer;
- in respect of the rated issuer notes only (until the rated issuer notes have been repaid), a reserve fund called the **issuer reserve fund** to be used in certain circumstances by the issuer to meet any deficit in issuer revenue receipts and issuer principal receipts available for payments of interest and principal, respectively, on such rated issuer notes;
- in respect of the rated issuer notes only (until the rated issuer notes have been repaid), a reserve fund called the **issuer liquidity reserve fund**, which will be established following a seller rating downgrade to meet interest and principal shortfalls in limited circumstances on such rated issuer notes;
- interest earned at a specific rate on each of the mortgages trustee GIC account, the Funding 1 GIC account and the issuer GIC account;
- in respect of the rated issuer notes only, subordination of junior classes of issuer notes;
- an advance under the issuer start-up loan to be provided to the issuer, amongst other purposes, to be credited to the issuer reserve fund; and
- an advance under the Funding 1 start-up loan to be provided to Funding 1, amongst other purposes, to be credited to the Funding 1 reserve fund.

The issuer notes will also have the benefit of the Funding 1 swap provided by Alliance & Leicester and the class A1 issuer notes and the class A2 issuer notes will have the benefit of the issuer euro currency swaps provided by the issuer swap providers, as described below under “**Summary of transaction documents – Swap agreements – Funding 1 swap agreement**” and “**Summary of transaction documents – Swap agreements – Issuer swap agreements**”, respectively.

### ***Issuer principal deficiency ledger***

The issuer principal deficiency ledger has been established to record: (i) any principal losses on the loans allocated by Funding 1 to the issuer intercompany loan; (ii) the application of issuer principal receipts to fund the issuer liquidity reserve ledger (if required); and (iii) the application of issuer principal receipts to meet any deficiency in issuer available revenue receipts.

The issuer principal deficiency ledger has three sub-ledgers which will correspond to each of the class A issuer notes, the class B issuer notes and the class Z issuer notes, respectively. See “**Credit structure – Issuer principal deficiency ledger**” below.

### ***Trigger events***

If an asset trigger event or non-asset trigger event should occur, then distributions on the issuer notes may be altered, as described in “**Cashflows**” below.

An **asset trigger event** will occur when an amount is debited to the principal deficiency sub-ledger established for any issuer with respect to its class A notes, unless (in the case of the issuer) such debit is made when the sum of the amount standing to the credit of the issuer reserve ledger together with amounts determined and due to be credited to the issuer revenue ledger on or prior to the immediately following interest payment date after such debit is made is greater than the amount necessary to pay items (a) to (e) of the issuer pre-acceleration revenue priority of payments on the immediately following interest payment date after such debit is made or (in the case of any new issuer) subject to any equivalent provisions agreed in respect of the issue of any new issuer notes.

A **non-asset trigger event** means on a trust calculation date: (a) the occurrence of an insolvency event in relation to the seller on or before that trust calculation date; (b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days; (c) the current seller share is less than the minimum seller share on two consecutive trust calculation dates; or (d) the aggregate current balance of loans comprised in the trust property as calculated on two consecutive trust calculation dates in respect of the immediately preceding trust calculation period during the period from (and including) the closing date to (but excluding) the interest payment date in March 2010 is less than £5,800,000,000. See “**The mortgages trust – Cash management of trust property – Principal receipts**” below.

A **trigger event** means an asset trigger event or a non-asset trigger event.

### ***Acceleration***

All issuer notes will become immediately due and payable and the issuer security will become enforceable on the service on the issuer by the note trustee of a note acceleration notice. The note trustee becomes entitled to serve a note acceleration notice at any time after the occurrence of a note event of default in respect of a class of issuer notes (and it may do so using its own discretion or on the instructions of the noteholders of the applicable class of issuer notes (holding in aggregate at least one quarter in principal amount outstanding of such class of issuer notes) or pursuant to an extraordinary resolution of noteholders of the applicable class of issuer notes provided that, in each case, the note trustee shall have been indemnified and/or secured to its satisfaction and provided further that, at such time, all issuer notes ranking in priority to such class of issuer notes have been repaid in full or such issuer notes are also accelerated).

### ***The closing date***

The issuer notes will be issued on or about 25 January 2008.

### **The loans**

The loans in the initial portfolio at the closing date will comprise:

- loans which are subject to variable rates of interest set by the seller from time to time (including loans which allow the borrower to pay interest at a specified discount to the seller's standard variable rate for a specified period of time);
- loans which track a variable rate of interest other than a variable rate set by the seller (for example, a rate set at a margin above, equal to or below rates set by the Bank of England);
- loans which are subject to fixed rates of interest set by reference to a pre-determined rate or series of rates for a fixed period or periods; and
- flexible loans which allow a borrower, in certain circumstances, to make overpayments or underpayments, to take payment holidays and to make cash withdrawals (provided that the borrower has made sufficient overpayments).

See "**The loans – Characteristics of the loans**" and "**The loans - Statistical information on the expected portfolio**" below for a more detailed description of the loans offered by the seller and for statistical information on the expected initial portfolio, respectively.

In addition to the loans in the initial portfolio as at the closing date, the trust property may also include new loans assigned by the seller to the mortgages trustee after the closing date. The new loans may include new types of loan products.

New loans assigned to the mortgages trustee will be required to comply with specified criteria (see "**Assignment of the loans and their related security - Assignment of new loans and their related security to the mortgages trustee**"). Any new loans assigned to the mortgages trustee will increase the total size of the trust property, and will increase the Funding 1 share of the trust property to the extent only that Funding 1 has paid for an increased interest in the trust property. To the extent that Funding 1 does not pay for an increased interest, the seller share of the trust property will increase by a corresponding amount.

All the loans in the initial portfolio as at the closing date are, and any new loans (including further advances) or cash withdrawals, if any, added to the trust property will be secured in favour of the seller by first legal charges over freehold, leasehold or commonhold properties located in England or Wales or first ranking legal charges or mortgages over freehold or leasehold properties located in Northern Ireland or first ranking standard securities over heritable or long lease properties located in Scotland.

The loans have been originated in accordance with the seller's lending criteria for loans applicable at the time of origination. The seller may from time to time change its lending criteria and any other terms applicable to new loans or their related security assigned to the mortgages trust after the closing date so that all new loans originated after the date of that change will be subject to the new lending criteria. Notwithstanding any change to the lending criteria or other terms applicable to the loans, the loans and their related security may only be assigned to the mortgages trust if those new loans comply with the seller's representations and warranties in the mortgage sale agreement. If a loan or its related security does not comply with these representations and warranties, then the seller will have 20 London business days in which to cure the default, failing which it will be required to repurchase the loan or loans under the relevant mortgage account and their related security from the mortgages trustee. See "**Summary of the transaction documents – The mortgage sale agreement – Sale of loans and their related security**" and "**Summary of the transaction documents**

– **The mortgage sale agreement – Repurchase of loans under a mortgage account**” below. The seller's current lending criteria are described further in “**The loans – Lending criteria**” below.

### **Sale of the loans**

The seller will sell the initial portfolio to the mortgages trustee on the closing date. After the closing date, the seller may sell new loans and their related security to the mortgages trustee in order to increase or maintain the size of the trust property. The seller may increase the size of the trust property from time to time in relation to an issue of any new issuer notes by any new issuer, the proceeds of which may be applied to fund the sale of the new loans and their related security to the mortgages trustee, or to comply with the seller's obligations under the mortgage sale agreement as described under “**Summary of the transaction documents – The mortgage sale agreement – Sale of loans and their related security**” and “**Summary of the transaction documents – The mortgage sale agreement – Sale of new loans and their related security to the mortgages trustee**” below.

When new loans are sold to the mortgages trustee, the amount of the trust property will increase. Depending on the circumstances, the increase in the trust property may result in an increase in the seller's share of the trust property, Funding 1's share of the trust property and/or a further Funding company's share of the trust property. For a description of how adjustments are made to the seller's share, Funding 1's share and any further Funding company's share of the trust property, see “**The mortgages trust**” below.

### **The mortgages trust**

As of the closing date, the mortgages trustee will hold the trust property for both Funding 1 and the seller as beneficiaries of the trust. Funding 1 and the seller will each have a joint and undivided beneficial interest in the trust property. Payments of interest and principal arising from the loans in the portfolio will be allocated to Funding 1 and the seller according to their share of the trust property, calculated periodically as described later in this section. Other Funding companies may, after the closing date, acquire interests in the trust property and thereby become beneficiaries of the trust. Such further Funding companies will receive allocations of payments of interest and principal arising from the loans according to their respective shares in the trust property.

On the closing date, the trust property will consist of the loans in the initial portfolio and their related security and any income generated by the initial loans or their related security. The trust property will also include any money in the mortgages trustee guaranteed investment contract or GIC account. The **mortgages trustee GIC account** is the bank account in which the mortgages trustee holds any cash that is part of the trust property until it is distributed to the beneficiaries.

Payments by borrowers and any recoveries made in respect of the loans in the portfolio from time to time will be paid initially into accounts called the **collection accounts** in the name of the seller and swept into the mortgages trustee GIC account on a regular basis but in any event in the case of direct debits no later than the next London business day after they are deposited in the collection accounts.

In addition, cash withdrawals and any further advances and any new loans and their related security that the seller sells to the mortgages trustee after the closing date will be part of the trust property, unless they are repurchased by the seller. The seller will be solely responsible for funding drawings under any cash withdrawals and further advances. The composition of the trust property will fluctuate as drawings under any cash withdrawals and further advances are made and new loans are added and as the loans that are already part of the trust property are repaid or mature or default or are repurchased by the seller.

At the closing date:

- Funding 1's share of the trust property will be £1,843,700,000, representing approximately 24.3 per cent. of the trust property; and
- the seller's share of the trust property will be approximately £5,750,000,000, representing approximately 75.7 per cent. of the trust property.

Income from the trust property is distributed at least monthly to Funding 1, any further Funding company and the seller on each distribution date. A **distribution date** is the date which is four London business days after each **trust calculation date** (being the closing date, the London business day following the last day of each calendar month and the day on which the mortgages trust is terminated) other than the trust calculation date occurring on the closing date in respect of which no distribution will be made. On each trust calculation date, Funding 1's share, any further Funding company's share and the seller's share of the trust property are recalculated based on the aggregate current balance of the loans constituting the trust property on the last day of the immediately preceding trust calculation period. See “**The mortgages trust**” below for details of this recalculation.

On each distribution date, income from the trust property will be allocated to Funding 1 in an amount equal to Funding 1's percentage share of the revenue receipts, any further Funding company in an amount equal to such further



Funding company's percentage share of the revenue receipts and to the seller in an amount equal to the seller's percentage share of the revenue receipts.

Losses on the loans will be allocated to Funding 1, any further Funding companies and the seller based on their respective percentage shares in the trust property.

Whether the mortgages trustee allocates principal received on the loans to Funding 1 and any further Funding company depends on a number of factors. In general, each of Funding 1 and any further Funding company receives payment of principal in the following circumstances:

- when, in relation to any issuer loan tranche or new issuer loan tranche (where applicable), Funding 1 or each further Funding company, as the case may be, is either accumulating principal during an applicable cash accumulation period (as described below under “– **The mortgages trust – Cash management of trust property – principal receipts**”) or is scheduled to make principal repayments on those issuer loan tranches or new issuer loan tranches (where applicable) (in which case principal receipts will be paid to Funding 1 and further Funding companies based on their cash accumulation requirements or repayment requirements in relation to those issuer loan tranches or new issuer loan tranches (where applicable));
- when a non-asset trigger event has occurred (in which case all principal receipts on the loans will be paid to Funding 1 and each further Funding company *pro rata* according to Funding 1's share and each further Funding company's share of the Funding companies' aggregate share of the trust property until each of their respective shares have been reduced to zero. When the Funding 1 share of the trust property and the share of the trust property of each further Funding company is zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller); and
- when an asset trigger event has occurred (in which case principal receipts on the loans will be paid to Funding 1, each further Funding company and the seller *pro rata* according to the Funding 1 share of the trust property, the share of the trust property attributable to each further Funding company and the seller share of the trust property, until the Funding 1 share of the trust property and the share of the trust property attributable to each such further Funding company is zero. When the Funding 1 share of the trust property and each further Funding company's share of the trust property is zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller.

Neither Funding 1 nor any further Funding company will be entitled to receive in aggregate an amount of mortgages trust available principal receipts on a distribution date which is in excess of, as applicable, the Funding 1 share of the trust property or such further Funding company's share of the trust property on the relevant distribution date.

For more information on the distribution of principal receipts on the loans, including a description of when a non-asset trigger event or an asset trigger event will occur, see “**The mortgages trust – Cash management of trust property – principal receipts**” below.

Under the terms of the controlling beneficiary deed, Funding 1 and the seller will agree to, amongst other things, arrangements amongst themselves in respect of certain commercial decisions (relating to directions, rights, powers, benefits and/or discretions (or any equivalent thereof) under the transaction documents) to be made from time to time in respect of the mortgages trust deed and other transaction documents. In the event of any further Funding company becoming a beneficiary of the mortgages trust, such further Funding company will accede to the controlling beneficiary deed and agree to such arrangements.

### **The issuer intercompany loan**

On the closing date, we will lend an amount in sterling equal to the proceeds of the issuer notes to Funding 1 pursuant to the issuer intercompany loan agreement. Funding 1 will apply the proceeds of the issuer intercompany loan to make an initial contribution to the mortgages trustee to acquire Funding 1's share of the trust property. Upon receipt of Funding 1's initial contribution, the mortgages trustee will pay these funds to the seller as initial purchase price for the initial portfolio. As described above under “**Summary of the issuer notes – Relationship between the issuer notes and the issuer intercompany loan**”, the issuer intercompany loan will consist of separate issuer loan tranches. There will be a total of four issuer loan tranches comprising three senior loan tranches and one subordinated loan tranche, as described under “**Summary of the issuer notes – Relationship between the issuer notes and the issuer intercompany loan**” above. Together these loan tranches are referred to in this prospectus as the issuer loan tranches.

Funding 1 will repay the issuer intercompany loan from payments received from the mortgages trustee, as described under “- **The mortgages trust**”. We will make payments of interest on, and principal of, the issuer notes principally from payments of interest and principal made by Funding 1 to us under the issuer intercompany loan. We do not intend to accumulate surplus cash. For a detailed description of Funding 1's payments of interest and principal under the issuer intercompany loan, see “**The issuer intercompany loan agreement - Payment of interest**” and “**The issuer intercompany loan agreement - Repayment of the issuer intercompany loan**”, and for the allocation of Funding 1 available revenue receipts and Funding 1 available principal receipts, see “**Cashflows**” below.

The circumstances under which the issuer can take action against Funding 1 if it does not make a repayment under the issuer intercompany loan are limited. In particular, it will not be an issuer intercompany loan event of default if Funding 1 does not repay amounts due in respect of the issuer intercompany loan where Funding 1 does not have the money to make the relevant repayment or where the repayment tests are not satisfied. However, the occurrence of an intercompany loan event of default under any new issuer intercompany loan may trigger an acceleration of the issuer intercompany loan because any new issuer will share in the same security as us under the Funding 1 deed of charge. For more information on the issuer intercompany loan, see “**Summary of the transaction documents – The issuer intercompany loan agreement**” below.

### **Security granted by Funding 1 and the issuer**

On the closing date, Funding 1 will enter into the Funding 1 deed of charge to secure its obligations to its secured creditors.

Besides ourselves, Funding 1's secured creditors, on the closing date, will be, among others, the Funding 1 swap provider, the Funding 1 account bank, the cash manager, the Funding 1 corporate services provider, the secretarial services provider, the Funding 1 security trustee and the seller.

Pursuant to the terms of the Funding 1 deed of charge, Funding 1 will grant security over all of its assets in favour of the Funding 1 security trustee. As of the closing date, the Funding 1 security trustee will hold that security for the benefit of the Funding 1 secured creditors. Except in very limited circumstances, only the Funding 1 security trustee will be entitled to enforce the security granted by Funding 1. For more information on the security granted by Funding 1, see “**Summary of the transaction documents – Funding 1 deed of charge**” below. For details of the Funding 1 post-acceleration priority of payments, see “**Cashflows**” below.

To secure our obligations to the noteholders and to our other secured creditors, we will grant security over all of our assets in favour of the issuer security trustee pursuant to the issuer deed of charge. The issuer security trustee will hold that security for the benefit of the issuer's secured creditors, which will be, among others, the noteholders, the issuer security trustee, the note trustee, the agent bank, the paying agent, the registrar, the issuer cash manager, the issuer account bank, the issuer swap providers, the issuer corporate services provider and the secretarial services provider. Except in very limited circumstances, only the issuer security trustee will be entitled to enforce the security granted by us. For more information on the security granted by us, see “**Summary of the transaction documents – Issuer deed of charge**” below. For details of the relevant issuer priority of payments following enforcement of the issuer security, see “**Cashflows**” below.

### **Swap agreements**

Some of the loans in the initial portfolio carry variable rates of interest based on a variable rate, some of the loans pay interest at a fixed rate or rates of interest and some of the loans pay interest at a rate of interest which tracks the Bank of England base rate (the base rate-linked rate is currently set at a margin above and/or equal to and/or below a rate set by the Bank of England). These interest rates do not necessarily match the floating rate of interest payable on the issuer loan tranches under the issuer intercompany loan. Funding 1 will enter into a swap documented under the Funding 1 swap agreement to hedge against these potential interest rate mismatches.

To enable us to make payments on the class A1 issuer notes and the class A2 issuer notes we will enter into the issuer swap agreements with the issuer (class A1) swap provider and the issuer (class A2) swap provider, respectively. On the issue of the class A1 issuer notes and the class A2 issuer notes on the closing date, the issuer will pay to the relevant issuer swap provider the issue proceeds of the class A1 issuer notes and the class A2 issuer notes respectively in euro and the relevant issuer swap provider will pay to the issuer the equivalent amount in sterling, converted by reference to the relevant euro currency exchange rate. The aggregate currency amount of the issuer euro currency swaps will be the aggregate principal amount outstanding under the class A1 issuer notes and the class A2 issuer notes. The issuer (class A1) swap provider and the issuer (class A2) swap provider will pay to the issuer amounts in euro that are equal to the amounts of the interest and principal to be paid on the class A1 issuer notes and the class A2 issuer notes, respectively, and the issuer will pay to the relevant issuer swap provider the corresponding sterling interest amounts received on the issuer AAA (class A1) loan tranche and the issuer AAA (class A2) loan tranche.

### **Issuer post-enforcement call option agreement**

The note trustee is required (without any liability on its part to any person or warranty as to due authority) at the request of the issuer post-enforcement call option holder, for a nominal consideration, to transfer all of the issuer notes to the issuer post-enforcement call option holder pursuant to the option granted to it by the note trustee (as agent for the noteholders under the terms of the issuer post-enforcement call option agreement).

However, as the issuer post-enforcement call option can be exercised only after the issuer security trustee has enforced the security granted by us under the issuer deed of charge and has determined that there are no further assets available to pay amounts due and owing to the noteholders, the exercise of the issuer post-enforcement call option will

not further disadvantage the economic position of the noteholders. In addition, exercise of the issuer post-enforcement call option and delivery of the issuer notes to the issuer post-enforcement call option holder will not extinguish any other rights or claims other than the rights to payment of interest and repayment of principal under the issuer notes that the noteholders may have against us.

### Rating of the issuer notes

The class A1 issuer notes and the class A2 issuer notes are expected to be assigned an AAA rating by Fitch, an Aaa rating by Moody's and an AAA rating by Standard & Poor's. The class B issuer notes are expected to be assigned an AA rating by Fitch, an Aa3 rating by Moody's and an AA rating by Standard & Poor's. The class Z issuer notes will not be rated.

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 in the future so warrant.

Together Moody's, Fitch and Standard & Poor's comprise the rating agencies, which is to be understood to include any further or replacement rating agency appointed by us with the approval of the note trustee to give a credit rating to the issuer notes or any class of the issuer notes.

### Listing

Application has been made to the UK listing authority for each class of the rated issuer notes to be admitted to the official list maintained by the UK listing authority. Application will also be made to the London Stock Exchange for each class of the rated issuer notes to be admitted to trading on the London Stock Exchange's regulated market for the purposes of the Markets in Financial Instruments Directive.

### New issuers, new issuer intercompany loans, new issuer start-up loans and further Funding companies

It is expected that in the future, subject to satisfaction of certain conditions, Holdings will establish additional wholly owned subsidiary companies to issue new issuer notes to investors. One of these conditions is that the rating agencies confirm that the then current ratings of your rated issuer notes will not be downgraded at the time a new issuer issues new issuer notes. Any new issuers will lend the proceeds of any issue of new issuer notes to Funding 1 or any further Funding company (as the case may be) pursuant to the terms of a new issuer intercompany loan agreement. Funding 1 or a further Funding company (as the case may be) will use the proceeds of a new issuer intercompany loan to it to do one or more of the following:

- make a contribution (an **initial contribution**) to the mortgages trustee to be used by the mortgages trustee to pay the seller part of the purchase price for loans (together with their related security) sold to the mortgages trustee in connection with the issuance of new issuer notes by the new issuer and the making of the relevant loan tranches to Funding 1 or any further Funding company, which will result in a corresponding increase in Funding 1's or any further Funding company's share of the trust property (as applicable); and/or
- make a further contribution to the mortgages trustee to acquire part of any further Funding company's share of the trust property (in the case of Funding 1) or Funding 1's share of the trust property (in the case of a further Funding company) and/or the seller's share of the trust property (such contribution to be paid to such further Funding company (a **refinancing distribution**) or the seller (a **special distribution**), as the case may be, which will result in a corresponding decrease of such further Funding company's or Funding 1's or the seller's share of the trust property, as the case may be, and a corresponding increase in Funding 1's share or the share of any further Funding company, as the case may be, of the trust property; and/or
- refinance and/or repay one or more of the issuer loan tranches or new issuer loan tranches (if any) made available to Funding 1 or any further Funding company, as the case may be, outstanding from time to time; and/or
- fund or replenish the Funding 1 reserve fund.

Regardless of which of these uses of proceeds is selected, your issuer notes and any new issuer notes will all be secured ultimately over Funding 1's share of the trust property and will be subject to the rules regarding repayment described in the following paragraphs. Existing noteholders will be informed of further issues via the regulatory news service (**RNS**) on the London Stock Exchange website.

Funding 1 will apply amounts it receives from the trust property to pay amounts it owes under the issuer loan tranches and any new issuer loan tranches without distinguishing when the interest in the trust property was acquired or when the relevant loan tranche was advanced. Funding 1's obligations to pay interest and principal to us on the issuer loan tranches and to the new issuers on their respective new issuer loan tranches will rank equally in priority. In other

words, interest and principal payments under our issuer intercompany loan will not have priority over interest and principal payments on any new issuer intercompany loans that are made at later dates. Instead, Funding 1 will initially allocate principal to repay each outstanding intercompany loan in no order of priority among them but in proportion to the outstanding principal amount of the intercompany loan of that Funding 1 issuer. However, the amount and timing of payments on an intercompany loan will determine the amount and timing of payment on the notes issued by the relevant issuer. The terms of any new issuer loan tranches under any new issuer intercompany loan agreement entered into by Funding 1 and the corresponding new issuer notes issued by a new issuer may, therefore, result in such new issuer intercompany loan being repaid prior to repayment of the issuer loans and those new issuer notes being repaid prior to the repayment of the issuer notes issued by us regardless of the ratings of such new rated issuer notes relative to the rated issuer notes.

Ultimately, our obligations to pay interest and principal to you under the issuer notes reflect the corresponding obligations of Funding 1 to us under the issuer intercompany loan.

If Funding 1 enters into a new issuer intercompany loan agreement, it will also, if required, enter into a new Funding 1 swap, in each case with either the Funding 1 swap provider or a new Funding 1 swap provider in order to address the potential mismatch between the variable loan rates, base rate loan rates and fixed loan rates paid by borrowers on the loans and the rate of interest paid by Funding 1 on the new issuer intercompany loan. Each new Funding 1 swap and the Funding 1 swap will rank without any order of priority between themselves, but in proportion to the amounts due and, in each case, ahead of payments on the AAA loan tranches, as described further in "**Funding 1 swap agreement**". The various margins on the fixed, floating and base rate elements of the Funding 1 swap will vary depending on the nature of the loans constituting the trust property from time to time.

If any new Funding 1 issuer enters into a new issuer intercompany loan agreement with Funding 1, Funding 1 may also be required to enter into a new Funding 1 start-up loan agreement with such new issuer (in its capacity as the Funding 1 start-up loan provider) and the Funding 1 security trustee.

Pursuant to its obligations under the listing rules of the UK Listing Authority, if a new issuer is established to issue new issuer notes, then we will notify or procure that notice is given of that new issue.

Holdings may establish further Funding companies which may, in the future, enter into new issuer intercompany loan agreements with new issuers and use the proceeds to make an initial contribution or a further contribution to the mortgages trustee to enable the mortgages trustee to pay the seller the initial purchase price for a new portfolio or to make a special distribution to the seller, respectively. Any further Funding company would be a wholly-owned subsidiary of Holdings and would become a beneficiary of the mortgages trust subject to satisfaction of certain conditions, including that the ratings of your rated issuer notes will not be downgraded by the rating agencies at the time a further Funding company becomes such a beneficiary (see "**Risk Factors - Holdings may establish further Funding companies, which may become additional beneficiaries under the mortgages trust**").

### **Jersey (Channel Islands) tax status**

It is the opinion of Mourant du Feu & Jeune, the Jersey (Channel Islands) tax counsel to the mortgages trustee, that the mortgages trustee is resident in Jersey for taxation purposes and will be liable to income tax in Jersey at a rate of 20 per cent. in respect of the profits that it makes from acting as trustee of the mortgages trust. The mortgages trustee will not be liable for any income tax in Jersey in respect of any income that it receives in its capacity as mortgages trustee on behalf of the beneficiaries of the mortgages trust provided that certain conditions are satisfied. See "**Material Jersey (Channel Islands) tax considerations**" below.

## Fees

The following table sets out the on-going fees to be paid by the issuer, Funding 1 and the mortgages trustee to transaction parties. Each of these fees is subject to change at any time without your notification or approval, including upon the appointment of any successor service provider or any other successor transaction party pursuant to the applicable transaction document.

<b>Type of fee</b>	<b>Amount of fee</b>	<b>Priority in cashflow</b>	<b>Frequency of Payment</b>
Servicing fee allocated to Funding 1	Estimated 0.08 per cent. per year of the aggregate outstanding principal amount of Funding 1's share	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable monthly by the mortgages trustee on each distribution date
Mortgages trustee fee	Estimated £1,000 each year	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable annually by the mortgages trustee on the distribution date occurring in December
Cash management fee	Estimated 0.01 per cent. per year of principal amount outstanding of the intercompany loans	Ahead of all intercompany loans	Payable quarterly by Funding 1 on each Funding 1 interest payment date occurring in March, June, September and December of each year
Issuer cash management fee	Estimated 0.01 per cent. per year of the principal amount outstanding of the issuer notes	Ahead of all outstanding issuer notes	Payable quarterly by the issuer on each interest payment date occurring in March, June, September and December of each year
Corporate expenses of mortgages trustee	Estimated £5,500 each year	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable annually by the mortgages trustee on each distribution date occurring in December
Corporate expenses of Funding 1	Estimated £2,000 each year	Ahead of all intercompany loans	Payable semi-annually by Funding 1 on each Funding 1 interest payment date occurring in June and December of each year
Corporate expenses of issuer	Estimated £5,250 each year	Ahead of all outstanding issuer notes	Payable semi-annually by the issuer on each interest payment date occurring in June and December of each year
Issuer security trustee and note trustee fee (including paying agents)	Estimated £1,000 each year	Ahead of all outstanding issuer notes	Payable annually by Funding 1 on each Funding 1 interest payment date occurring in December of each year
Secretarial services fee	Estimated £1,000 each year	Ahead of all intercompany loans and all outstanding issuer notes (as applicable)	Payable annually by the issuer on each interest payment date occurring in December each year

Subject to the following, the servicing fee, the cash management fee and the issuer cash management fee set out in the preceding table are inclusive of any applicable value added tax (VAT), which is currently assessed at 17.5 per cent., and the aggregate amount payable in respect of such services will not be adjusted in the event of any change in the rate of VAT.

## RISK FACTORS

*The following is a summary of certain risk factors of which prospective noteholders should be aware. This section describes the principal risks associated with an investment in the issuer notes. Prospective noteholders should also read the detailed information set out elsewhere in this document prior to making an investment decision in relation to the issuer notes.*

### **You cannot rely on any person other than the issuer to make payments on your issuer notes**

The issuer notes will not represent an obligation or be the responsibility of Alliance & Leicester or any of its affiliates, the mortgages trustee, the note trustee, the issuer security trustee, the Funding 1 security trustee, any further Funding companies and/or any new issuers and/or any other party to the transaction other than the issuer.

### **The issuer has limited resources available to it to make payments on your issuer notes**

The issuer's ability to make payments of principal and interest on the issuer notes and to pay its operating and administrative expenses will depend primarily on payments being received by it under the issuer intercompany loan agreement.

The issuer will not have any other significant sources of funds available to meet its obligations under the issuer notes and/or any other payments ranking in priority to the issuer notes. If the resources described above cannot provide the issuer with sufficient funds to enable it to make the required payments on the issuer notes, you may incur a loss of interest and/or principal which would otherwise be due and payable on your issuer notes.

### **Funding 1 is not obliged to make payments on the issuer loan tranches if it does not have enough money to do so, which could adversely affect payments on your issuer notes**

Funding 1's ability to pay amounts payable on the issuer loan tranches will depend upon:

- Funding 1 receiving enough funds from its share in the trust property on or before each Funding 1 interest payment date;
- Funding 1 receiving the required funds from the Funding 1 swap provider;
- the amount of funds credited to the Funding 1 reserve fund (as described below in “**Credit structure – Funding 1 reserve fund**”); and
- the allocation of funds between the issuer intercompany loan and any new issuer intercompany loans (as described below in “**Cashflows**”).

According to the terms of the mortgages trust deed, the mortgages trustee is obliged to pay to Funding 1 the Funding 1 share of revenue receipts on the loans by crediting those amounts to the Funding 1 GIC account on each distribution date. The mortgages trustee is obliged to pay to Funding 1 the Funding 1 share of principal receipts on the loans by crediting those amounts to the Funding 1 GIC account as and when required pursuant to the terms of the mortgages trust deed.

Funding 1 will be obliged to pay amounts due and payable to the issuer under the issuer intercompany loan only to the extent that it has funds available to it after making payments ranking in priority to the issuer, such as payments of certain fees and expenses of Funding 1. Furthermore, if Funding 1 subsequently enters into a new issuer intercompany loan with a new issuer, Funding 1 will also be obliged to make payments due to such new issuer under such new issuer intercompany loan. These payments may be payable behind, equally with or ahead of payments to the issuer in accordance with their terms and ranking pursuant to the relevant Funding 1 priority of payments. See “**Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**” and “**Cashflows – Distribution of Funding 1 available principal receipts**” below.

The obligations of Funding 1 are limited recourse. If Funding 1 does not pay amounts to the issuer under the issuer intercompany loan agreement because it does not have sufficient funds available, those amounts will be due but not payable until funds are available to pay those amounts in accordance with the relevant Funding 1 priority of payments. Funding 1's failure to pay those amounts to the issuer when due in such circumstances will not constitute an event of default under the issuer intercompany loan agreement. Any such amounts deferred (including any default interest of Funding 1 and additional interest amounts accrued and deferred with respect to such deferred amounts) on each interest payment date shall be satisfied on such subsequent Funding 1 interest payment date when there are sufficient amounts available to Funding 1 to meet that shortfall and shall, to the extent of any further shortfall, continue to be deferred until the last occurring final repayment date of the issuer loan tranches under the issuer intercompany loan. After the latest occurring final repayment date of the issuer loan tranches under the issuer intercompany loan, any remaining unpaid amounts will be extinguished (subject to the allocation of available amounts). If there is a shortfall in amounts payable by Funding 1 under the issuer intercompany loan agreement and the amounts payable by the issuer on the issuer notes, you may not, depending on what other sources of funds are available to the issuer and to Funding 1,

receive the full amount of interest and/or principal and/or other amounts which would otherwise be payable on your issuer notes.

**Enforcement of the issuer security is the only remedy for a default on the issuer's obligations, and the proceeds of that enforcement may not be enough to make all the payments due on your issuer notes**

The only remedy for recovering amounts on the issuer notes is through the enforcement of the issuer security. The issuer does not have any recourse to the assets of Funding 1 unless Funding 1 has also defaulted on its obligations under the issuer intercompany loan and the Funding 1 security has been enforced.

If the issuer security created as required by the issuer deed of charge is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest and/or other amounts due on your issuer notes.

**The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**

Pursuant to the terms of the Funding 1 deed of charge, the issuer deed of charge and the note trust deed, the Funding 1 security trustee, the issuer security trustee and/or the note trustee respectively may, without the consent or sanction of the Funding 1 secured creditors (except where they are a party to the relevant transaction document the subject of such modification, where the consent of such party will be required), the issuer secured creditors (except where they are a party to the relevant transaction document the subject of such modification, where the consent of such party will be required) and/or the noteholders, concur with any person in making or sanctioning any modifications to the transaction documents which:

- (in the case of the Funding 1 security trustee) it has been directed to do so by the issuer security trustee and which the issuer security trustee has in turn been directed to do so by the note trustee in the circumstances described below;
- (in the case of the issuer security trustee) it has been directed to do so by the note trustee in the circumstances described below; and
- (in the case of the note trustee) in the opinion of the note trustee (a) will not be materially prejudicial to the interests of the noteholders except in the case of a basic terms modification where the note trustee will have no such power or, if the note trustee is not of that opinion, the noteholders have sanctioned such modification by way of an extraordinary resolution or (b) is of a formal, minor or technical nature or is made to correct a manifest error established as such to the satisfaction of the note trustee or is to comply with the mandatory provisions of law.

In the exercise of any of its powers, trusts, authorities, rights or discretions under any transaction document (including the Funding 1 deed of charge) the Funding 1 security trustee shall act as directed by the issuer security trustee which shall in turn act as directed by the note trustee. In the exercise of any of its powers, trusts, authorities and discretions under any transaction document (including the issuer deed of charge), the issuer security trustee shall act as directed by the note trustee. In the exercise of any of its powers, trusts, authorities and discretions under the note trust deed or any other transaction document, the note trustee shall have regard to the interests of the noteholders (subject to the provisions of the next paragraph) but in the event of a conflict of interest it shall have regard to the interests of the noteholders in the manner described under"- **There may be a conflict of interests between the issuer and new issuers, and the interests of the new issuers may prevail over the interests of the issuer "** below.

In determining whether a modification to a transaction document is materially prejudicial to the interests of the noteholders, the note trustee will have regard to confirmation from the rating agencies that the then current ratings of the rated issuer notes would not be downgraded, withdrawn or qualified and any other confirmation which it considers, in its sole and absolute discretion, is necessary and/or appropriate.

In addition, each of the note trustee, the issuer security trustee and the Funding 1 security trustee will give its consent to any modifications to the transaction documents that are requested by Funding 1, the cash manager, the issuer and/or the issuer cash manager (as applicable), provided that Funding 1, the cash manager, the issuer and/or the issuer cash manager certifies to the note trustee, to the issuer security trustee and the Funding 1 security trustee (as applicable) in writing that such modifications are required in order to accommodate:

- (i) any new intercompany loans to be advanced to Funding 1 or any further Funding companies and/or the issue of any new issuer notes by any new issuer;
- (ii) the entry into by Funding 1 or any further Funding company of any new Funding 1 start-up loan agreement and/or the entry into by any new issuer of any new issuer start-up loan agreement;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;

- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraph (i) above);
- (vi) the sale of new types of loans or their related security to the mortgages trustee;
- (vii) changes to the Funding 1 reserve required amount and/or the issuer reserve fund required amount and/or the issuer liquidity reserve fund required amount (or equivalent amounts in respect of any further Funding company and/or new issuer) and/or the manner in which each of such amounts are funded; and/or
- (viii) changes to the asset trigger events and non-asset trigger events;

and provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1, the cash manager, the issuer and/or the issuer cash manager certify to the note trustee, the issuer security trustee and the Funding 1 security trustee (as applicable) in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (viii) above, each of the note trustee, the issuer security trustee and the Funding 1 security trustee has received written confirmation from the rating agencies that as a result of the relevant modifications the then current ratings of the rated notes will not be downgraded, withdrawn or qualified.

The modifications required to give effect to the matters listed in paragraphs (i) to (viii) above may include, among other matters, amendments to the provisions of the mortgages trust deed and the Funding 1 deed of charge relating to the allocation of and entitlement to monies. There can be no assurance that the effect of the modifications to the transaction documents will not ultimately adversely affect your interests.

**There may be a conflict between the interests of the holders of class A issuer notes, the holders of class B issuer notes and the holders of class Z issuer notes and the interests of other classes of noteholders may prevail over your interests**

The note trust deed and the terms and conditions of the issuer notes will provide that, in connection with the exercise of its trusts, authorities, powers and discretions under the note trust deed, the note trustee is to have regard to the interests of the holders of all the classes of issuer notes. There may be circumstances, however, where the interests of one class of the noteholders conflict with the interests of another class or classes of the noteholders. The note trust deed will provide that where, in the opinion of the note trustee, there is such a conflict, then:

- the note trustee is to have regard only to the interests of the class A noteholders in the event of a conflict between the interests of the class A noteholders on the one hand and the class B noteholders and/or the class Z noteholders on the other hand;
- (if there are no class A issuer notes outstanding), the note trustee is to have regard only to the interests of the class B noteholders in the event of a conflict between the interests of the class B noteholders on the one hand and the class Z noteholders on the other hand.

**There may be a conflict between the interests of the holders of each class of the class A issuer notes**

There may also be circumstances where the interests of the class A1 noteholders and the class A2 noteholders conflict.

Unless expressly provided otherwise, the note trust deed and the terms and conditions of the issuer notes will provide that where, in the opinion of the note trustee, there is such a conflict, then the note trustee shall not be obliged to take any action unless and until directed by the class A 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 class of the class A issuer notes then outstanding. A resolution may only be passed at a single meeting of the noteholders of each class of the class A issuer 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 issuer notes of each class of class A issuer notes.

**There may be potential conflicts of interest between the interests of the seller while it holds the issuer notes and the interests of any other holders of the issuer notes**

Alliance & Leicester will purchase all of the issuer notes on the closing date (see "**Purchase and sale**" below). While Alliance & Leicester remains the beneficial owner of all of any class of issuer notes (the **relevant class of notes**), it will be entitled to vote in respect of them, except that, if there is any other class of issuer notes ranking pari passu with, or junior to, the relevant class of notes and Alliance & Leicester is not the beneficial owner of all of such class of issuer notes, then Alliance & Leicester will not be entitled to vote in respect of the relevant class of notes on any



resolution relating to any matter, other than modification of the provisions of the transaction documents or waiver or authorisation of any breach of the transaction documents and the provisions described in the final paragraph of this risk factor shall apply to voting on any resolution relating to any such modification, waiver or authorisation.

If there is any other class of issuer notes ranking senior to the relevant class of notes and Alliance & Leicester is not the beneficial owner of all of such class of issuer notes (which, in the case of the class A notes, means all notes of each class of the class A notes), the provisions of the note trust deed will restrict the ability of Alliance & Leicester as holder of the relevant class of notes to pass an extraordinary resolution.

Where Alliance & Leicester is not the beneficial owner of all of any class of issuer notes and the holders of such class of issuer notes vote in favour of any resolution concerning the modification of the provisions of the transaction documents or the waiver or authorisation of any breach of the transaction documents, then Alliance & Leicester will be deemed to have voted in favour of such resolution in respect of each relevant class of notes.

**There may be a conflict of interests between the issuer and new issuers, and the interests of the new issuers may prevail over the interests of the issuer**

The issuer and any new issuers that enter into new loan agreements with Funding 1 will share in the Funding 1 security. In the exercise of its rights, powers or discretions under any of the transaction documents and subject as provided below, the Funding 1 security trustee shall act on the directions of the issuer security trustees and the issuer security trustees will in turn act on the directions of the respective note trustees. In the event of a conflict between the directions of the note trustees and the corresponding directions of the issuer security trustees, the Funding 1 security trustee will act only on the directions of the issuer security trustees acting as directed by the respective note trustees for the holders of the outstanding class of rated notes at that time with the highest rating (the **principal class of rated notes**) (unless expressly provided otherwise) and provided that the Funding 1 security trustee is indemnified and/or secured to its satisfaction. If the Funding 1 security trustee receives conflicting directions from two or more such issuer security trustees because such issuer security trustees receive conflicting directions from the respective note trustees acting as directed by more than one principal class of rated notes, Funding 1 will ultimately follow the directions given by the note trustee(s) in respect of the holders of the principal classes of rated notes with the greatest aggregate principal amount outstanding at that time that have given the same direction. If the note trustee(s) whose directions prevail does not act as trustee for holders of issuer notes issued by the issuer, then the interests of the holders of the issuer notes will not prevail. This could ultimately cause a reduction in the payments you receive on your issuer notes.

**Holdings may establish further Funding companies, which will be additional beneficiaries under the mortgages trust**

Holdings may in the future establish further Funding companies (each a **further Funding company** and together with Funding 1, the **Funding companies**), which may raise debt from time to time and use the proceeds thereof to acquire or increase their shares in the trust property. However, any such acquisition or increase will be subject to obtaining prior written confirmation from the rating agencies that the then current ratings of the rated notes then outstanding will not be withdrawn, downgraded or qualified as a result of the relevant Funding company acquiring or increasing its share of trust property.

As beneficiaries, the seller, Funding 1 and any further Funding companies will have a joint and undivided interest in the trust property but their entitlement to the proceeds from the trust property will be in proportion to their respective shares of the trust property. On each distribution date, the mortgages trustee will distribute revenue receipts and principal receipts to the beneficiaries, subject to the terms of the mortgages trust deed.

Where it is provided in the transaction documents that, following any further Funding company becoming a beneficiary of the mortgages trust, both Funding 1 and the further Funding company acting together, or the Funding 1 security trustee and the further Funding security trustee acting together, may provide or exercise, as applicable, directions, rights, powers, benefits and/or discretions (or any equivalent thereof) (including, without limitation, agreeing to any amendment or waiver of any provision thereof and/or giving its consent, approval or authorisation of any event, matter or thing requested thereunder), then (irrespective of whether or not Funding 1 and the further Funding company or, as the case may be, the Funding 1 security trustee and the further Funding security trustee shall so act together with any other parties to the transaction documents) such directions, rights, powers, benefits and/or discretions (or their equivalent) shall be provided and/or exercised by Funding 1 and the further Funding company or, as the case may be, the Funding 1 security trustee and the further Funding security trustee in accordance with the controlling beneficiary deed. Therefore, in circumstances, following any further Funding company becoming a beneficiary of the mortgages trust, where there is a conflict of interest, the directions of Funding 1 or the Funding 1 security trustee (acting on behalf of the Funding 1 secured creditors) may not prevail over the directions of the further Funding company or the further Funding security trustee (acting on behalf of the relevant secured creditors of the further Funding company), which may adversely affect your interests.

**If Funding 1 enters into new issuer intercompany loan agreements, such new intercompany loans and accompanying new issuer notes may be repaid prior to the issuer intercompany loan and the issuer notes**

Subject to satisfaction of certain conditions, Holdings may, in the future, establish additional wholly-owned subsidiary companies that will issue new issuer notes. The proceeds of each such issue of new issuer notes may be advanced by way of a new issuer intercompany loan to Funding 1 and/or any further Funding company. Where such proceeds are advanced to Funding 1, Funding 1 may use the proceeds of such new issuer intercompany loan to, amongst other things, pay the mortgages trustee an initial contribution to be applied by the mortgages trustee to pay the seller the consideration for new loans and their related security to be sold to the mortgages trustee (which will result in an increase in the Funding 1 share of the trust property and no change in the seller share of the trust property) or pay the mortgages trustee a further contribution to be applied by the mortgages trustee to pay the seller a special distribution (which will result in an increase in the Funding 1 share of the trust property and a corresponding decrease in the seller share of the trust property) and/or to refinance all or part of an existing Funding 1 intercompany loan outstanding at that time. If the issuer intercompany loan (or any part thereof) is refinanced, you could be repaid early.

Funding 1 will apply amounts it receives from the trust property to pay amounts it owes under the issuer intercompany loan and any new issuer intercompany loan without regard to when the relevant intercompany loan was made. You should note that the obligation to make payments under new issuer intercompany loans may rank behind, equal with or ahead of payments to be made by Funding 1 to the issuer under the issuer intercompany loan depending on the forms and ranking of such payments. Funding 1 will initially allocate principal to repay each outstanding intercompany loan in no order of priority among them but in proportion to the outstanding principal amount of the intercompany loan of that Funding 1 issuer. The amount and timing of payments on an intercompany loan will determine the amount and timing of payment on the notes issued by the relevant issuer. The terms of any new issuer loan tranches under any new issuer intercompany loan entered into by Funding 1 and corresponding new issuer notes issued by a new issuer may, therefore, result in such new issuer intercompany loan being repaid prior to the repayment of the issuer intercompany loan and such new issuer notes being repaid prior to the repayment of the issuer notes regardless of the ratings of such new rated issuer notes relative to the rated issuer notes.

You will not have any right of prior review or consent before Funding 1 enters into any new issuer intercompany loans or the corresponding issuance of new issuer notes by the new issuer. Similarly, the terms of the transaction documents (including, but not limited to, the mortgage sale agreement, the mortgages trust deed, the Funding 1 deed of charge, the definitions of the trigger events and the criteria for the sale of new loans to the mortgages trustee) may be amended to reflect the issuance of such new issuer notes. Your consent to these changes will not be required. There can be no assurance that these changes will not affect the cashflow available to pay amounts due on your issuer notes. See “– **The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**” above.

Before issuing any new issuer notes, however, such new issuer will be required to satisfy a number of conditions, including that the then current ratings of the rated notes will not be reduced, withdrawn or qualified at the time of the issuance of such new issuer notes by such new issuer.

**Other creditors may share in the same security granted by Funding 1 to the Funding 1 security trustee, and this may adversely affect payments on the issuer notes**

Any new issuer that enters into a new issuer intercompany loan with Funding 1 will become party to the Funding 1 deed of charge and will be entitled to share in the security granted by Funding 1 for the benefit of the issuer (and the benefit of the other Funding 1 secured creditors) under the Funding 1 deed of charge. If the Funding 1 security is enforced and there are insufficient funds to make the payments that are due to all Funding 1 issuers, the issuer expects that each Funding 1 issuer will only be entitled to its proportionate share of those limited funds based on the outstanding principal amount of the intercompany loan of that Funding 1 issuer. This could ultimately cause a reduction in the payments you receive on your issuer notes.

If a new Funding 1 issuer enters into a new issuer intercompany loan agreement with Funding 1, Funding 1 may also be required to enter into a Funding 1 start-up loan agreement with such new issuer (in its capacity as the Funding 1 start-up loan provider) and the Funding 1 security trustee.

If required by the rating agencies in order to support the rating of the rated issuer notes, Funding 1 will use part of the proceeds of the new Funding 1 start-up loan to further fund the Funding 1 reserve fund. Similarly, if necessary in connection with the issue of any new issuer notes by a new issuer, Funding 1 may also enter into a new swap with either the Funding 1 swap provider or a new Funding 1 swap provider and/or amend the Funding 1 swap.

Any new issuer (in its capacity as the Funding 1 start-up loan provider) and any new Funding 1 swap provider will become party to the Funding 1 deed of charge and will be entitled to share in the security granted by Funding 1 for the issuer's benefit (and the benefit of the other Funding 1 secured creditors) under the Funding 1 deed of charge. In addition, the liabilities owed by Funding 1 to the Funding 1 swap provider which are secured by the Funding 1 deed of charge may increase each time that Funding 1 enters into a new issuer intercompany loan agreement. These factors could ultimately cause a reduction in the payments you receive on your issuer notes. Your consent to the requisite

changes to the transaction documents will not be sought. See “**The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**” above.

**The yield to maturity of your issuer notes may be adversely affected by prepayments or redemptions on the loans**

The yield to maturity of the issuer notes of each class will be affected by the amount and timing of payment of principal on the loans and the price paid by the noteholders of each class of issuer notes.

The yield to maturity of the issuer notes of each class may be adversely affected by a higher or lower than anticipated rate of prepayments on the loans. The factors affecting the rate of prepayment on the loans are described in “**– The issuer's ability to redeem the issuer notes on their final maturity dates may be affected by the rate of prepayment on the loans**” below.

**The issuer's ability to redeem the issuer notes on their final maturity dates may be affected by the rate of prepayment 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. For instance, prepayments on the loans may be due to borrowers refinancing their loans and sales of mortgaged properties by borrowers (either voluntarily or as a result of enforcement action taken). In addition, if the seller is required to repurchase a loan or loans and the related security under a mortgage account because, for example, one of the loans does not materially comply with the representations and warranties in the mortgage sale agreement or there is a transfer of a portable loan during the applicable discount rate period, fixed rate period or premium rate period, then the payment received by the mortgages trustee will have the same effect as a prepayment of all of the loans under that mortgage account. Because these factors are not within the issuer's control or the control of Funding 1 or the mortgages trustee, the issuer cannot give any assurances as to the level of prepayments that the portfolio may experience.

Variation in the rate of prepayments of principal on the loans or loans being subject to a product switch or a further advance may affect each class of issuer notes differently depending upon amounts already repaid by Funding 1 to the issuer under the issuer intercompany loan and whether a trigger event has occurred or a note acceleration notice has been served on the issuer or an intercompany loan acceleration notice has been served on Funding 1 or the security granted by the issuer under the issuer deed of charge or by Funding 1 under the Funding 1 deed of charge has been enforced. If prepayments on the loans occur less frequently than anticipated, there may be insufficient funds available to the issuer to redeem the issuer notes in full on their respective final maturity dates if not previously redeemed in accordance with their terms.

**As new loans are sold to the mortgages trustee, the characteristics of the trust property may change from those existing at the closing date, and those changes may adversely affect payments on your issuer notes**

There is no guarantee that any new loans sold to the mortgages trustee will have the same characteristics as the loans in the initial portfolio as at the closing date. In particular, new loans may have payment characteristics that differ from those of the loans in the initial portfolio as at the closing date. The ultimate effect of this could be to delay or reduce the payments you receive on your issuer notes. However, any new loans will be required to meet the conditions described below in “**Summary of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans**”. See further “**– The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**” above.

**The seller may change the lending criteria relating to loans that are subsequently sold to the mortgages trustee, which could affect the characteristics of the trust property and which may adversely affect payments on your issuer notes**

Each of the loans sold to the mortgages trustee by the seller will have been originated in accordance with the lending criteria of the seller at the time of origination. The current lending criteria of Alliance & Leicester as originator are set out in the section “**The loans – Characteristics of the loans – Lending criteria**” below. These lending criteria consider a variety of factors such as a potential borrower's credit history, employment history and status and repayment ability, as well as the value of the mortgaged property to be mortgaged. In the event of the sale of any new loans and their related security to the mortgages trustee, the seller will warrant that such new loans and their related security were originated in accordance with the seller's lending criteria applicable at the time of their origination. However, the seller retains the right to revise its lending criteria from time to time, so the lending criteria applicable to any loan at the time of its origination may not be or have been the same as those set out below in the section “**The loans – Characteristics of the loans – Lending criteria**”.

If new loans that have been originated under revised lending criteria are sold to the mortgages trustee, the characteristics of the trust property could change. This could lead to a delay or reduction in the making of payments on your issuer notes.

**The seller has adopted procedures relating to investigations and searches for remortgages which could affect the characteristics of the trust property and which may adversely affect payments on your issuer notes**

The seller does not require a solicitor or a licensed conveyancer or (in Scotland) a qualified conveyancer to conduct a full investigation of the title to a mortgaged property in all cases. Where the borrower is remortgaging, there may be a more limited investigation to carry out some but not all of the searches and investigations which would normally be carried out by a solicitor conducting a full investigation of the title to a mortgaged property. Mortgaged properties which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the mortgaged properties not being accepted as security for a loan had such matters been revealed. However, to mitigate against this risk, title insurance is obtained in respect of such mortgaged properties, although it should be noted that the seller's practice in relation to such limited investigation backed by title insurance may be subject to change in the future. The introduction of loans secured by such mortgaged properties into the trust property could result in a change of the characteristics of the trust property. This could lead to a delay or reduction in the payments received on your issuer notes.

**The timing and amount of payments on the loans could be affected by various factors which may adversely affect payments on your issuer notes**

The loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in borrowers' individual, personal or financial circumstances may affect the ability of such borrowers to repay loans. Loss of earnings, illness, divorce and similar factors may lead to an increase in delinquencies by and bankruptcies of borrowers and could ultimately have an adverse impact on the ability of borrowers to repay loans.

Prepayments may also be affected by the characteristics of the loans. The seller offers mortgages which incorporate a flexible payment option allowing borrowers to make overpayments, underpayments, take payment holidays or make cash withdrawals. Any overpayment will be applied against the loan to reduce the current balance of the loan. Any cash withdrawal, underpayment or payment holiday will increase the current balance of the loan.

In addition, the ability of a borrower to sell a mortgaged property given as security for a loan at a price sufficient to repay the amounts outstanding under the loan will depend upon a number of factors, including the availability of buyers for that mortgaged property, the value of that mortgaged property and property values in general at the time.

Further, the mortgage loan industry in the United Kingdom is highly competitive. This competitive environment may affect the rate at which the seller originates new loans and may also affect the repayment rate of the seller's existing borrowers.

The principal source of income for repayment of the notes by the issuer is the issuer intercompany loan. The principal source of income for repayment by Funding 1 of the issuer intercompany loan is its interest in the loans held on trust by the mortgages trustee for Funding 1, the seller and any further Funding company. If the timing and payment of the loans is adversely affected by any of the risks described in this section, then the payments on the issuer notes could be reduced or delayed.

**The portfolio may be subject to geographic concentration risks**

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, a concentration of the loans in such a region may be expected to exacerbate all of the risks relating to the loans described in these risk factors. The economy of each geographic region within the United Kingdom is dependant on different mixtures of industries and other factors. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of 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 issuer notes.

**The occurrence of an asset trigger event or the service of a note acceleration notice on the issuer or the service of an intercompany loan acceleration notice on Funding 1 may accelerate the repayment of certain issuer notes and/or delay the repayment of other issuer notes**

If an asset trigger event has occurred and/or an intercompany loan acceleration notice has been served on Funding 1, then the mortgages trustee will distribute principal receipts on the loans to Funding 1, any further Funding company and the seller proportionally based on their percentage shares of the trust property. Funding 1 will, on each Funding 1 interest payment date following the occurrence of an asset trigger event or the service of an intercompany loan acceleration notice on Funding 1, apply those principal receipts received by it from the mortgages trustee after making higher ranking payments to repay the issuer intercompany loan and each new issuer intercompany loan (if any) in proportion to the outstanding principal amount of the relevant intercompany loan.

If a note acceleration notice is served on the issuer, then all amounts will then be due and payable on the issuer notes.

The occurrence of a trigger event, the service of an intercompany loan acceleration notice on Funding 1 or the service of a note acceleration notice on the issuer will result in the issuer receiving amounts on the issuer intercompany loan sooner than expected and paying out amounts on the issuer notes on an accelerated basis.

Following the occurrence of an asset trigger event, the service of a note acceleration notice on the issuer or the service of an intercompany loan acceleration notice on Funding 1, the principal repayments of the issuer intercompany loan which are available for payment to noteholders on each interest payment date shall be applied to repay the class A issuer notes, in no order of priority among them but in proportion to the respective amounts due on the class A issuer notes, until their principal amounts outstanding have been reduced to zero, then the class B issuer notes, until their principal amount outstanding has been reduced to zero and finally the class Z issuer notes, until their principal amount outstanding has been reduced to zero. As the priority of payment of principal in respect of the class A1 issuer notes and the class A2 issuer notes rank equally after the occurrence of an asset trigger event, the service of a note acceleration notice on the issuer or the service of an intercompany loan acceleration notice on Funding 1, and as repayments of principal in these circumstances will not be limited to or controlled by the restriction on the redemption of the class A2 issuer notes until all of the class A1 issuer notes have been redeemed in full, this may result in the class A2 noteholders being repaid more rapidly than if an asset trigger event or the service of a note acceleration notice on the issuer or the service of an intercompany loan acceleration notice on Funding 1 had not occurred, and may result in the class A1 noteholders being repaid less rapidly than if a note acceleration notice on the issuer or an intercompany loan acceleration notice on Funding 1 had not been served.

**The occurrence of a non-asset trigger event may accelerate the repayment of certain issuer notes and/or delay the repayment of other issuer notes**

If a non-asset trigger event has occurred and until the occurrence of an asset trigger event, the mortgages trustee will distribute all principal receipts to Funding 1 and any further Funding company until the Funding 1 share percentage and the share percentage attributable to each such further Funding company of the trust property are each zero and will, thereafter, apply all principal receipts to the seller. Funding 1 will, on each Funding 1 interest payment date following the occurrence of a non-asset trigger event, apply these principal receipts received by it from the mortgages trustee after making higher ranking payments to repay the issuer intercompany loan and each new issuer intercompany loan (if any) in proportion to the outstanding principal amount of the relevant intercompany loan.

Following the occurrence of a non-asset trigger event, the issuer will apply the principal repayments of the issuer intercompany loan which are available for payment to noteholders on each interest payment date to repay the class A1 issuer notes prior to repayment of the class A2 issuer notes, the class B issuer notes and the class Z issuer notes until their principal amounts outstanding have been reduced to zero, then the class A2 issuer notes prior to repayment of the class B issuer notes and the class Z issuer notes until their principal amounts outstanding have been reduced to zero, then the class B issuer notes prior to repayment of the class Z issuer notes until their principal amounts outstanding have been reduced to zero and, finally, the class Z issuer notes until their principal amount outstanding has been reduced to zero.

**In certain circumstances, loans subject to product switches and further advances will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans and this may affect the yield to maturity of your issuer notes**

Loans subject to product switches and further advances will only be repurchased if: (i) as at the date of such product switch or further advance, the relevant loan does not materially comply with the representations and warranties set out in the mortgage sale agreement; and/or (ii) as of the next following trust calculation date, the relevant loan will not comply with the conditions precedent applicable to such loan, as described below in “**Summary of the transaction documents – The mortgage sale agreement – Conditions for product switches and further advances**”. If the seller is required to repurchase any such loans and their related security from the mortgages trustee, the repurchase price will be equal to their current balance on the date of such further advance or product switch being made. Other than as described above, the seller is entitled but not obliged to remove any loans that are subject to further advances and/or

product switches. If the seller repurchases any such loans and their related security from the mortgages trustee, the repurchase price will be equal to the current balance of those loans at the date of such further advance (including the amount of the further advance).

See further “**Summary of the transaction documents – The mortgage sale agreement – Product switches and further advances**” below as to the circumstances in which a loan will be subject to a product switch or further advance.

The yield to maturity of your issuer notes may be affected by the repurchase of loans subject to product switches or further advances.

**Portable loans will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans and this may affect the yield to maturity of your issuer notes**

Portable loans will be repurchased if the borrower transfers the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period, as described in “**Summary of the transaction documents – The mortgage sale agreement – Repurchase of loans under a mortgage account**”. If the seller is required to repurchase any such portable loans and their related security from the mortgages trustee, the repurchase price will be equal to the current balance of those loans on the London business day immediately following the transfer date.

The yield to maturity of your issuer notes may be affected by the repurchase of portable loans.

**Ratings assigned to your rated issuer notes may be lowered or withdrawn after you purchase the issuer notes, which may lower the market value of your issuer notes**

The ratings assigned by Moody's, S&P and Fitch to any class of rated issuer notes address the likelihood of full and timely payment to noteholders of all payments of interest on each interest payment date under that class of rated issuer notes in accordance with the terms of the issuer transaction documents and the conditions of the rated issuer notes. The ratings also address the likelihood of “ultimate” payment of principal by the final maturity date of each class of rated issuer notes. The ratings assigned by Moody's to each class of rated issuer notes address the expected loss in proportion to the initial principal amount of such class and express Moody's opinion that the structure allows for timely payment of interest and ultimate payment of principal at par on or before the final maturity date. The expected ratings of each class of rated issuer notes on the closing date are set out in “**Ratings of the rated issuer notes**”. Any rating agency may lower, qualify or withdraw its rating if, in the sole judgment of the rating agency, the credit quality of the rated issuer notes has declined or is in question. If any rating assigned to the rated issuer notes then outstanding is lowered, qualified or withdrawn, the market value of such issuer notes may be reduced.

**Ratings confirmation in respect of issuer notes**

The terms of certain transaction documents require the rating agencies to confirm that certain action proposed to be taken by the mortgages trustee, the Funding 1 security trustee, the issuer security trustee, the note trustee, Funding 1, a further Funding company, the issuer or any new issuer, will not have an adverse effect on the then current rating of the rated notes (a **ratings confirmation**).

By acquiring the issuer notes, you acknowledge and agree that notwithstanding the foregoing, a credit rating is an assessment of credit risk and does not address other matters that may be of relevance to you. The transaction documents provide that none of the Funding 1 secured creditors, the issuer secured creditors (including the noteholders), the mortgages trustee, the Funding 1 security trustee, the issuer security trustee, the note trustee or any other person whether by way of contract or otherwise shall acquire any actual or contingent rights against any rating agency (nor shall any rating agency assume any actual or contingent liability to any of the Funding 1 secured creditors, the issuer secured creditors (including the noteholders), the mortgages trustee, the Funding 1 security trustee, the issuer security trustee or the note trustee), notwithstanding the fact that any of the Funding 1 security trustee, the issuer security trustee and note trustee may be entitled to assume that any matter or event is not materially prejudicial to the interests of any class of noteholders if any rating agency has confirmed that the then current rating of a relevant class of issuer notes would not be adversely affected by such matter or event.

Any such ratings confirmation may or may not be given at the sole discretion of each rating agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a rating agency cannot provide a ratings confirmation in the time available or at all, and the rating agency should not be responsible for the consequences thereof. A ratings confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the issuer notes form part since the closing date. A ratings confirmation represents only a restatement of the opinions given, and cannot be construed as advice for the benefit of any parties to the transaction.

If a ratings confirmation is a condition to any action or step under any transaction document and a written request for such confirmation or response is delivered to each rating agency by the issuer and Moody's indicates that it does not consider such confirmation or response necessary in the circumstances, or within 30 days of delivery of such request, gives no confirmation or response and/or such request elicits no statement by Moody's that such confirmation or response could not be given and S&P and Fitch each gives such a confirmation or response based on the same facts, then such condition shall be deemed to be modified with respect to the facts set out in the request so that there shall be no requirement for the confirmation or response from Moody's.

### **Subordination of other note classes may not protect you from all risk of loss**

The class B issuer notes and the class Z issuer notes are subordinated in right of payment of interest to the class A issuer notes. The class Z issuer notes are subordinated in right of payment of interest to the class B issuer notes. However, there is no assurance that these subordination rules will protect the class A noteholders from all risks of loss or the class B noteholders from all risk of loss. If the losses borne by the class Z issuer notes and the class B issuer notes are in an amount equal to the aggregate principal amount outstanding of the class Z issuer notes and the class B issuer notes, then losses on the loans will thereafter be borne by the class A issuer notes at which point there will be an asset trigger event. Similarly, if the losses borne by the class Z issuer notes are in an amount equal to the aggregate principal amount outstanding of the class Z issuer notes, then losses on the loans will thereafter be borne by the class B issuer notes.

### **Subordination of class Z issuer notes**

In addition to the class Z issuer notes being subordinated to the class B issuer notes and the class A issuer notes, the class Z issuer notes are also subordinated in right of payment of interest to the replenishment of the issuer reserve ledger and (if established) the issuer liquidity reserve ledger to the extent that the amounts standing to the credit thereof are less than the issuer reserve required amount and the issuer liquidity reserve required amount, respectively. If the issuer does not receive sufficient funds to enable it to make required payments on the issuer rated notes, the issuer reserve fund and the issuer liquidity reserve fund (if established), the class Z noteholders may incur a loss of interest which would otherwise be due and payable on the class Z issuer notes.

### **You may not be able to sell your issuer notes**

There currently is no secondary market for your issuer notes. Accordingly, no assurance can be given as to the development or liquidity of any market for the issuer notes. If no secondary market develops, you may not be able to sell your issuer notes prior to maturity.

### **Over-supply in the secondary market may adversely affect the market value of your issuer notes**

The securitisation markets are currently experiencing disruptions resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. These conditions may continue or worsen in the future.

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 the ability of investors to sell, and/or the price they receive for, issuer notes in the secondary market. As a result, the secondary market for mortgage-backed securities, such as the issuer notes, is experiencing, and may continue to experience limited liquidity which has had, and may continue to have, an adverse effect on the market value of mortgage-backed securities.

Over-supply in the secondary market may continue to have an adverse effect on the market value of mortgage-backed securities, with especially high volatility in 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, the market value of the issuer notes are likely to fluctuate. Any of these fluctuations may be significant.

### **Continuing increases in prevailing market interest rates may adversely affect the performance and market value of your issuer notes**

Over the past two years and as a result of, among other things, increases in the Bank of England base rate, there has been a pattern of rising mortgage interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid these increased monthly payments 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.

### **Further deterioration in wholesale funding markets may have an adverse effect on Alliance & Leicester**

Alliance & Leicester, as sponsor of the transaction, depends upon access to wholesale funding sources (including accessing the international debt capital markets) for around 50 per cent. of its funding requirements. Since the beginning of August 2007, these wholesale funding markets have experienced disruption. Such disruptions have resulted in an increase in the cost of Alliance & Leicester's funding. However, during this period, Alliance & Leicester has continued to manage its funding requirements successfully through a combination of raising new funds or rolling over existing funding as it matures. As at the end of October 2007, 57 per cent. of its loans and advances were funded by customer deposits.

In recognition of the current market conditions, Alliance & Leicester have put in place additional funding facilities, a significant proportion of which are backed by Alliance & Leicester residential mortgage assets. As a result, maturing medium term funding, commercial paper and certificates of deposits have been pre-funded into the third quarter of 2008. In 2008, asset growth is expected to be primarily funded through higher customer deposit balances.

If wholesale funding markets deteriorate further, it may have an adverse effect on Alliance & Leicester (acting in its capacities as servicer, cash manager, issuer cash manager, Funding 1 swap provider, issuer swap providers, Funding 1 account bank, mortgages trustee account bank, issuer account bank and the secretarial services provider). Additionally, Alliance & Leicester, as seller of the mortgage loans to the mortgages trust, is obliged under certain limited circumstances to repurchase mortgage loans from the mortgages trustee that are in breach of the warranties made by the seller in the mortgage sale agreement. If Alliance & Leicester is unable to repurchase mortgage loans or perform its ongoing obligations under the transaction, the performance of the issuer notes may be adversely affected. There can be no assurance that the wholesale funding markets will not deteriorate further.

### **The mortgages trustee account bank, the Funding 1 account bank or the issuer account bank may cease to satisfy certain criteria, which may adversely affect the rate of interest receivable on the mortgages trustee GIC account, the Funding 1 GIC account or the issuer GIC account**

Each of the mortgages trustee account bank, the Funding 1 account bank and the issuer account bank is required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSA from time to time) in order to continue to receive deposits in the mortgages trustee GIC account, the Funding 1 GIC account and the issuer GIC account, respectively. If any of the mortgages trustee account bank, the Funding 1 account bank or the issuer account bank ceases to satisfy those criteria, the relevant account would need to be transferred to another entity which does satisfy those criteria. In these circumstances, the new account bank provider may not offer an interest rate on deposits in the mortgages trustee GIC account, the Funding 1 GIC account or the issuer GIC account on terms as favourable as those provided by the mortgages trustee account bank, the Funding 1 account bank or the issuer account bank, respectively.

### **Risks associated with the Funding 1 swap**

Certain of the loans in the initial portfolio may pay a variable rate of interest for a period of time that may be linked to the seller variable rate or linked to an interest rate other than the seller variable rate, such as a rate offered by a basket of UK mortgage lenders or a rate that tracks the Bank of England base rate. Other loans pay a fixed rate of interest for a period of time. Funding 1 will receive interest on the variable rate loans based on the seller variable rates.

To provide a hedge against the rates of interest payable on the loans in the initial portfolio and the rate of interest payable by Funding 1 on the issuer loan tranches under the issuer intercompany loan agreement, Funding 1 will enter into the Funding 1 swap agreement on the closing date. If Funding 1 fails to make timely payments under the Funding 1 swap, it will have defaulted under the Funding 1 swap.

The Funding 1 swap provider is obliged only to make payments under the Funding 1 swap if and for so long as Funding 1 makes payments under the same. If the Funding 1 swap provider is not obliged to make payments, or defaults in its obligation to make payments under the Funding 1 swap, Funding 1 will be exposed to the variance between the rates of interest payable on the loans and the rate of interest payable by it on the issuer loan tranches under the issuer intercompany loan agreement unless a replacement Funding 1 swap is entered into. If the Funding 1 swap terminates, Funding 1 may as a result be obliged to make a termination payment to the Funding 1 swap provider. Any variance between the rates of interest payable on the loans and the rate of interest payable by Funding 1 under the issuer intercompany loan and any termination payment payable by it to the Funding 1 swap provider may adversely affect the ability of Funding 1 to meet its obligations under the issuer intercompany loan.



### **You may be subject to exchange rate risks on the class A1 issuer notes and the class A2 issuer notes**

Investors will pay for the class A1 issuer notes and the class A2 issuer notes in euro but the corresponding issuer loan tranches to be made by us under the issuer intercompany loan to Funding 1 and repayments of principal and payments of interest by Funding 1 to us under such loan tranches will be in sterling.

To hedge our currency exchange rate exposure (including the possible variance between a LIBOR-based rate for three-month sterling deposits applicable to such loan tranches and a EURIBOR-based rate for three-month euro deposits applicable to the class A1 issuer notes and the class A2 issuer notes), we will enter into issuer swap agreements for the class A1 issuer notes and the class A2 issuer notes with the issuer (class A1) swap provider and the issuer (class A2) swap provider, respectively, (see "**Summary of the transaction documents – Swap agreements – Issuer swap agreements**" below).

If we fail to make timely payments of amounts due under any issuer euro currency swap, then we will have defaulted under that issuer euro currency swap. An issuer swap provider is obliged only to make payments under an issuer euro currency swap so long as we make payments under the same. An issuer default under one of the issuer euro currency swaps will not, in itself, cause an issuer default under the other issuer euro currency swap. If an issuer swap provider is not obliged to make payments, or if it defaults in its obligations to make payments of amounts in euro equal to the full amount to be paid by it under an issuer euro currency swap on the payment dates thereunder (which are the same dates as the interest payment dates in respect of the issuer notes), we will be exposed to changes in euro/sterling currency exchange rates and in the possible variance between a LIBOR-based rate for three-month sterling deposits and a EURIBOR-based rate for three-month euro deposits.

### **The issuer relies on third parties to provide services in relation to the issuer notes, and you may be adversely affected if they fail to perform their obligations**

The issuer is a party to contracts with a number of third parties that have agreed to provide services in relation to its issuer notes. For example, the issuer corporate services provider has agreed to provide corporate services and the paying agent and, the agent bank have agreed to provide payment and calculation services in connection with the issuer notes. In the event that any of these parties were to fail to perform their obligations under the issuer transaction documents to which they are a party, you may be adversely affected.

### **Excess revenue receipts may not be sufficient to replenish principal that has been used to pay interest, which may result in your issuer notes not being repaid in full**

If, on any interest payment date, issuer available revenue receipts are insufficient to enable us to pay interest on the issuer notes and our other expenses ranking in priority to interest due on the issuer notes, then we may use issuer available principal receipts to make up that revenue shortfall but only in respect of the rated issuer notes.

During the term of the transaction, however, it is expected that these principal deficiencies will be recouped from subsequent excess issuer available revenue receipts. However, if subsequent excess issuer available revenue receipts are insufficient to recoup those principal deficiencies, then you may receive later than anticipated, or you may not receive in full, repayment of the principal amount outstanding on your issuer notes.

For more information on principal deficiencies, see "**Credit Structure - Issuer principal deficiency ledger**".

### **The seller share does not provide credit enhancement for your issuer notes**

Any losses from loans included in the trust property will be allocated to the Funding companies and the seller proportionally on each distribution date in accordance with the Funding 1 share percentage, the share percentage of any further Funding companies and the seller share percentage of the trust property. Therefore, neither the seller share nor the share of any further Funding company provide credit enhancement for the issuer notes.

### **The issuer will only have recourse to the seller if there is a breach of warranty by the seller, but otherwise the seller's assets will not be available to the issuer as a source of funds to make payments on the issuer notes**

After enforcement of the Funding 1 security as a result of delivery of an intercompany loan acceleration notice under any of the intercompany loans (as described below in "**Summary of Transaction Documents – Funding 1 deed of charge**"), the Funding 1 security trustee may, but shall not be obliged to, sell the Funding 1 share of the trust property. There is no assurance that a buyer would be found or that such a sale would realise enough money to repay amounts due and payable under the intercompany loan agreements.

None of the issuer, Funding 1 or the mortgages trustee will have recourse to the seller, other than in respect of a breach of warranty under the mortgage sale agreement.

The issuer, the mortgages trustee, Funding 1, the note trustee, the issuer security trustee and the Funding 1 security trustee will not undertake any investigations, searches or other actions on any loan or its related security and each of them will rely instead on the representations and warranties given in the mortgage sale agreement by the seller.

If any of the representations and warranties made by the seller (a) in the case of each loan in the portfolio, was materially untrue on the date that loan was sold to the mortgages trustee or (b) in the case of each new loan, is materially untrue on the date that new loan is sold to the mortgages trustee, then the seller will be required to remedy the breach within 20 London business days of the seller becoming aware of the same or of receipt by it of a notice from the mortgages trustee.

If the seller fails to remedy the breach within 20 London business days, then the seller will be required to repurchase the loan or loans under the relevant mortgage account and their related security on the immediately following trust calculation date at their current balance as of the date of repurchase. There can be no assurance that the seller will have the financial resources to repurchase the loan or loans under the relevant mortgage account and their related security. However, if the seller does not repurchase those loans and their related security when required, then the seller share of the trust property will be deemed to be reduced by an amount equal to the outstanding principal balance of those loans.

Other than as described here, neither you nor the issuer will have any recourse to the assets of the seller.

**There can be no assurance that a borrower will repay principal at the end of the term on an interest-only loan, which may adversely affect repayments on your issuer notes**

Each loan in the initial portfolio is repayable either on a principal repayment basis or an interest-only basis or on a combination repayment and interest-only basis. For interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the borrower is required to put in place and maintain a suitable investment arrangement, such as a savings policy plan or any appropriate or suitable investment plan to ensure that funds will be available to repay the principal at the end of the term. The seller does not verify that an investment vehicle is in place and does not take security over these investment vehicles. The borrower is also recommended to take out a life insurance policy in relation to the loan but, as with investment arrangements, the seller does not take security over these life insurance policies or verify that they are in place.

The ability of a borrower to repay the principal on an interest-only loan at maturity depends on the borrower ensuring that sufficient funds are available from an investment arrangement or another source, such as ISAs, pension policies, personal equity plans or endowment policies, as well as the financial condition of the borrower, tax laws and general economic conditions at the time.

The proceeds from an investment plan or other investment arrangement may be insufficient to cover the repayment of principal of the loan. There can be no assurance that a borrower will have the funds required to repay the principal at the end of the term. If a borrower cannot repay the loan and a loss occurs on the loan, then this may affect repayments of principal on the issuer notes if the portion of that loss allocated to the issuer cannot be cured by application of excess issuer available revenue receipts.

**There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your issuer notes**

The sale by the seller to the mortgages trustee of the English loans and the Northern Irish loans and their related security will (until legal title is conveyed) take effect in equity only. The sale by the seller to the mortgages trustee of the Scottish loans and their related security will (until legal title is conveyed) be given effect by a Scottish declaration of trust by the seller in favour of the mortgages trustee by which the beneficial interest in the relevant Scottish loans and their related security will be transferred to the mortgages trustee. In each case this means that legal title to the loans in the trust property remains with the seller, but the mortgages trustee has all the other rights and benefits relating to ownership of each loan and its related security (which rights and benefits are subject to the mortgages trust in favour of the beneficiaries). The mortgages trustee has the right to demand that the seller give it legal title to the loans and the related security in the circumstances described below in “**Summary of the transaction documents – The mortgage sale agreement – Transfer of legal title to the mortgages trustee**”. Until then no notice of the sale of the English loans and their related security, the Northern Irish loans and their related security or the Scottish loans and their related security will be given to any borrower or application made to the Land Registry of England and Wales or the Central Land Charges Registry of England and Wales to register or record its equitable interest in the English loans and their related security or to the Land Registry or the Registry of Deeds of Northern Ireland to register or record its equitable interest in the Northern Irish loans and their related security or steps taken to complete or perfect its title to the Scottish loans and their related security. For more information on the Scottish loans and their related security, see “**Material legal aspects of the loans and their related security – Scottish loans**” below.

Because the mortgages trustee has not obtained legal title to the loans or their related security, there are the following risks to the trust property:

- firstly, if the seller wrongly sold a loan to another person which has already been sold to the mortgages trustee, and that person acted in good faith and did not have notice of the interests of the mortgages trustee or the beneficiaries in the loan, then she or he might obtain good title to the loan, free from the interests of the mortgages trustee and the beneficiaries. If this occurred, then the mortgages trustee would not have good title to the affected loan and its related security and it would not be entitled to payments by a borrower in respect of that loan. This may affect the ability of the issuer to make payments on the issuer notes; and
- secondly, the rights of the mortgages trustee and the beneficiaries may be subject to the rights of the borrowers against the seller, such as the rights of set-off (see in particular “– **Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your issuer notes**” below) which occur in relation to transactions or deposits made between some borrowers and the seller, and the rights of borrowers to redeem their mortgages by repaying the loans directly to the seller. If these rights are exercised, the mortgages trustee may receive less money than anticipated from the loans, which may affect the ability of the issuer to make payments on the issuer notes.

However, if a borrower exercises any set-off rights, then an amount equal to the amount set off will reduce the total amount of the seller share of the trust property only, and the minimum seller share has been sized in an amount expected to cover this risk, although there can be no assurance that it will. If the minimum seller share is exhausted, then the amount of any set-offs would be applied to reduce the share of the trust property of each Funding company in accordance with its share of the trust.

Once notice has been given to borrowers of the transfer of the loans and their related security to the mortgages trustee, independent set-off rights which a borrower has against the seller will crystallise (such as, for example, set-off rights associated with borrowers holding deposits with the seller) and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under transaction set-off (which are set-off claims arising out of a transaction connected with the loan) will not be affected by that notice.

#### **Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your issuer notes**

As described in “– **There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your issuer notes**” above, the seller has made, and in the future may 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 mortgages trustee, with legal title being retained by the seller. Therefore, the rights of the mortgages trustee 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 and Northern Ireland) may occur if, for example, the seller fails to advance to a borrower a 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 drawing, then the relevant borrower may set-off any damages claim (or analogous rights in Scotland and Northern Ireland) 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 mortgages trustee'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 as described in the immediately preceding risk factor.

The amount of the claim in respect of a 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 is entitled to set-off the full amount of any failed drawing. 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 analogous rights in Scotland and Northern Ireland). 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 mortgages trustee during the exercise. However, the amounts set-off will be applied to reduce the seller share of the trust property only.

Further, there may be circumstances in which:

- a borrower might seek to argue that any loan or further advance is wholly or partly unenforceable by virtue of non-compliance with the Consumer Credit Act 1974 as amended (CCA); or
- security for certain drawings may rank behind security created by a borrower after the date upon which the borrower entered into its mortgage with the seller.

**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 your issuer notes**

On the closing date, Alliance & Leicester will be appointed by the mortgages trustee and Funding 1 as servicer to service the loans in the initial portfolio. If the servicer breaches the terms of the servicing agreement, then the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and/or any further Funding security trustee, will be entitled to terminate the appointment of the servicer and appoint a new servicer in its place.

None of the Funding 1 security trustee, the issuer security trustee or the note trustee is obliged to or will act as servicer.

There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties 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 would be required to be authorised under the FSMA as mortgage administration is a regulated activity. The ability of a substitute servicer to perform fully 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 issuer notes.

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

**Funding 1 may not receive the benefit of any claims made on the buildings insurance, which could adversely affect payments on your issuer notes**

The practice of Alliance & Leicester, as originator, in relation to buildings insurance is described below under “**The loans – Characteristics of the loans – Insurance policies**”. As described in that section, no assurance can be given that Funding 1 will always receive the benefit of any claims made under any applicable insurance contracts. This could reduce the principal receipts allocated to Funding 1 and could adversely affect the issuer's ability to redeem the issuer notes.

**Certain Regulatory Considerations**

***Consumer Credit Act and reform***

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 actions when necessary with regard to the mortgage market in the United Kingdom (except to the extent of the regulation of the market by the FSA under the FSMA, as described under “– **Mortgage Regulation**” below). The licensing regime under the CCA is different from, and additional to, the regime for authorisation under the FSMA.

Currently, a credit agreement is regulated by the CCA where: (a) the borrower is or includes an "individual" as defined in the CCA; (b) 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 loan or further advance might be wholly or partly regulated by the CCA or be treated as such because of technical rules on:

- determining whether any credit under the CCA arises or whether the financial limit of the CCA is exceeded;
- determining whether the credit agreement is an exempt agreement under the CCA (for example, certain types of credit agreement to finance the purchase of, or alteration to, homes or business premises or regulated mortgage contracts under the FSMA (as described under “– **Mortgage Regulation**” below)); or
- changes to credit agreements.

Any credit agreement that is wholly or partly regulated by the CCA or is to be treated as such has to comply with requirements under the CCA as to licensing of lenders and brokers, documentation and 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 requirements as to licensing of lenders and brokers are not met at the relevant time; (b) totally, if the credit agreement is made before 6 April 2007 and if the form to be signed by the borrower is not signed by the borrower personally 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 by the lender.

The seller will provide no representation and warranty under the mortgage sale agreement as to the enforceability in relation to any loan which relates to any cash withdrawals and any other further advance made pursuant to an agreement regulated by the CCA which is not enforceable by virtue of the CCA. However the minimum seller share will be calculated to include an amount referable to the aggregate current balance of all cash withdrawals made by borrowers under flexible loans in the trust property and all further advances under the loans in the trust property, that are regulated by the CCA, to mitigate the risks relating to such withdrawals and other further advances being unenforceable by virtue of the CCA against the borrower without an OFT or court order or being totally unenforceable under the CCA.

A court order under Section 126 of the CCA is necessary to enforce a mortgage (including, in Scotland, a standard security) securing a loan or further advance to the extent that it is regulated by the CCA or to be treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend a loan 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: (a) 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; and (b) the lender has a statutory indemnity from the supplier 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 that the borrower has taken. Any such set-off may adversely affect the issuer's ability to make payments on the issuer notes.

In December 2003, the UK Department for Business, Enterprise and Regulatory Reform (the **DBERR**), formerly known as the Department of Trade and Industry, published a White Paper proposing amendments to the CCA and to secondary legislation made under it. The Consumer Credit Act 2006 (the **CCA 2006**) was enacted on 30 March 2006. As and when implemented, the CCA 2006 updates and augments the CCA.

The "extortionate credit" regime has been replaced by an "unfair relationship" test. The new test applies to credit agreements made on or after 6 April 2007, and will apply retrospectively to existing credit agreements on and after 6 April 2008. The new test explicitly imposes liability to repay the borrower on both the originator and any assignee, such as the mortgages trustee. In applying the new 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. However, the word "unfair" is not an unfamiliar term in United Kingdom legislation, due to the Unfair Contract Terms Act 1977, the Unfair Terms in Consumer Contracts Regulations 1994 and the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA principles for business 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 borrower alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary.

An alternative dispute resolution scheme for consumer credit matters is run by the Ombudsman (as described below). From 6 April 2007, the scheme is mandatory for all businesses licensed under the CCA. The CCA 2006 also introduces an independent Consumer Credit Appeals Tribunal.

The DBERR has indicated that, from 6 April 2008, the statutory upper financial limit of £25,000 for CCA regulation will be removed, thereby widening the scope of the CCA's regulation. In December 2007, the DBERR published a draft Legislative and Regulatory Reform Order for consultation to remove buy-to-let loans made on or after 1 October 2008 from the scope of the CCA's regulation. It is expected that the £25,000 limit will be retained for buy-to-let loans for a transitional period to 1 October 2008.

The OFT is given far broader powers under the CCA 2006. For instance, it will be able to apply civil penalties, will have far greater powers of investigation and be able to issue indefinite standard licences. The CCA 2006 obliges creditors to comply with more stringent information requirements. Regulations have been made so that, from 1 October 2008, lenders will be obliged to give customers clearer and more regular information on their credit accounts.

These changes to the CCA may adversely affect the issuer's ability to make payments in full when due on the issuer notes.

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 the Ombudsman, 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.

Under the mortgage sale agreement, the seller will be obliged to repurchase (subject to certain exceptions) any loan that is wholly or partly regulated or to be treated as such under the CCA if a court or other competent authority or any Ombudsman makes any determination that such loan was not originated in compliance with the CCA and in respect of which it has no jurisdiction or refuses to make an enforcement order.

### ***Mortgage Regulation***

Mortgage lending in the United Kingdom became a regulated activity under the FSMA on 31 October 2004 (the date known as **N(m)**).

Certain provisions of the FSMA apply to a regulated mortgage contract. A loan contract will be a **regulated mortgage contract** under the FSMA if it is originated on or after N(m) or originated prior to N(m) but varied on or after N(m) such that a new contract is entered into and if, at the time it is entered into: (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, in Scotland, a first-ranking standard security) on land (other than timeshare accommodation) in the United Kingdom; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person. Therefore, the FSMA does not apply to a mortgage contract that is secured by a second or subsequent legal charge (or, in Scotland, a second or subsequent ranking standard security) or is provided to a corporate body. The CCA may apply to loans entered into on or after N(m), where the loan does not satisfy the definition of a regulated mortgage contract but does fall within the criteria for regulation under the CCA as described above in this risk factor.

On and from N(m), subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised by the FSA under the FSMA. The specified activities currently are: (a) entering into a regulated mortgage contract as lender; (b) administering a regulated mortgage contract (**administering** in this context means notifying borrowers of changes in mortgage payments and/or collecting payments due under the loan); (c) advising in respect of regulated mortgage contracts; or (d) arranging in respect of regulated mortgage contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to, *inter alia*, authorisation of lenders and brokers are not complied with, a regulated mortgage contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. The regime under the FSMA regulating financial promotions covers the content and manner of promotion of agreements relating to qualifying credit and by whom such promotions can be issued or approved. In this respect, the FSMA regime not only covers financial promotions of regulated mortgage contracts but also promotions of certain other types of secured credit agreements under which the lender is a person who carries on the regulated activity of entering into a regulated mortgage contract. Failure to comply with this regime is a criminal offence and will render the regulated mortgage contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

An unauthorised person who carries on a regulated mortgage-related activity of administering a regulated mortgage contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower. The mortgages trustee does not need to be an authorised person under the FSMA in order to acquire legal or beneficial title to a regulated mortgage contract. The mortgages trustee will not carry on the regulated activity of administering in relation to regulated mortgage contracts, where such contracts are administered pursuant to an administration agreement by an entity having the required FSA authorisation and permission. If such administration agreement terminates, however, the mortgages trustee will have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement administrator having the required FSA authorisation and permission. In addition, on and from N(m), no variations may be made to the loans and no cash withdrawals or other further advances or product switches may be made under the loans where this would result in the mortgages trustee arranging, advising on, administering or entering into, a regulated mortgage contract or agreeing to carry on any of these activities, if the mortgages trustee would be required to be authorised under the FSMA to do so. Pursuant to the servicing agreement, the servicer administers the loans and the servicer has FSA authorisation and permission to do so.

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 its 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 is 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 Northern Ireland or Scotland). Any such set-off may adversely affect the issuer's ability to make payments on the issuer notes.

So as to avoid dual regulation, it is intended that regulated mortgage contracts will not be regulated by the CCA, and relevant regulations 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. In November 2007, HM Treasury and the DBERR published a joint consultation on additional clarification on the question of dual regulation. A court order under Section 126 of the CCA is, however, in any event necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a regulated mortgage contract to the extent that it would, apart from the exemption referred to above, be regulated by the CCA or be treated as such.

As some of the loans to be included in the portfolio were offered on or after N(m), the FSMA regime as set out above is intended to apply to such loans (except all or most buy-to-let loans). Also, although other loans to be included in the initial portfolio were offered prior to N(m), as subsequent further advances and product switches relating to such loans were documented as variations to the existing agreements, it is possible that a court could hold that such variations create a regulated mortgage contract. Thus the seller will give warranties to the mortgages trustee and others in the mortgage sale agreement that, *inter alia*, each loan is enforceable (subject to certain exceptions). If a loan does not comply with these warranties, and if the default is not cured, then the seller will, upon receipt of notice from the mortgages trustee, be required to repurchase the loan.

It should be noted that, prior to 31 October 2004, there was only self-regulation of mortgage business in the UK under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The seller subscribed to the CML Code from its inception on 1 July 1997. Membership of the CML and compliance with the CML Code were voluntary, although it was a condition of CML membership that lenders subscribed to the CML Code. The CML Code set out a minimum standard of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. From 30 April 1998 until 31 October 2004, lender-subscribers to the CML Code could not accept mortgage business introduced by intermediaries who were not registered with the Mortgage Code Register of Intermediaries and, subsequently, its successor, the Mortgage Code Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, namely the Banking Ombudsman Scheme, the Mortgage Code Arbitration Scheme and the Financial Ombudsman Service, as applicable. The CML Code ceased to have effect on 31 October 2004 when the FSA assumed responsibility for the regulation of regulated mortgage contracts.

### ***Proposed Consumer Credit Directive***

In September 2002, the European Commission published a proposal for a Directive of the European Parliament and of the Council on consumer credit. The proposal as originally drafted applied to certain mortgage products. This proposal, and an amended proposal published in October 2004, were met with significant opposition. In October 2005, the European Commission published a further amended form of the proposed Directive, which provides that (subject to certain exceptions) loans not exceeding €50,000 will be regulated, but that loans secured by a land mortgage will be excluded from the proposed Directive. The proposed Directive is expected to continue its second reading in the European Parliament in January 2008. When the proposed directive is adopted, member states will then have a further two years in which to bring implementing legislation into force. The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010 and its view that it is too early to decide on whether a mortgage directive would be appropriate.

Until the final text of the Directive and of any initiatives resulting from the White Paper process are decided and the details of the United Kingdom implementing legislation are published, it is not certain what effect the adoption and implementation of the Directive or initiatives will have on the loans, the seller, the mortgages trustee and/or the servicer and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full on the issuer notes when due.

### ***Distance Marketing***

In the United Kingdom, 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 United Kingdom lender from an establishment in the United Kingdom, will not be cancellable under these regulations. Any other credit agreement will 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. The borrower may

send notice of cancellation under these regulations at any time before the end of the 14th day after the day on which the cancellable agreement is made 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 notice of cancellation or, if later, the lender 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 is to be treated as never having had effect in respect of the cancelled agreement.

### ***Non-Status Lending Guidelines for lenders and brokers***

On 18 July 1997, the OFT issued Non-Status Lending Guidelines for lenders and brokers, which were revised in November 1997. These guidelines apply to all residential mortgage loans made to non-status borrowers, which are defined for the purposes of these guidelines as individuals with a low or impaired credit rating. These guidelines regulate the activities of lenders in areas such as advertising and marketing, loan documentation and contract terms, the relationship between lenders and brokers, selling methods, underwriting, dual interest rates and early repayment charges. None of the loans in the initial portfolio has been made to non-status borrowers but, in any event, the seller currently complies with these guidelines.

The actions of the lender and of any broker or other intermediary involved in marketing the lender's products can jeopardise the lender's fitness to hold a consumer credit licence. These guidelines make clear that lenders must take all reasonable steps to ensure that such brokers and other intermediaries comply with the guidelines and all relevant statutory requirements, even if the lender has no formal or informal control or influence over the broker or other intermediary.

The guidelines provide that lenders must carry on responsible lending, with all underwriting decisions being subject to a proper assessment of the borrower's ability to repay, taking into account all relevant circumstances, such as the purpose of the loan, the borrower's income, outgoings, employment and credit history. Lenders must take all reasonable steps to verify the accuracy of information provided by borrowers on or in support of the loan application, and all underwriting staff must be properly trained and supervised.

Charges payable on any early repayment (in whole or in part) are also restricted under these guidelines. Part repayments must be permitted, and any early repayment charges must do no more than cover the costs reasonably incurred by the lender in processing the payments. A formula for calculating the maximum amount payable on early settlement is prescribed by the CCA and applies to the extent that a credit agreement is regulated by the CCA or to be treated as such. These guidelines state that, for other credit agreements, the then current formula prescribed by the CCA (which continues to apply until 31 May 2007 or 31 May 2010 for certain credit agreements) is unfair and oppressive, and that lenders must discontinue its use at the earliest opportunity.

No assurance can be given that additional regulations from 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 loans, the seller, the mortgages trustee and/or the servicer and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full on the issuer notes when due.

### **Regulations in the United Kingdom could lead to some terms of the loans being unenforceable, which may adversely affect payments on your issuer notes**

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, provide 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; and
- the OFT and any “qualifying body” within the UTCCR (such as the FSA) may seek to enjoin or (in Scotland) interdict a business from relying on unfair terms.

The UTCCR will not generally 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.

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 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 mortgages trustee, 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. Any such non-recovery, claim or set-off may adversely affect the issuer's ability to make payments on the issuer notes.

The division of responsibilities between the OFT and the FSA for enforcing the UTCCR is set out in concordats made between them in October 2001 and in July 2006. Generally, the FSA is responsible for enforcement of the UTCCR in relation to regulated mortgage contracts under the FSMA and other mortgage loans originated by lenders authorised by the FSA, and the OFT is responsible for enforcement of the UTCCR in other mortgage contracts.

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 contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term is 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 the 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 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 is a factor that the FSA may take into account.

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 firm may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised.

It should also be noted that, in the context of the OFT's investigation into credit card default charges, the OFT on 5 April 2006 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). The FSA has recently published the Unfair Contract Terms Regulatory Guide, which is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the UK's 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 Law Commissions have a duty under Section 3 of the UK's Law Commissions Act 1965 to keep the law under review for a number of purposes, including its simplification. 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, will affect the loans.

No assurance can be given that changes in the 1999 Regulations, if enacted, or changes to guidance on interest variation terms, if adopted, will not have a material adverse effect on the seller, the mortgages trustee, the servicer and their respective businesses and operations. This may adversely affect the ability of the issuer to make payments in full on the issuer notes when due.

### **Decisions of the Ombudsman could lead to some terms of the loans being varied, which may adversely affect payments on your issuer notes**

Under the FSMA, the Financial Ombudsman Service is required to make decisions on, *inter alia*, complaints relating to the activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all the circumstances of the case, taking into account, *inter alia*, 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, *inter alia*, the principles of fairness, 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 issuer's ability to make payments in full when due on the issuer notes.

In August 2006, the Financial Ombudsman Service, having discussed the matter with the FSA, announced that mortgage exit administration fees raised an issue with wider implications. While there is no material difference in the

way each individual case that is referred is dealt with, it should be noted that the Financial Ombudsman Service will take into account any guidance issued, or decisions made, by the FSA.

The FSA issued a statement on mortgage exit administration fees on 26 January 2007. The FSA stated that each lender had to decide by 28 February 2007 which option it would adopt for its current customers to ensure that they had a clear understanding of the fees that would be payable on exit. The FSA stated that it was unlikely to investigate further a lender that opted to apply no charge or to charge the original (or no more than the original) mortgage exit administration fee. The FSA stated that it expected lenders to treat past customers who complain about the level of the mortgage exit administration fee in the same way as the lender will treat comparable current customers. The FSA issued a follow-up communication on 19 November 2007 emphasising that the statement on mortgage exit administration fees should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges.

No assurance can be given that the option adopted by the seller could not lead to significant disruption and shortfall in the income of the issuer.

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

On 11 May 2005, the European Parliament and the Council adopted a Directive (2005/29/EC) on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, this 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, this 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 the Directive. This 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 DBERR has published consultation papers, most recently in May 2007, on implementing the Unfair Practices Directive into United Kingdom law. The FSA is taking the Unfair Practices Directive into account in reviewing its relevant rules, such as MCOB. Member states had until 12 December 2007 in which to bring national implementing legislation into force (although the United Kingdom legislation is expected to be implemented on 6 April 2008), subject to a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

It is too early to predict what effect the implementation of the Unfair Practices Directive would have on the loans and accordingly on the ability of the issuer to make payments to noteholders.

### **Potential effects of any additional regulatory changes**

No assurance can be given that changes will not be made to the regulatory regime and developments described above in respect of 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, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the seller, the mortgages trustee and/or the servicer and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full when due on the issuer notes.

### **Tax payable by Funding 1 or the issuer may adversely affect the issuer's ability to make payments on your issuer notes**

Pursuant to the Finance Act 2005, regulations have been made to establish a permanent regime for the taxation of "securitisation companies" such as Funding 1 and the issuer (the **securitisation tax regime**). For accounting periods beginning on or after 1 January 2007, companies to which the regulations apply will be taxed broadly by reference to their "retained profit" rather than by reference to their accounts. Funding 1 and the issuer should fall within the securitisation tax regime, but if either of them does not (or subsequently does not), then profits or losses could arise in Funding 1 and/or 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 treatment of Funding 1 and/or the issuer and consequently payment on the issuer notes.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), a 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. 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).

For additional disclosure in relation to the EU Savings Directive in relation to Jersey, see "**Material Jersey (Channel Islands) Tax Considerations**" below.

### **Your interests may be adversely affected by a change of law in relation to UK withholding tax**

In the event that amounts due under the issuer notes are subject to withholding or deduction for or on account of any tax, neither the issuer nor any other person will be obliged to pay additional amounts in relation thereto. The issuer may, in certain circumstances, redeem the issuer notes (as described in **condition 5.5** of the issuer notes). The applicability of any UK withholding tax under current English law is discussed under "**United Kingdom Taxation**" below.

Under current law, payments of interest and principal on the Funding 1 intercompany loan may be made by Funding 1 to the issuer free from UK withholding tax. However, if for example as a result of a change in law, such payments were required to be made subject to a withholding or deduction for or on account of any tax, Funding 1 would not be required, pursuant to the terms of the Funding 1 intercompany loan, to pay any additional amounts to the issuer with the result that the issuer's ability to make payments on the issuer notes may be adversely affected. In such circumstances, the issuer may be entitled to redeem the issuer notes (as described in **condition 5.5** of the issuer notes).

### **Your interests may be adversely affected if the United Kingdom joins the European Monetary Union**

If the United Kingdom joins the European Monetary Union prior to the maturity of the sterling issuer notes, the issuer cannot assure you that this would not adversely affect payments on the sterling issuer notes.

It is possible that, prior to the maturity of the sterling issuer notes, the United Kingdom may become a participating member state in the European 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 sterling issuer notes may become payable in euro; (b) applicable provisions of law may allow or require the issuer to re-denominate the sterling issuer notes into euro and take additional measures in respect of the sterling issuer notes; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds sterling used to determine the rates of interest on the sterling issuer 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 you. It cannot be said what effect, if any, adoption of the euro by the United Kingdom will have in relation to the sterling issuer notes.

### **Changes of law may adversely affect your interests**

The structure of the transaction described in this prospectus and the ratings of the rated issuer notes are based on English law, (in relation to the Scottish loans) Scots law and (in relation to the Northern Irish loans) Northern Irish law in effect as at the date of this document. The issuer cannot provide assurance as to the impact of any possible change to English law, Scots law or Northern Irish law or administrative practice in the United Kingdom after the date of this document.

### ***Insolvency Act 2000***

Significant changes to the United Kingdom insolvency regime have been enacted in the last seven years, including the Insolvency Act 2000. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days, for the purposes of putting together a company voluntary arrangement, with the option for creditors to extend the moratorium for a further two months. A "small" company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £5.6 million; (ii) its balance sheet total is not more than £2.8 million; and (iii) the number of employees is not more than 50. Whether or not a company is a "small" company may change from period to period and consequently no assurance can be given that the issuer, the mortgages trustee or Funding 1 will not, at any given time, be determined to be a "small" company. The United Kingdom Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of noteholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include: (i) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a capital market arrangement (as defined in the secondary legislation) under which a party has incurred or when the agreement was entered into was expected to incur a debt of at least £10 million and which involves the issue of a capital market investment (also defined, but generally, a rated, listed or traded bond); and (ii) a company which, at the time of filing for a moratorium,

has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in foreign currency) of at least £10 million. While the issuer, the mortgages trustee and Funding 1 are expected to fall within one of the exceptions, there is no guidance as to how the legislation will be interpreted, and the Secretary of State for Trade and Industry may by regulation modify the exception. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of noteholders. Correspondingly, if any of the issuer and/or the mortgages trustee and/or Funding 1 is determined to be a “small” company and is determined not to fall within one of the exceptions (by reason of modification of the exceptions or otherwise), then the enforcement of the issuer security by the issuer security trustee or the enforcement of the Funding 1 security by the Funding 1 security trustee may, for a period, be prohibited by the imposition of a moratorium.

### ***Enterprise Act 2002***

On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 came into force, amending certain provisions of the Insolvency Act 1986 (as amended, the **Insolvency Act**). These provisions introduced significant reforms to corporate insolvency law. In particular the reforms restrict the right of the holder of a floating charge created after 15 September 2003 to appoint an administrative receiver (unless an exception applies) and instead gives primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company (such as the Funding 1 security trustee under the Funding 1 deed of charge and the issuer security trustee under the issuer deed of charge) had the ability to block the appointment of an administrator by appointing an administrative receiver, who would primarily act in the interests of the floating charge holder appointing him.

The Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as the issuer security or the Funding 1 security) that form part of a capital markets arrangement (as defined in the Insolvency Act) that involves indebtedness of at least £50 million (or, when the relevant security document was entered into (being in respect of the transactions described in this document, the issuer deed of charge and the Funding 1 deed of charge), a party to the relevant transaction (such as the issuer or Funding 1) was expected to incur a debt of at least £50 million) and the issue of a capital markets investment (also defined, but generally a rated, listed or traded bond). The Secretary of State for Trade and Industry may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document, will not adversely affect payments on the issuer notes. In addition, as the provisions of the Enterprise Act have never been considered judicially, no assurance can be given as to whether the Enterprise Act could have a detrimental effect on the transaction described in this document or on the interests of noteholders.

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating charge holder, the directors or the relevant company itself. The relevant provisions provide for a notice period during which the holder of the floating charge can either appoint an administrative receiver (if an exception applies), agree to the appointment of the administrator proposed by the directors of the company or appoint an alternative administrator, although the moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating charge holder does not respond to the directors' or company's notice of intention to appoint, the directors', or, as the case may be, the company's appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge which was created prior to 15 September 2003 retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court-based procedure), by appointing an administrative receiver prior to the appointment of the administrator being completed.

The new administration provisions of the Insolvency Act give primary emphasis to the rescue of the company as a going concern. The purpose of realising property to make a distribution to one or more secured creditors is subordinated to the primary purposes of rescuing the company as a going concern or achieving a better result for the creditors as a whole than would be likely if the company were wound up. No assurance can be given that the primary purposes of the new provisions will not conflict with the interests of noteholders were the issuer or Funding 1 ever subject to administration.

In addition to the introduction of a prohibition on the appointment of an administrative receiver as set out above, Section 176A of the Insolvency Act provides that any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a “prescribed part” of the company's “net property” available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. The company's net property is defined as the amount of the chargor's property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preferential creditors or in respect of the expenses of the administration and from 6 April 2008 (following implementation of certain sections of the Companies Act 2006) in respect of the expenses of liquidation. The prescribed part is defined in The Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50 per

cent. of the first £10,000 of floating charge realisations plus 20 per cent. of the floating charge realisations thereafter, provided that such amount may not exceed £600,000.

This obligation does not apply if the net property is less than a prescribed minimum and the relevant officeholder is of the view that the cost of making a distribution to unsecured creditors would be disproportionate to the benefits. The relevant officeholder may also apply to court for an order that the provisions of Section 176A of the Insolvency Act should not apply on the basis that the cost of making a distribution would be disproportionate to the benefits.

Floating charge realisations upon the enforcement of the issuer security and/or the Funding 1 security may be reduced by the operation of these ring-fencing provisions.

### ***Insolvency Legislation in Northern Ireland***

The Insolvency Act 2000 and the corporate insolvency provisions of the Enterprise Act 2002 do not apply in Northern Ireland. The current law is contained in the Insolvency (Northern Ireland) Order 1989 (the **1989 Order**) as amended by the Insolvency (Northern Ireland) Order 2002. The 1989 Order is further amended by the provisions of the Insolvency (Northern Ireland) Order 2005 (the **2005 Order**) which came into force on 27 March 2006. The 2005 Order implemented in Northern Ireland corporate insolvency provisions which are identical to those introduced by the provisions of the Enterprise Act 2002 in England, Wales and Scotland. The changes introduced in England, Wales and Scotland by the Insolvency Act 2000 in relation to small companies are mirrored in the Insolvency (Northern Ireland) Order 2002.

### **You will not generally receive issuer notes in physical form, which may cause delays in distributions and hamper your ability to pledge or resell the issuer notes**

Your beneficial ownership of the issuer notes (other than the class Z issuer notes which are in definitive registered form) will only be recorded in book-entry form with Euroclear or Clearstream, Luxembourg. The global issuer notes will not be exchanged for definitive issuer notes except in limited circumstances. The lack of issuer notes (other than the class Z issuer notes which are in definitive registered form) in physical form could, among other things:

- result in payment delays on the issuer notes because the issuer will be sending distributions on the issuer notes to Euroclear or Clearstream, Luxembourg instead of directly to you;
- make it difficult for investors to pledge the issuer notes if issuer notes in physical form are required by the party demanding the pledge; and
- hinder your ability to resell the issuer notes because some investors may be unwilling to buy issuer notes that are not in physical form.

### **If you have a claim against the issuer it may be necessary for you to bring a suit against the issuer in England to enforce your rights**

The issuer has agreed to submit to the non-exclusive jurisdiction of the courts of England, and it may be necessary for you to bring a suit in England to enforce your rights against the issuer.

### **Implementation of Basel II risk-weighted asset framework may result in changes to the risk-weighting of the notes**

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the proposed framework was published in June 2006 under the title "*International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)*" (the **Basel II Framework**).

The Basel II Framework is being implemented in stages: the Basel II standard approach and the Foundation IRB approach for credit risk was implemented from 1 January 2007 and the most advanced Basel II IRB approach and the advanced measurement approach (**AMA**) for operational risks was required to be implemented from 1 January 2008. However, the Basel II Framework is not self-implementing and, accordingly, implementation dates in participating countries are dependent on the relevant national implementing process in those countries. In the United Kingdom, Basel II and the EU Capital Requirements Directive have been implemented through the Prudential Sourcebook for Banks, Building Societies and Investment Firms (**BIPRU**) and the Capital Requirements Regulations 2006 SI 2006/3221, although the most advanced approaches referred to above have only become available from 1 January 2008.

As and when implemented, the Basel II Framework could affect the risk-based capital treatment of the issuer notes for investors who are subject to bank capital adequacy requirements that follow the framework. Consequently, investors should consult their own advisers as to the consequences of and effect on them of the implementation of the Basel II Framework. Proposals and guidelines for implementing Basel II in participating jurisdictions are still in

development, and no predictions can be made as to the precise effects of potential changes on the notes, Alliance & Leicester or any investor.

**The minimum denominations on the issuer notes may adversely affect payments on the issuer notes if issued in definitive form**

For so long as the issuer notes (other than the class Z issuer notes which are in definitive registered form) are represented by global issuer notes, Euroclear and Clearstream, Luxembourg so permit, the Reg S issuer notes will be tradeable in minimum nominal amounts of (in the case of sterling issuer notes) £50,000 and in integral multiples of £1,000 in excess thereof or (in the case of euro issuer notes) €50,000 and in integral multiples of €1,000 in excess thereof. However, if definitive issuer notes are required to be issued in respect of the issuer notes represented by global issuer notes, they will only be printed and issued in denominations of £50,000 or €50,000 (as applicable). Accordingly, if definitive issuer notes are required to be issued in respect of such issuer notes, a noteholder holding notes having a nominal amount which cannot be represented by a definitive issuer note in the denomination of £50,000 or €50,000 (as applicable) will not be able to receive a definitive note in respect of such issuer notes and will not be able to receive interest or principal in respect of such issuer notes.

*The issuer believes that the risks described above are the principal risks inherent in the transaction but the inability of the borrowers to pay interest, principal or other amounts on the loans and their related security and consequently the inability of the issuer to pay interest, principal or other amounts on or in connection with the issuer notes may occur for other reasons, and the issuer does not represent that the above statements regarding the risk of holding the issuer notes are exhaustive. Although the issuer believes that the various structural elements described in this prospectus lessen some of the risks for the noteholders, there can be no assurance that these measures will be sufficient to ensure payment to the noteholders of interest, principal or any other amounts on or in connection with the issuer notes on a timely basis or at all.*

## SUMMARY OF THE TRANSACTION DOCUMENTS

*The following section contains a summary of the material terms of the transaction documents. The summary does not purport to be complete and is subject to the provisions of the relevant transaction document.*

### **The mortgage sale agreement**

On or about the closing date, the seller, Funding 1, the mortgages trustee and the Funding 1 security trustee will enter into the mortgage sale agreement.

The rights of Funding 1 in respect of the mortgage sale agreement will be assigned absolutely (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

The mortgage sale agreement sets out and provides for, *inter alia*, the following:

- the sale and assignment of initial loans and their related security by the seller to the mortgages trustee on the closing date;
- the sale and assignment of new loans and their related security by the seller to the mortgages trustee after the closing date;
- the representations and warranties to be given by the seller in relation to the initial loans, new loans and their related security;
- the repurchase by the seller of loans in the portfolio and their related security where the seller has materially breached any of its representations and warranties in respect of such loans or their related security or, in certain circumstances, where such loan is the subject of a product switch or a further advance;
- the making of future drawings and the making of further advances to borrowers, with respect to loans in the portfolio; and
- the circumstances for the transfer of legal title to the loans to the mortgages trustee.

In relation to Scottish loans, the mortgage sale agreement provides for the transfer of the beneficial interest in such loans and their related security sold on the closing date to be effected by a declaration of trust by the seller in favour of the mortgages trustee and for the transfer of the beneficial interest in any other Scottish loans and their related security to be effected by further declarations of trust (and, in relation to the Scottish loans and their related security, references in this prospectus to the **assignment** of such loans and their related security are to be read as references to the transfer of the beneficial interest therein by the making of such declarations of trust and the terms **assigned** and **assign** shall in that context be construed accordingly) (see “– **Transfer of legal title to the mortgages trustee**” below).

The terms of the mortgage sale agreement may be amended after the closing date, for instance as and when new issuers (if any) are established or **new loan types** (being, on any date, a type of loan which is materially different from the types of loans comprised in the portfolio) are added to the mortgages trust or further Funding companies accede and adhere to the mortgage sale agreement. The prior consent of the noteholders will not be sought in relation to any of the proposed amendments to the mortgage sale agreement, provided that (among other things) the rating agencies confirm that the ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result of such amendments. There can be no assurance, however, that the effect of any such amendments will not ultimately adversely affect your interests as a noteholder (see “**Risk factors – The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**”).

### ***Sale of loans and their related security***

On the closing date, the seller will sell the initial loans and their related security comprising the initial portfolio to the mortgages trustee. From time to time after the closing date, the seller will also sell new loans and their related security to the mortgages trustee which will be included in the portfolio. The sale of the English loans and the Northern Irish loans and their respective related security will (until transfer of legal title) take effect in equity only. The seller will (until transfer of legal title) transfer the beneficial interest only in the Scottish loans and their related security by way of a Scottish declaration of trust or Scottish declarations of trust executed on the relevant sale date. The transfer of legal title to loans and their related security may not occur or, if it does occur, will not occur until a later date (see “– **Transfer of legal title to the mortgages trustee**” below). Any references to a sale of loans and their related security in this prospectus will include references to the sale by the seller of new loans and their related security to the mortgages trustee pursuant to the mortgage sale agreement.

Each portfolio of loans and their related security so sold will form part of the trust property to be held on trust by the mortgages trustee for, as applicable, Funding 1 (as to the Funding 1 share) and the seller (as to the seller share) in

accordance with the terms of the mortgages trust deed. In the future, further Funding companies and further Funding security trustees may adhere and accede to the mortgage sale agreement, although there is no certainty that such an event or events will occur. Your consent will not be sought when any further Funding companies and further Funding security trustees accede to the mortgage sale agreement provided that the rating agencies confirm in writing that the then current rating of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result.

The consideration for the sale of loans and their related security will consist of:

- the initial purchase price, representing a cash payment payable on the relevant sale date by the mortgages trustee to the seller for the sale and assignment to the mortgages trustee of the relevant loans and their related security;
- to the extent that the initial purchase price is less than the aggregate outstanding principal balance of the loans to be transferred on any sale date, the consideration payable for the shortfall shall give rise to a corresponding increase in the seller share of the trust property; and
- the deferred purchase price, representing a cash payment payable after the relevant sale date by the mortgages trustee to the seller as further consideration for the sale of the relevant loans and their related security in accordance with the provisions of the mortgage sale agreement and the mortgages trust deed (see further “– **Payment of purchase price**” below).

### ***Payment of purchase price***

Payment of the initial purchase price will be made to the seller by the mortgages trustee out of funds received by the mortgages trustee from an initial contribution contributed by Funding 1 or any further Funding company pursuant to the terms of the mortgages trust deed.

Payments of the deferred purchase price will be made by the mortgages trustee out of funds received by way of deferred contributions contributed by Funding 1 or any further Funding company from time to time pursuant to the terms of the mortgages trust deed. Upon receipt of such a deferred contribution, the mortgages trustee will pay an amount equal to such deferred contribution to the seller as deferred purchase price for the sale of the loans to the mortgages trustee. Funding 1 is only required to make deferred contributions out of excess income to which it is entitled in accordance with and subject to the relevant Funding 1 priority of payments, as set out in “**The mortgages trust – Cash management of trust property – revenue receipts**” below. Any seller accrued interest amounts in respect of the loans sold on the closing date to the mortgages trustee will form part of the trust property and to the extent allocated and distributed to Funding 1 and excess to its revenue requirements will be paid in accordance with the relevant Funding 1 priority of payments, as deferred contributions to the mortgages trustee. The mortgages trustee will in turn pay an equivalent amount to the seller as part of the deferred purchase price due to the seller under the mortgage sale agreement.

### ***Conditions for sale of initial loans and new loans***

The sale of initial loans, new loans and their related security to the mortgages trustee on the relevant sale date will be subject to certain conditions being satisfied (which may be varied or waived by the mortgages trustee (subject to the prior notification by the rating agencies that the then current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result of such variation or waiver)), including the following:

- (a) no event of default under the transaction documents (or event of default under the transaction documents of any further Funding company and/or new issuer, where applicable) shall have occurred which is continuing as at the relevant sale date;
- (b) no principal deficiency ledger has a debit balance as at the most recent interest payment date after applying all issuer available revenue receipts on that interest payment date (and the equivalent condition is met in relation to each further Funding company and/or new issuer, where applicable);
- (c) the rating agencies have confirmed in writing that the proposed increase in the Funding 1 share of the trust property (or the share of the relevant Funding company of the trust property, where applicable) as a result of making the further contribution would not cause the then current ratings of any rated issuer notes (or any new issuer notes, where applicable) then outstanding to be downgraded, withdrawn or qualified;
- (d) as at the relevant sale date, the seller has not received any notice that the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are not rated at least P-2 by Moody's, A-3 by Standard & Poor's and F2 by Fitch at the time of, and immediately following, the sale of new loans to the mortgages trustee;
- (e) in the case of a new loan, the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are, at the time of, and immediately following the sale of the new loans to the mortgages trustee, either:
  - rated no lower than P-1 by Moody's; or



- in the event that the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated lower than P-1 by Moody's, but are rated no lower than P-2 by Moody's then:
  - (A) the seller has, on such sale date, delivered a solvency certificate to, *inter alios*, the mortgages trustee in form and substance satisfactory to Moody's; and
  - (B) where:
    - (I) the aggregate current balance of new loans sold to the mortgages trustee following the later of:
      - (1) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller falling lower than P-1 by Moody's; or
      - (2) any previous audit of new loans pursuant to this paragraph, exceeds 20 per cent. of the current balance of all loans in the mortgages trust at such time; or
    - (II) 12 months has passed since:
      - (1) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller falling lower than P-1 by Moody's; or
      - (2) any previous audit of new loans pursuant to this paragraph, an audit has been performed on both (x) any new loans to be sold to the mortgages trust on such sale date and (y) all new loans which have been sold to the mortgages trust subsequent to the audit referred to in (B)(II)(2) above;
- (f) as at the relevant sale date, the aggregate current balance of loans comprising the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4 per cent. of the aggregate current balance of the loans comprising the trust property at that date (or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the rated notes then outstanding are not downgraded, withdrawn or qualified);
- (g) the aggregate of amounts in arrears in respect of the loans, as a percentage of the gross interest due on all loans comprising the trust property during the immediately preceding 12 months, does not at the relevant sale date exceed 2 per cent. (or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the rated notes then outstanding are not downgraded, withdrawn or qualified);
- (h) except where Funding 1 makes an initial contribution to the mortgages trustee, the proceeds of which will be applied by the mortgages trustee to purchase new loans, the aggregate current balance (excluding accrued interest and amounts in arrears) of new loans transferred in any Funding 1 interest period must not exceed 15 per cent. of the aggregate current balance of loans (excluding accrued interest and amounts in arrears) comprising the trust property as at the beginning of that Funding 1 interest period (or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the rated notes then outstanding are not downgraded, withdrawn or qualified);
- (i) the product of the weighted average foreclosure frequency (**WAFF**) and weighted average loss severity (**WALS**) for the loans comprising the trust property calculated on the relevant sale date in the same way as for the initial loans comprising the mortgages trust at the closing date (or as agreed by the servicer and the rating agencies from time to time) after such purchase (or as agreed by the servicer and the rating agencies from time to time) does not exceed the product of the WAFF and WALS (when tested by Fitch, at the "AAA level" as calculated in accordance with Fitch's methodology) for the loans constituting the trust property calculated on the most recent closing date, plus 0.25 per cent.;
- (j) the sale and assignment of new loans does not result in the Moody's portfolio variation test value of the loans comprising the trust property after such sale and assignment (calculated by applying the Moody's portfolio variation test to such loans on such sale date) exceeding the most recently determined Moody's portfolio variation test threshold value as calculated in relation to the loans in the portfolio as at the most recent date on which Moody's performed a full pool analysis on the portfolio (which must be no less frequent than annually), plus 0.30 per cent.;
- (k) the yield of the loans comprising the trust property together with the yield of the new loans to be sold to the mortgages trustee on the relevant sale date is at least 0.40 per cent. greater than LIBOR for three-month sterling deposits as at the relevant sale date, after taking into account the weighted average yield on the loans which are variable rate loans, base rate loans and fixed rate loans and the margins on the Funding 1 swap(s) (and the relevant swaps of any further Funding companies, where applicable), in each case as at the relevant sale date;
- (l) no sale of new loans may occur, if, as at the relevant sale date, the step-up date in respect of any class of issuer notes (and any new issuer notes, where applicable) has been reached and the issuer (and any new

issuer, where applicable) has not exercised its option to redeem the relevant class of issuer notes (and new issuer notes, where applicable) as at that sale date, in accordance with the conditions of that class of issuer notes (and any new issuer notes, where applicable). For the avoidance of doubt, this prohibition on the sale of new loans to the mortgages trustee shall remain in effect only for so long as any such class of issuer notes (and new issuer notes, where applicable) remains outstanding and, upon its redemption, the sale of new loans to the mortgages trustee may be resumed in accordance with the terms of the mortgage sale agreement;

- (m) as at the sale date, the Funding 1 reserve fund is equal to or greater than the Funding 1 reserve fund required amount (and the equivalent condition is met in relation to each new Funding company, where applicable);
- (n) if the sale of new loans would include the sale of new loan types to the mortgages trustee, the Funding 1 security trustee (and any further Funding security trustee, where applicable) has received written confirmation from the rating agencies that the then current ratings of the rated notes will not be downgraded, withdrawn or qualified as a result of such sale of new loan types;
- (o) each new loan and its related security complies in all material respects at the relevant sale date with the representations and warranties set out in the mortgage sale agreement, which are summarised below in “**Representations and warranties**”;
- (p) the Funding 1 swap agreement (and the relevant swap agreements of each further Funding company, where applicable) has each been modified if and as required (or, if appropriate, Funding 1 has entered into a new Funding 1 swap agreement (or each further Funding company has entered into any new swap agreement, where applicable)) to hedge against the interest rates payable in respect of such new loans and the floating rate of interest payable on the intercompany loan (and any new issuer intercompany loans, where applicable); and
- (q) no trigger event has occurred on or before the relevant sale date.

In the mortgage sale agreement, the seller promises to use all reasonable endeavours to offer to sell to the mortgages trustee, and the mortgages trustee promises to use all reasonable endeavours to acquire from the seller and hold in accordance with the terms of the mortgages trust deed, until the earlier of the latest step-up date (or such later date as may be notified by Funding 1 and any further Funding companies to the seller) and the occurrence of a trigger event, sufficient new loans and their related security so that the seller's share in the trust property does not fall below the minimum seller share. Funding 1 may notify the seller to increase the size of the trust property in order to ensure that the seller's share in the trust property does not fall below the minimum seller share. However, the seller is not obliged to sell to the mortgages trustee, and the mortgages trustee is not obliged to acquire, new loans and their related security if, in the opinion of the seller, such sale would adversely affect the business of the seller. If and when any further Funding company acquires a beneficial interest in the trust property in accordance with the terms of the mortgages trust deed, such further Funding company may at any time with the prior written consent of the relevant further Funding security trustee and subject to written confirmation from the rating agencies that the then current ratings of the rated notes then outstanding will not be downgraded, withheld or qualified as a result of such increase or decrease, notify the seller of any increase or decrease in the minimum seller share or any amendment to the period in which the covenant of the seller shall apply.

### ***Representations and warranties***

The mortgage sale agreement contains representations and warranties given by the seller to the mortgages trustee, Funding 1, any further Funding company, the Funding 1 security trustee and any further Funding security trustee in relation to each loan and its related security sold to the mortgages trustee pursuant to the terms of the mortgage sale agreement. None of the mortgages trustee, Funding 1, any further Funding company, the Funding 1 security trustee, any further Funding security trustee, the issuer security trustee, the note trustee or the issuer will make or will cause to be made on its behalf any enquiries, searches or investigations of a type which a prudent purchaser or mortgagee would normally be expected to carry out in respect of the loans and their related security. Instead, each is relying entirely on the representations and warranties by the seller contained in the mortgage sale agreement. The representations and warranties in relation to each loan and its related security are made on the sale date that the relevant loan (including each new loan), together with its related security, is sold to the mortgages trustee. The parties to the mortgage sale agreement may, with the prior written consent of the Funding 1 security trustee and any further Funding security trustee (where applicable), waive or amend the representations and warranties in the mortgage sale agreement. The material representations and warranties include:

- 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 been adopted as the lawful currency of the UK);
- each loan in the portfolio was made not earlier than 1 October 1994;
- the final maturity date of each loan is no later than 1 October 2052;
- no loan has a current balance of more than £1,000,000;

- no loan in the portfolio is a buy-to-let loan;
- prior to the making of each advance under a loan, the lending criteria and all preconditions to the making of that advance were satisfied in all material respects subject only to exceptions made on a case-by-case basis as would be acceptable to a reasonable, prudent mortgage lender;
- other than with respect to monthly payments, no borrower is or has, since the date of execution of the relevant mortgage, been in material breach of any obligation owed in respect of the relevant loan or its related security and accordingly no steps have been taken by the seller to enforce any related security;
- the total amount of interest or principal in arrears, together with any fees, commissions and premiums payable at the same time as that interest payment or principal repayment, on any loan is not on the relevant sale date in respect of any loan, nor has been during the 12 months immediately preceding the relevant sale date, more than the amount of the monthly payment then due;
- all of the borrowers are natural legal persons and were aged 18 years or older at the date of execution of the mortgage and no borrower is, as of the assignment date, an employee or an officer of the seller;
- each loan is payable on a monthly basis and at least one monthly payment has been made in respect of each loan;
- the whole of the current balance on each loan is secured by the relevant mortgage;
- each loan and its related security is valid, binding and enforceable in accordance with its terms and is non-cancellable:
  - (i) except in relation to any term in any loan or in its related security, in each case which is not binding by virtue of the UTCCR; and
  - (ii) except in relation to any cash withdrawals and any other further advance, in each case which is not enforceable by virtue of the CCA;
- to the best of the seller's knowledge, none of the terms in any loan or in its related security is not binding by virtue of it being unfair within the meaning of the UTCCR. In this warranty and the warranty in the previous bullet point, reference to any legislation shall be construed as a reference to that legislation as amended, extended or re-enacted from time to time;
- each mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Northern Ireland) a first ranking legal charge or mortgage or (in Scotland) a first ranking standard security over the relevant mortgaged property, and subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales or in the Registers of Scotland or the Registry of Deeds or Land Registry of Northern Ireland, which, where required, have been made and are pending and in relation to such cases the seller is not aware of any notice or any other matter that would prevent such registration or recording;
- all of the mortgaged properties are located in England, Wales, Northern Ireland or Scotland;
- not more than 12 months prior to the execution of each mortgage (or such longer period as may be acceptable to a reasonable, prudent mortgage lender), the seller received a valuation report on the relevant mortgaged property (or another form of report concerning the valuation of the relevant mortgaged 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;
- the benefit of all valuation reports and certificates of title which were provided to the seller not more than two years prior to the date of the mortgage sale agreement can be validly assigned to the mortgages trustee without obtaining the consent of the relevant valuer, solicitor or licensed conveyancer or (in Scotland) qualified conveyancer;
- prior to the taking of each mortgage (other than a remortgage completed pursuant to the mortgage transfer service), the seller, (a) instructed its solicitor or licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant mortgaged property and to undertake 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 or licensed conveyancer or (in Scotland) qualified conveyancer as are set out in the CML Lenders' Handbook or other comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations made (i) in circumstances where a mortgage is provided by the seller on a "fees free" basis in connection with the re-mortgage of the property and provided that the relevant property is conveyed in accordance with a service agreement entered into between the seller and its solicitor or (ii) on a case by case basis as would be acceptable to a reasonable, prudent mortgage lender and (b) received a certificate of title from such solicitor or licensed conveyancer or (in Scotland) qualified conveyancer relating to such mortgaged property, the contents of which would have been acceptable to a reasonable, prudent mortgage lender at that time;

- buildings insurance cover for each mortgaged property is available under a policy arranged by the borrower, by the seller or by the relevant landlord or the properties in possession cover;
- save for the borrowers' equity of redemption, the seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the loans agreed to be sold by the seller to the mortgages trustee under the mortgage sale agreement;
- 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 variations in the relevant financial terms and conditions, transactions, payments, payment holidays, receipts, proceedings and notices relating to such loan;
- there are no authorisations, approvals, licences or consents required, which have not been obtained, for the seller to enter into or to perform the obligations under the mortgage sale agreement or to make the mortgage sale agreement legal, valid, binding, enforceable and admissible in evidence;
- to the extent that any loan constitutes a regulated mortgage contract for the purposes of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, the seller has materially complied with its obligations under the FSMA (including, without limitation, MCOB) in connection with the origination and administration of such loan and has not received written notice of any allegation or claim that any of its obligations under the FSMA in connection with the origination and administration of any loan have not been made in full;
- the seller and servicer have and will maintain all necessary consents, authorisations, approvals, licences and orders, including without limitation all necessary licences under the CCA and authorisations under the FSMA to originate and administer the loans; and
- where there is any restriction on the assignment or transfer of any loan or related security relating to the advance of monies other than the loan or any further advance secured by the related security, no such monies have been advanced to the borrower since the date of completion of such loan save for where such monies have been advanced under an agreement regulated by the CCA which does not include as one of its terms that the money payable under it is secured by the relevant mortgage.

If new loan types are to be sold to the mortgages trustee, then the representations and warranties in the mortgage sale agreement will be modified as required to accommodate these new loan types. Your prior consent to the requisite amendments will not be sought, provided that the conditions for the sale of new loan types to the mortgages trustee have been satisfied.

### ***Repurchase of loans under a mortgage account***

Save with respect to product switches and further advances (as to which see “– **Product switches and further advances**” below), under the mortgage sale agreement, if a loan does not materially comply on the sale date with the representations and warranties made under the mortgage sale agreement:

- (i) the seller will be required to remedy the breach within 20 London business days of the mortgages trustee (acting on the directions of Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee) giving written notice of the breach to the seller; or
- (ii) if the breach is not remedied within the 20 London business day period then, at the direction of Funding 1 and any further Funding companies (with the prior written consent of the Funding 1 security trustee and any further Funding security trustees), the mortgages trustee will require the seller to purchase the loan under the relevant mortgage account and its related security from the mortgages trustee on the trust calculation date immediately following the date of such notice at a price equal to its current balance as of the immediately following trust calculation date.

For so long as the seller is the servicer, it must notify the mortgages trustee, Funding 1, any further Funding companies, the Funding 1 security trustee and any further Funding security trustees in writing of any material breach of a warranty as soon as it becomes aware of such breach.

The seller will also be required to repurchase the loan under any mortgage account and its related security if a court or other competent authority or any ombudsman makes any determination in respect of that loan and its related security that:

- (a) any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or
- (b) the interest payable under that loan is to be set by reference to the seller variable rate; or
- (c) the variable margin above the Bank of England base rate under that loan must be set by the seller; or
- (d) the interest payable under that loan is to be set by reference to an interest rate other than that set or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate.

The seller will also be required to repurchase a loan under any mortgage account that is a portable loan and its related security on the London business day following the date that the borrower transfers the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period. The seller will repurchase the portable loan under the relevant mortgage account and its related security from the mortgages trustee at a price equal to its current balance as of the London business day immediately following the transfer date.

If the seller fails to pay the consideration due for the repurchase (or otherwise fails to complete the repurchase), then (under the terms of the mortgages trust deed) the seller share of the trust property shall be deemed to be reduced by an amount equal to that consideration.

### ***Product switches and further advances***

A loan will be subject to a product switch if the borrower and the seller agree or the seller or the servicer (on behalf of the seller) offers a variation in the financial terms and conditions applicable to the relevant loan other than any variation:

- agreed with a borrower to control or manage arrears on the loan;
- of the maturity date of the loan unless, while the issuer intercompany loan (or any new issuer intercompany loan) is outstanding, it is extended beyond 1 October 2052;
- imposed by statute;
- of the seller's standard variable rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by current balance of loans in the trust property as calculated on the next trust calculation date as at the end of the immediately preceding trust calculation period; and/or
- in the frequency with which the interest payable in respect of the loan is charged.

A **permitted product switch** is a product switch, provided that:

- the relevant borrower has made at least one monthly payment on its then current loan product;
- the new loan for which the prior loan is to be exchanged is a permitted replacement loan;
- each of the conditions for product switches as set forth under “**Conditions for product switches and further advances**” are satisfied as at the immediately following trust calculation date; and
- the interest-only mortgages level test is satisfied if, as calculated on the most recent trust calculation date:

$$A/B \times 100 \leq C$$

where:

- A = the current balance of all interest-only loans (which, for the avoidance of doubt includes interest-only components of part-and-part loans) in the trust property as at the relevant trust calculation date;
- B = the current balance of all loans comprising the trust property as at the relevant trust calculation date; and
- C = 40 per cent.

A **permitted replacement loan** is a loan:

- that is subject to either a fixed rate, a variable rate or a base rate-linked rate of interest; and
- that has a maturity date prior to 1 October 2052.

A mortgage will be subject to a further advance if, following a request from the borrower and the seller or the servicer (on behalf of the seller) agreeing to it, a further amount is lent to the borrower under the mortgage.

If the seller or the servicer (on behalf of the seller) agrees to any request regarding a product switch or further advance and if the loan which is the subject of the product switch or further advance is in the portfolio at such time, the seller pursuant to the terms of the mortgage sale agreement will agree that the loan will:

- in the case of a product switch that such product switch will be a permitted product switch;
- as at the date of such product switch or further advance, materially comply with the representations and warranties set out in the mortgage sale agreement which are described earlier in this section under “**Representations and warranties**”; and
- as of the next following trust calculation date, comply with each of the relevant conditions set forth below under “**Conditions for product switches and further advances**”.

If the loan, following such product switch or further advance, does not comply as required above, the seller will be required to repurchase such loan under the relevant mortgage account and its related security from the mortgages trustee at a price equal to the current balance on the date of such product switch or further advance being made.

In addition, the seller is entitled to (but is not obliged to) repurchase loans that are the subject of further advances and product switches and their related security from the mortgages trustee at a price equal to their current balance on the date of such further advance or product switch being made.

It should be noted that, whilst the obligation on the seller to repurchase (a) loans which do not comply with the relevant eligibility criteria or materially with the representations and warranties or (b) loans that are subject of further advances and product switches that the seller has decided to repurchase is daily, reconciliation of the transfer of the related security will not occur until the next following trust calculation date. The mortgages trustee covenants in the mortgage sale agreement that it shall not deal with the related security corresponding to such loans other than on the instructions of the seller or the servicer during the period between such loan being repurchased by the seller and the legal requirements for the retransfer (on behalf of the seller) of the beneficial interest in its related security being completed on the next following trust calculation date.

The seller will be solely responsible for funding a further advance and the seller share of the trust property will increase by an amount equal to the advance made to the borrower. Neither the mortgages trustee nor Funding 1, nor any further Funding company if established, may themselves advance funds to the seller and/or the borrower for the purposes of funding a further advance in any circumstances.

### ***Conditions for product switches and further advances***

In order for any loan which has been the subject of a product switch or a further advance to remain in the mortgages trust, the following conditions (which may be varied or waived by the mortgages trustee (subject to the prior notification by the rating agencies that the then current ratings of any rated notes will not be downgraded, withdrawn or qualified as a result of such variation or waiver) must be complied with as of the trust calculation date immediately following the product switch or the making of the further advance:

- (a) no event of default under the transaction documents (or event of default under the transaction documents of any further Funding company and/or new issuer, where applicable) shall have occurred which is continuing or unwaived as at the relevant trust calculation date;
- (b) as at the relevant trust calculation date, the aggregate current balance of loans comprising the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4 per cent. of the aggregate current balance of the loans comprising the trust property at that date or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the rated notes then outstanding are not downgraded, withdrawn or qualified;
- (c) the aggregate of amounts in arrears in respect of the loans comprising the mortgages trust, as a percentage of the gross interest due on all loans comprising the mortgages trust during the immediately preceding 12 months, does not exceed 2 per cent. or such other percentage that the rating agencies confirm is sufficient in order that the then current ratings of the rated notes then outstanding are not downgraded, withdrawn or qualified;
- (d) as at the relevant trust calculation date, the Funding 1 reserve fund is equal to or greater than the Funding 1 reserve fund required amount (and the equivalent condition is met in relation to each Funding company, where applicable);
- (e) the mortgages trustee is not aware (without making specific enquiry) that the then current ratings of the rated notes then outstanding would be downgraded, withdrawn or qualified as a result of the relevant product switch and/or further advance remaining in the mortgages trust;
- (f) each loan and its related security which is the subject of a product switch and/or a further advance materially complies at the date of such product switch and/or further advance with the representations and warranties set out in the mortgage sale agreement, which are described earlier in this section in “–**Representations and warranties**”;
- (g) as a result of the relevant product switch and/or further advance remaining in the mortgages trust, on the relevant trust calculation date, the product of the WAFF and WALs for the loans comprising the trust property after such product switch and/or further advance calculated on such trust calculation date (in the same way as for the initial loans comprising the mortgages trust as at the closing date (or as agreed by the servicer and the rating agencies from time to time)) will not exceed the product of the WAFF and WALs (when tested by Fitch, at the "AAA level" as calculated in accordance with Fitch's methodology) for the loans comprising the trust property calculated on the most recent closing date, plus 0.25 per cent.;
- (h) the yield of the loans in the trust property on the relevant trust calculation date is at least 0.40 per cent. greater than Sterling-LIBOR for three-month sterling deposits calculated on the immediately preceding Funding 1 interest payment date (in respect of the then current interest period), after taking into account

the weighted average yield on the loans which are variable rate loans, base rate loans and fixed rate loans and the margins on the Funding 1 swap(s) (and any relevant swap agreements of each further Funding company, where applicable), in each case as at the relevant trust calculation date;

- (i) the sale and assignment of new loans does not result in the Moody's portfolio variation test value of the loans comprising the trust property after the relevant trust calculation date (calculated by applying the Moody's portfolio variation test to such loans on the relevant trust calculation date) exceeding the most recently determined Moody's portfolio variation test threshold value as calculated in relation to the loans in the portfolio as at the most recent date on which Moody's performed a full pool analysis on the portfolio (which must be no less frequent than annually), plus 0.30 per cent.;
- (j) if the making of a product switch and/or further advance would result in a new loan type being included in the mortgages trust, then the Funding 1 security trustee (and any further Funding security trustee, where applicable) has previously received written confirmation from each of the rating agencies that the then current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result of the loans which were subject to a product switch and/or further advance remaining in the trust property;
- (k) the Funding 1 swap agreement (and any swap agreement of each further Funding company, where applicable) has been modified if and as required (and, if appropriate, Funding 1 has entered into a new Funding 1 swap agreement and, where applicable, each further Funding company has entered into any new swap agreements) to hedge against the interest rates payable in respect of such product switches and/or further advances and the floating rate of interest payable on the issuer intercompany loan; and
- (l) no trigger event has occurred on or before the relevant trust calculation date.

### ***Transfer of legal title to the mortgages trustee***

Each sale of English loans and Northern Irish loans and their respective related security to the mortgages trustee will be made by way of equitable assignment. Each sale of Scottish loans and their related security to the mortgages trustee will be made by way of Scottish declarations of trust under which the beneficial interest in such Scottish loans will be transferred to the mortgages trustee. This means that legal title to the loans and their related security will remain with the seller, until legal assignments or (in Scotland) assignations are delivered by the seller to the mortgages trustee and registered or recorded (as applicable) at the Land Registry of England and Wales or the Registers of Scotland or the Land Registry or the Registry of Deeds of Northern Ireland and notice of such assignments or assignations is given to the borrowers. Legal assignment or assignation of the loans and their related security (including, where appropriate, their registration or recording in the relevant property register) to the mortgages trustee will be deferred and will only take place, if at all, in the limited circumstances described below. See also “**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**” above.

Legal assignment or assignation of the loans and their related security to the mortgages trustee will be completed within 20 London business days of receipt of written notice from the mortgages trustee (as directed by Funding 1 and any further Funding companies and/or the Funding 1 security trustee and any further Funding security trustee) requesting that the seller take such actions. The mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee will each undertake that they will not make such a request unless any of the following events occur:

- (a) the service of an intercompany loan acceleration notice in relation to the intercompany loan or a note acceleration notice in relation to the issuer notes (or equivalent events in relation to any new intercompany loans or new issuer notes, where applicable);
- (b) the seller being required to perfect the mortgages trustee's legal title to the mortgages, by an order of a court of competent jurisdiction, or by a regulatory authority of which the seller is a member of any organisation whose members comprise but are not necessarily limited to mortgage lenders with whose instructions it is customary for the seller to comply;
- (c) it becoming necessary by law to take actions to perfect legal title to the mortgages;
- (d) the Funding 1 security (or the security granted to any further Funding security trustee, where applicable) or any material part of such security being, in the reasonable opinion of the Funding 1 security trustee (or such further Funding security trustee, where applicable) in jeopardy and the Funding 1 security trustee (or such further Funding security trustee, where applicable) deciding to take action to reduce materially that jeopardy;
- (e) the termination of the seller's role as servicer under the servicing agreement unless the rating agencies provide prior confirmation that the then current ratings of the rated notes will not be downgraded, withdrawn or qualified as a result of such termination;
- (f) the seller requesting perfection by serving notice on the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies and any further Funding security trustees;

- (g) the occurrence of an insolvency event in relation to the seller; or
- (h) the latest final repayment date of the outstanding loan tranches under the issuer intercompany loan (and any outstanding new issuer loan tranches under any new issuer intercompany loans, where applicable).

Pending completion of the transfer, the right of the mortgages trustee to exercise the powers of the legal owner of the mortgages is secured and supported by an irrevocable power of attorney granted by the seller in favour of the mortgages trustee, Funding 1 and the Funding 1 security trustee.

If the seller ceases to have a long-term, unsecured, unsubordinated and unguaranteed credit rating by Fitch of at least BBB- and by Moody's of at least Baa3, or ceases to have a short-term, unsecured, unsubordinated and unguaranteed credit rating by Standard & Poor's of at least A-3 (unless the then current ratings of the rated notes will not be downgraded, withdrawn or qualified), the seller will be obliged to give notice only of the transfer of the equitable and beneficial interest in the loans to the borrowers but will not be required to complete any other steps necessary to perfect legal title to the loans in favour of the mortgages trustee.

The title deeds (to the extent retained by the seller) and customer files relating to the loans are currently held by or to the order of the seller or by solicitors or licensed conveyancers or (in Scotland) qualified conveyancers acting for the seller in connection with the creation of the loans and their related security. The seller has undertaken that, as of the closing date, all the title deeds (to the extent retained by the seller) and customer files relating to the loans in 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 mortgages trustee.

### ***Reasonable, prudent mortgage lender***

Reference in the documents to the seller and/or the servicer acting to the standard of a **reasonable, prudent mortgage lender** means the seller and/or the servicer, as applicable, acting in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England, Wales, Northern Ireland and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital.

### ***Governing law***

The mortgage sale agreement is principally governed by English law, but contains certain Scots law and Northern Irish law provisions. The Scottish declarations of trust are and will be governed by Scots law.

### **The issuer intercompany loan agreement**

On or about the closing date, the issuer, Funding 1, the Funding 1 security trustee and the agent bank will enter into the intercompany loan terms and conditions. The rights of Funding 1 in respect of the intercompany loan terms and conditions will be assigned absolutely (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge. The issuer shall make a loan to Funding 1 on the terms set out in the intercompany loan terms and conditions and the separate issuer intercompany loan confirmation on or about the closing date. The intercompany loan terms and conditions and the issuer intercompany loan confirmation are together referred to in this prospectus as the **issuer intercompany loan agreement**. The rights of the issuer in respect of the issuer intercompany loan agreement will be assigned absolutely (and, to the extent not assignable, charged) to the issuer security trustee under the issuer deed of charge.

### ***The facility***

Pursuant to the terms of the issuer intercompany loan agreement, the issuer will lend to Funding 1 on the closing date an aggregate amount in sterling equal to the proceeds of the issue of each class of the issuer notes. There will be 4 separate loan tranches advanced under the issuer intercompany loan, each corresponding to a class of issuer notes. The issuer loan tranches comprise the issuer AAA (class A1) loan tranche (corresponding to the class A1 issuer notes), the issuer AAA (class A2) loan tranche (corresponding to the class A2 issuer notes), the issuer AA (class B) loan tranche (corresponding to the class B issuer notes) and the issuer NR (class Z) loan tranche (corresponding to the class Z issuer notes). For this purpose, the euro proceeds of the class A1 issuer notes and the class A2 issuer notes will be converted into sterling at the relevant euro currency exchange rate. The terms of each issuer loan tranche, as set out in the intercompany loan confirmation, will be as follows:

<b>Issuer loan tranche</b>	<b>Margin</b>	<b>Scheduled Repayment Dates</b>	<b>Details relating to pass through loan tranches</b>	<b>Final Repayment Date</b>
issuer AAA (class A1) loan tranche	0.6041% per annum until the interest payment date falling in March 2009 and	Not applicable	To be due and payable from and including the Funding 1 interest payment date falling	December 2054



	thereafter 1.2082% per annum		in March 2009	
issuer AAA (class A2) loan tranche	0.3168% per annum until the interest payment date falling in March 2011 and thereafter 0.6336% p.a.	Not applicable	To be due and payable from and including the Funding 1 interest payment date falling in March 2011, provided that the issuer AAA (class A1) loan tranche has been repaid in full	December 2054
issuer AA (class B) loan tranche	0.65% per annum until the interest payment date falling in March 2015 and thereafter 1.30% per annum	Not applicable	Applicable. To be due and payable from and including the Funding 1 interest payment date falling in March 2011, provided that the issuer AAA (class A2) loan tranche has been repaid in full	December 2054
issuer NR (class Z) loan tranche	2.00% per annum until the interest payment date falling in March 2015 and thereafter 3.00% per annum	Not applicable	Applicable. To be due and payable from and including the Funding 1 interest payment date falling in March 2011, provided that the issuer AA (class B) loan tranche has been repaid in full	December 2054

Funding 1 will use the proceeds of each issuer loan tranche to make an initial contribution to the mortgages trustee (which the mortgages trustee will use to pay the seller part of the purchase price for loans (together with their related security) sold to the mortgages trustee in connection with the issuance of issuer notes which will result in a corresponding increase in Funding 1's share of the trust property).

#### ***Conditions precedent to drawdown***

The issuer will not be obliged to make the issuer intercompany loan available to Funding 1 unless on the closing date certain conditions have been met, including:

- that the related class of issuer notes have been issued and the proceeds received by or on behalf of the issuer;
- that Funding 1 has delivered a certificate to the issuer and the issuer security trustee certifying that it is solvent; and
- that each of the applicable transaction documents has been duly executed by the relevant parties to it.

#### ***Representations and covenants***

Funding 1 will make several representations to the issuer in the issuer intercompany loan agreement including representations that Funding 1 has been duly incorporated and that it has the requisite corporate power and authority to enter into the transaction documents to which it is a party.

In addition, Funding 1 will agree, *inter alia*, that:

- it shall not create or permit to subsist any mortgage, standard security, pledge, lien, charge, encumbrance or other security interest over any of its assets other than pursuant to the transaction documents unless arising by operation of law;
- it shall not carry on any business or engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the transaction documents provide or envisage that Funding 1 will engage;
- it shall not have any subsidiaries, any subsidiary undertakings, both as defined in the Companies Act 1985 as amended, or any employees or premises;
- it shall not transfer, sell, assign, lend, lease, provide an option (whether present or future) in respect of, part with or otherwise dispose of all or any of its assets, properties or undertakings or any interest, estate, right, title or benefit therein other than as contemplated in the transaction documents;

- it shall not pay any dividend or make any other distribution to its shareholders, other than in accordance with the Funding 1 deed of charge, and it shall not issue any new shares;
- it shall not incur any indebtedness in respect of any borrowed money or give any guarantee in respect of any indebtedness or of any obligation of any person whatsoever other than indebtedness contemplated by the transaction documents; and
- it shall not enter into any amalgamation, demerger, merger or reconstruction, nor acquire any assets or business nor make any investments other than as contemplated in the transaction documents.

### ***Payments of interest***

Payment of interest and fees on the issuer intercompany loan will be made only from and to the extent of distributions received by Funding 1 in respect of the Funding 1 share of the trust property representing Funding 1 issuer allocable revenue receipts, which are payable to the issuer on each Funding 1 interest payment date, subject to and in accordance with the relevant Funding 1 priority of payments and the rules for application of Funding 1 available revenue receipts as described under "**Cashflows**" below.

Subject as provided above and to the limited recourse provisions described below, interest will be payable by Funding 1 on each Funding 1 interest payment date on the outstanding principal amount of each issuer loan tranche. The interest rates applicable to the issuer loan tranches from time to time will be determined by reference to LIBOR for three-month sterling deposits (other than, in each case, in respect of the first interest period) plus or minus, in each case, the margin set out above for each issuer loan tranche. The Funding 1 interest payment dates and the corresponding interest periods applicable to issuer loan tranches will be quarterly. The interest due on each issuer loan tranche on each Funding 1 interest payment date will be an amount equal to the amount required by the issuer on that Funding 1 interest payment date to fund (by payment to the relevant issuer swap provider in the case of the class A1 issuer notes and the class A2 issuer notes) the payment of interest on the corresponding issuer notes on the relevant Funding 1 interest payment dates, as set forth under "**Cashflows**" below.

Subject as provided above and to the limited recourse provisions described below, in addition, prior to enforcement of the Funding 1 security, Funding 1 will agree to pay an additional fee to the issuer on each Funding 1 interest payment date or otherwise when required. The fee on each Funding 1 interest payment date will be equal to the amount required by the issuer to pay or provide for all other amounts falling due, if any, on that Funding 1 interest payment date to pay items (a) to (c), (e), (g) to (j), (l), (m) and (n) of the issuer pre-acceleration revenue priority of payments (as set forth under "**Cashflows – Distribution of issuer revenue receipts before note acceleration**" less any interest accrued on amounts standing to the credit of the issuer GIC account (if any)). The fee will be paid by Funding 1 out of the Funding 1 available revenue receipts.

### ***Repayment of principal on the issuer loan tranches***

Repayment of principal on the issuer loan tranches on any Funding 1 interest payment date will only be made from and to the extent of distributions by the mortgages trustee of amounts constituted from principal receipts to Funding 1 in respect of the Funding 1 share of the trust property representing issuer allocable principal receipts which are payable to the issuer on that Funding 1 interest payment date subject to and in accordance with the Funding 1 priority of payments and the rules for the application of Funding 1 available principal receipts described under "**Cashflows**" below.

Subject as provided above and subject to the limited recourse provisions described below, on each Funding 1 interest payment date Funding 1 will repay principal on the issuer intercompany loan in amounts which will fund (by payment to the relevant issuer swap provider in the case of the class A1 issuer notes and the class A2 issuer notes) the payments of principal on the corresponding issuer notes in the amounts and in the priorities described under "**Cashflows**" below.

In each case, when an issuer loan tranche becomes due and payable, it shall continue to be due and payable until it is fully repaid. If there are insufficient funds available to repay an issuer loan tranche on a Funding 1 interest payment date upon which that issuer loan tranche has become or remains due and payable, then the shortfall will be repaid on subsequent Funding 1 interest payment dates from Funding 1 available principal receipts until that issuer loan tranche is fully repaid.

At the option of the issuer, Funding 1 may be required to prepay the issuer intercompany loan in specified circumstances, including funding any optional redemption of the issuer notes.

### ***Allocation of losses***

Losses on the loans that have been allocated to Funding 1 on any date (as described under **The mortgages trust – Losses** below) shall be allocated to the intercompany loan of each Funding 1 issuer on such date according to the following formula:

amount of losses allocated to Funding 1	x	outstanding principal balance of the intercompany loan of such Funding 1 issuer  aggregate outstanding principal balance of the intercompany loans of all Funding 1 issuers
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**Limited recourse**

Funding 1 will only be obliged to pay amounts to the issuer (and any new issuer, if applicable) in respect of any issuer loan tranche (and any new issuer loan tranche, if applicable) to the extent that it has funds to do so subject to and in accordance with the relevant Funding 1 priority of payments, the rules for the application of Funding 1 available revenue receipts and the rules for the application of Funding 1 available principal receipts described under "**Cashflows**" below.

If, on or prior to the final repayment date of an issuer loan tranche (and any new issuer loan tranche, if applicable) outstanding under the issuer intercompany loan (and any new issuer intercompany loan, if applicable), there is a shortfall between the amount of interest and/or fees, principal and other amounts due under the relevant intercompany loan agreement and the amount available to Funding 1 to make that payment, then that shortfall shall not be due and payable to the issuer (and any new issuer, as the case may be) until the time (if ever) when Funding 1 has enough money available to pay the shortfall on that loan tranche. Any amount of interest, fees and other amounts (excluding principal amounts) deferred will accrue additional interest at the rate of interest applicable to the applicable loan tranche and payment of any such accrued additional interest and default interest will, in the event of a shortfall in the payment of such amounts, also be deferred in the same manner.

To the extent that there is a shortfall between the amount of interest and/or fees due under the issuer intercompany loan agreement (and any new issuer intercompany loan agreement, as the case may be) and the amount available to Funding 1 to make that payment of interest and fees to the Funding 1 issuer, the unpaid amount will be allocated to the amounts payable under items (a) to (n) (inclusive) of the issuer pre-acceleration revenue priority of payments, but in the reverse order of priority, until the amount of the payment due by Funding 1 is deemed unpaid in full or in part by the amount of the shortfall.

Amounts deferred (including deferred default interest amounts) on each Funding 1 interest payment date shall be satisfied on such subsequent Funding 1 interest payment dates when there are sufficient amounts available to Funding 1 to meet that shortfall and shall, to the extent of any further shortfall, continue to be deferred until after (in the case of interest) the final repayment date of the applicable loan tranche and (in the case of fees) the latest final repayment date under the relevant intercompany loan agreement), when such remaining unpaid amounts will be extinguished (after application of all available amounts).

**Funding 1 intercompany loan events of default**

The intercompany loan terms and conditions will contain events of default (each a **Funding 1 intercompany loan event of default**), which will include, among other things, the following events:

- a default by Funding 1 for a period of 3 London business days in the payment of any amount payable under the issuer intercompany loan agreement (but subject to the limited recourse provisions described in this section);
- Funding 1 does not comply in any material respect with its obligations under any of the issuer transaction documents (other than non-payment as set out in the preceding paragraph) and that non-compliance, if capable of remedy, is not remedied promptly and in any event within 20 London business days of Funding 1 becoming aware of its non-compliance or of receipt of written notice from the Funding 1 security trustee requiring Funding 1's non-compliance to be remedied; or
- an insolvency event occurs in relation to Funding 1 or it is, or becomes, unlawful for Funding 1 to perform its obligations under any of the issuer transaction documents.

Investors should note that, as described in “– **Repayment of principal on the issuer loan tranches**” and “– **Limited recourse**” above, it will not be an event of default under the issuer intercompany loan agreement if default is made by Funding 1 in paying amounts due under the issuer intercompany loan agreement where Funding 1 does not have the money available to make the relevant payment. The ability of the issuer to repay each class of issuer notes will depend, among other things, upon payments received by the issuer from Funding 1 under the related issuer loan tranches pursuant to the issuer intercompany loan agreement. See “**Risk factors – Funding 1 is not obliged to make payments on the issuer loan tranches if it does not have enough money to do so, which could adversely affect payments on the issuer notes**” above. Accordingly, a Funding 1 intercompany loan event of default will occur only in very limited circumstances, as it is unlikely to be insolvent, as a result of the application of the limited recourse provisions described above.

If a Funding 1 intercompany loan event of default occurs and is continuing under the issuer intercompany loan agreement, then the issuer may deliver an acceleration notice to Funding 1 stating that the Funding 1 intercompany loan event of default has occurred and directing that all loan tranches outstanding under each or any of the intercompany loan agreements become immediately due and payable and/or that all loan tranches outstanding under each or any of the intercompany loan agreements become due and payable on the demand of the issuer. Upon the service of an intercompany loan acceleration notice the Funding 1 security trustee may enforce the security created under the Funding 1 deed of charge (subject to the terms of the Funding 1 deed of charge).

### ***New issuer intercompany loan agreements***

New issuers may be established by Holdings for the purpose of issuing new issuer notes to investors and using the proceeds thereof to make new issuer intercompany loans to Funding 1 and/or further Funding companies. The issuance of such new issuer notes by any such new issuers and the making of the related new issuer intercompany loans will only be permitted if certain conditions precedent are satisfied, including, among other things, that the ratings of the rated notes then outstanding issued by the issuer will not be reduced, withdrawn or qualified at the time of the issuance of such new issuer notes by the new issuer. See **“Risk factors – If Funding 1 enters into new issuer intercompany loans, such new issuer intercompany loans and accompanying new issuer notes may be repaid prior to the issuer intercompany loan and the issuer notes”** and **“Risk factors – Other creditors may share in the same security granted by Funding 1 to the Funding 1 security trustee, and this may adversely affect payments on the issuer notes”** above.

### ***Governing law***

The intercompany loan agreement will be governed by English law.

### ***Servicing agreement***

On the closing date, the servicer will be appointed by the mortgages trustee (on the direction of the seller and Funding 1) pursuant to the terms of the servicing agreement to administer the loans and their related security in the portfolio. The rights of Funding 1 in respect of the servicing agreement will be assigned absolutely (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

In the future, further Funding companies and relevant Funding security trustees may adhere and accede to the servicing agreement, although there is no certainty that such an event or events will occur. Your consent will not be sought when any further Funding companies and relevant further Funding security trustees accede to the servicing agreement provided that the rating agencies confirm in writing that the current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result.

The servicer will undertake that in its role as servicer it will comply with any proper directions and instructions that the mortgages trustee (as directed by the beneficiaries) may from time to time give to it in accordance with the provisions of the servicing agreement. The servicer is required to administer the loans and their related security in the following manner:

- in accordance with the servicing agreement; and
- as if the loans and mortgages had not been sold to the mortgages trustee 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 in accordance with the seller's procedures are binding on the mortgages trustee, Funding 1 and the Funding 1 secured creditors.

### ***Powers***

Subject to the guidelines for servicing set forth in the preceding section, the servicer has the power, *inter alia*:

- to exercise the rights, powers and discretions of the mortgages trustee, the seller and Funding 1 in relation to the loans and their related security and to perform their duties in relation to the administration of 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 will undertake, *inter alia*, the following:

- (a) to maintain approvals, authorisations, permissions, consents, notifications and licences required in order properly to service the loans and their related security and to perform or comply with its obligations under the servicing agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, consents, notifications and licences required in connection with the provision of services under the servicing agreement, and in particular any necessary registrations under the DPA, licences under the CCA and permissions under the FSMA;
- (b) prepare and submit, on behalf of the mortgages trustee and at the expense of the mortgages trustee, all relevant applications and requests for approvals, authorisations, permissions, consents and licences in connection with the business of the mortgages trustee and, in particular, all relevant applications to renew and to vary and all notifications of changes under the DPA and the CCA;
- (c) to determine and set the variable rate, differential rate and any discretionary rate or margin applicable in relation to any loan in relation to the loans comprising the trust property, except in the limited circumstances described in this paragraph (c), when the mortgages trustee will be entitled to do so. It will not at any time, without the prior consent of the mortgages trustee, Funding 1 and any further Funding companies, set or maintain:
  - (i) the variable rate at a rate which is higher than (although it may be lower than or equal to) the seller variable rate in relation to loans of a particular type beneficially owned by the seller outside the portfolio;
  - (ii) the differential rate at a rate which is higher than (although it may be lower than or equal to) the seller differential rate in relation to loans of a particular type beneficially owned by the seller outside the portfolio; and
  - (iii) any other discretionary rate or margin in respect of any other loan which is higher than (although it may be lower or equal to) the rate or margin which would then be set in accordance with the seller's policy from time to time in relation to that type of loan beneficially owned by the seller outside the portfolio except in certain circumstances.

In particular, the servicer shall also determine on each trust calculation date immediately preceding each Funding 1 interest payment date, having regard to the aggregate of:

- (A) the revenue which Funding 1 would expect to receive during the next succeeding Funding 1 interest period;
- (B) the variable rate, differential rate and any other discretionary rates or margins applicable in respect of the loans which the servicer proposes to set under the servicing agreement; and
- (C) the other resources available to Funding 1 and each Funding 1 issuer (including the Funding 1 swap agreement, the Funding 1 reserve fund, the issuer reserve fund and the issuer liquidity reserve fund (if established)),

whether Funding 1 would receive an amount of revenue during the related Funding 1 interest period which when aggregated with the funds otherwise available to Funding 1 is less than the amount which is the aggregate of the amount of interest which will be payable by Funding 1 in respect of all AAA loan tranches and all amounts ranking higher in priority to such amounts on the Funding 1 interest payment date falling at the end of the related Funding 1 interest period.

If the servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the mortgages trustee, the Funding 1 security trustee, any Funding companies and any further Funding security trustee, within two London business days of such determination, of the amount of the shortfall and the variable rate and/or the differential rate and/or any other discretionary rates or margins which would, in the servicer's reasonable opinion, need to be set in order for no shortfall to arise, having regard to the date(s) on which the change to the variable rate, the differential rate and any discretionary rates or margins 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 variable rate loans, differential rate loans and other relevant loans. If the mortgages trustee and/or Funding 1 and/or the Funding 1 security trustee notify the servicer that, having regard to the obligations of Funding 1, the variable rate and/or the differential rate and/or any discretionary rates or margins should be increased, the servicer will take all steps which are necessary to increase the variable rate and/or the differential rate and/or any discretionary rates or margins including publishing any notice which is required in accordance with the mortgage terms. In these circumstances, the servicer will have the right to set the variable rate and/or the differential rate and/or any discretionary rates or margins.

The mortgages trustee and/or Funding 1 and any further Funding company, with the consent of the Funding 1 security trustee and any further Funding security trustee, may terminate the authority of the

servicer to determine and set the variable rate, the differential rate and any discretionary rates or margins on or after the occurrence of a servicer termination event, as described below in “– **Termination of appointment of the servicer**”, in which case the mortgages trustee will set the variable rate, the differential rate and any discretionary rates or margins itself in accordance with this paragraph (c);

- (d) to the extent so required by the relevant mortgage terms and applicable law, to notify borrowers of any change in interest rates, whether due to a change in the variable rate, the differential rate and any discretionary rate or margin applicable to any other relevant loan or as a consequence of any provisions of the mortgage conditions or the offer conditions. It will also notify the mortgages trustee, the seller, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee and of any change in the variable rate and/or the differential rate and/or any discretionary rate or margins;
- (e) to act as collection agent for the mortgages trustee and the beneficiaries for the purpose of collecting amounts due from borrowers under the loans and their related security. It will deliver to the bankers automated clearing system or to the mortgages trustee account bank such instructions as may be necessary for the debit of the account of each borrower in respect of which there is a direct debit mandate with the monthly payment due from such borrower and for the amount of such monthly payment to be credited to the mortgages trustee GIC account. Under certain circumstances, the alternative payment arrangements that ensure timely payment of monthly payments due from the borrower to the mortgages trustee may be agreed between the servicer and the borrower;
- (f) to execute all documents on behalf of the mortgages trustee, the seller, Funding 1 and any further Funding companies which are necessary or desirable for the efficient provision of services under the servicing agreement, including (but not limited to) documents relating to the discharge of mortgages comprised in the trust property;
- (g) to keep records and accounts on behalf of the mortgages trustee in relation to the loans and their related security;
- (h) to keep the customer files and title deeds (to the extent they are retained by the seller) in safe custody and maintain records necessary to enforce each mortgage. It will ensure that each title deed is capable of identification and retrieval and that each title deed is distinguishable from information held by the servicer for other persons. If the servicer's short-term, unsecured, unsubordinated and unguaranteed debt is rated lower than A-2 by Standard & Poor's, P-2 by Moody's and F2 by Fitch, it will use reasonable endeavours to ensure the customer files and title deeds are identified as distinct from customer files and title deeds which relate to loans held outside the trust property;
- (i) to provide the mortgages trustee, Funding 1 and any further Funding companies (and their auditors) and (if requested) the Funding 1 security trustee and any further Funding security trustee and any other person nominated by the beneficiaries with access to the title deeds and other records relating to the administration of the loans and mortgages;
- (j) to assist the cash manager in the preparation of a quarterly report substantially in the form set out in the cash management agreement, which will include, *inter alia*, information on the loans and payments in arrears;
- (k) to take all reasonable steps, in accordance with the usual procedures undertaken by a reasonable, prudent mortgage lender, to recover all sums due to the mortgages trustee, in respect of the loans;
- (l) to enforce any loan which is in default in accordance with its enforcement procedures or, to the extent that the enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a reasonable, prudent mortgage lender on behalf of the mortgages trustee;
- (m) to provide such other information to the Funding 1 security trustee, any further Funding security trustee and the mortgages trustee as reasonably requested by the Funding 1 security trustee, any further Funding security trustee or the mortgages trustee; and
- (n) not knowingly fail to comply with any legal requirements in the performance of its obligations under the servicing agreement.

The requirement for any action to be taken according to the standards of a reasonable, prudent mortgage lender is as defined below in the “**Glossary**”. For the avoidance of doubt, any action taken by the servicer to set variable rates, the differential rates and any applicable discretionary rates or margins which are the same or 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 mortgages trustee will pay to the servicer an administration fee of 0.08 per cent. per annum (inclusive of any amounts in respect of VAT) on the aggregate amount of the trust property as determined on the trust calculation date in respect of the balance at the end of the immediately preceding trust calculation period. The fee will be payable in arrear on each distribution date. Any unpaid balance will be carried forward until the next distribution date and, if not paid earlier, will be payable on the latest occurring final repayment date of a loan tranche outstanding under the issuer intercompany loan or any latest occurring final repayment date of any new issuer loan tranche under any new issuer intercompany loan.

### ***Resignation of the servicer***

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 Funding 1 security trustee, any further Funding security trustee, the mortgages trustee and the beneficiaries. The substitute servicer is required to have experience in administering mortgages in the United Kingdom and must hold all approvals, authorisations, permissions, consents and licences required in connection with the provision of services under the servicing agreement and, in particular any necessary registrations under the DPA, licence under the CCA and permissions under the FSMA. The substitute servicer must enter into a servicing agreement with the seller, the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies and any further Funding security trustee substantially on the same terms as the relevant provisions of the servicing agreement (which shall, without limitation, include providing the same services as those provided by the servicer under the servicing agreement at the same (or a lesser) level of fees, costs and expenses as set out in the servicing agreement. It will be a further condition precedent to the resignation of the servicer that the rating agencies confirm that the then current ratings of the rated notes will not be downgraded, withdrawn or qualified as a result of the resignation, unless the noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution.

Neither the Funding 1 security trustee nor (where applicable) any further Funding security trustee, although party to the servicing agreement, will be obliged to or will act as servicer.

### ***Termination of appointment of the servicer***

The mortgages trustee, Funding 1 and/or any further Funding company (in respect of Funding 1, with the consent of the Funding 1 security trustee and, in respect of any further Funding company, with the consent of the relevant further Funding security trustee) may, upon written notice to the servicer, terminate the servicer's rights and obligations immediately if any of the following events, each a **servicer termination event**, occurs:

- the servicer defaults in the payment of any amount due under the servicing agreement and fails to remedy that default for a period of five London business days after the earlier of becoming aware of the default and receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the default to be remedied;
- the servicer fails in the performance or observance of any of its other covenants or obligations under the servicing agreement which the Funding 1 security trustee and any further Funding security trustees have been directed by the respective issuer security trustees and the issuer security trustees have been directed by the respective note trustees is, in the reasonable opinion of the note trustees, materially prejudicial to the noteholders and new noteholders and does not remedy that failure within 20 London business days after becoming aware of the failure or of receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding companies and/or the Funding 1 security trustee and further Funding security trustees requiring the servicer's non-compliance to be remedied; or
- an insolvency event occurs in relation to the servicer.

If the appointment of the servicer is terminated or the servicer resigns, the servicer must deliver the title deeds (to the extent retained by the seller) and customer files relating to the loans to, or at the direction of, the mortgages trustee. The servicing agreement will terminate when Funding 1 and each further Funding company has no interest in the trust property and the intercompany loan and/or any new issuer intercompany loans made to Funding 1 and/or any new issuer intercompany loans made to further Funding companies have been repaid in full.

### ***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 it meets certain conditions as set out in the servicing agreement (including the prior written consent of Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee) and provided that the servicer is not released or discharged from any liability therefore and remains liable for the performance or non-performance or breach by any sub-contractor or delegate of the duties so sub-contracted or delegated under the servicing agreement.

The consent of Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee referred to in this prospectus will not be required in respect of any delegation to a wholly-owned subsidiary of Alliance & Leicester from time to time or to persons such as receivers, lawyers or other relevant professionals. None of the note trustee, the issuer security trustee, the Funding 1 security trustee, the mortgages trustee or Funding 1 will be obliged to act as servicer in any circumstances.

### ***Liability of the servicer***

The servicer will indemnify the mortgages trustee and the beneficiaries against all losses, liabilities, claims, expenses or damages incurred as a result of fraud, negligence or wilful default by the servicer or any of its subcontractors 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 or any other transaction documents. If the servicer does breach the terms of the servicing agreement or any other transaction documents and thereby causes loss to the beneficiaries, then, for so long as the servicer is also the seller, the seller share of the trust property will be reduced by an amount equal to the loss.

### ***Governing law***

The servicing agreement will be governed by English law.

### ***Cash management agreement***

On the closing date, the cash manager, the mortgages trustee, the seller, Funding 1 and the Funding 1 security trustee will enter into a cash management agreement. The rights of Funding 1 in respect of the cash management agreement will be assigned absolutely (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

The cash management agreement will make provision for the accession and adherence of any further Funding companies and the relevant further Funding security trustees, although there is no guarantee that any such event may occur. Your consent will not be sought when any further Funding company and the relevant further Funding security trustee accedes to the cash management agreement provided that the rating agencies confirm in writing that the then current ratings of the rated notes then outstanding will not be downgraded, qualified or withdrawn as a result.

### ***Cash management services provided in relation to the mortgages trust***

The cash manager's duties in relation to the mortgages trust will include but are not limited to:

- (a) calculating and distributing the mortgages trust available revenue receipts and the mortgages trust available principal receipts to Funding 1, each further Funding company and the seller in accordance with the terms of the mortgages trust deed;
- (b) arranging for payment of all sums (including costs and expenses) required or permitted to be paid by the mortgages trustee under any of the transaction documents;
- (c) determining the current shares of Funding 1, each further Funding company and the seller in the trust property (including the weighted average Funding 1 share percentage, each further Funding company weighted average share percentage and the seller weighted average share percentage) in accordance with the terms of the mortgages trust deed;
- (d) maintaining the following ledgers on behalf of the mortgages trustee:
  - the Funding 1 share ledger, each further Funding company share ledger and the seller share ledger, which record the current shares of, Funding 1, each further Funding company and the seller, respectively, in the trust property;
  - the losses ledger, which records losses on the loans;
  - the principal ledger, which records principal receipts on the loans received by the mortgages trustee and payments of principal from the mortgages trustee GIC account to Funding 1, each further Funding company and the seller;
  - the revenue ledger, which records revenue receipts on the loans received by the mortgages trustee and payments of revenue receipts from the mortgages trustee GIC account to Funding 1, each further Funding company and the seller; and
  - a ledger which will record any further contribution made by a beneficiary to the mortgages trustee, whether or not such further contribution is in whole or part a refinancing contribution and any special distribution or refinancing distribution made by the mortgages trustee following receipt of such further contribution or refinancing contribution;



- (e) providing the mortgages trustee, Funding 1, each further Funding company, the seller, the rating agencies and (if requested) the Funding 1 security trustee and each further Funding security trustee with a quarterly report in relation to the mortgages trustee; and
- (f) investing amounts standing to the credit of the mortgages trustee GIC account and any other mortgages trustee account in authorised investments.

### ***Cash management services provided to Funding 1***

The cash manager's duties in relation to Funding 1 will include but are not limited to:

- (a) arranging for the payment of all sums (including costs and expenses) required or permitted to be paid by Funding 1 under any of the transaction documents;
- (b) making withdrawals from the Funding 1 reserve fund as and when required;
- (c) applying the Funding 1 available revenue receipts and Funding 1 available principal receipts in accordance with the relevant Funding 1 priority of payments contained in the Funding 1 deed of charge;
- (d) notifying the Funding 1 swap provider of the notional amount of the Funding 1 swap for the immediately previous trust calculation period no later than the trust calculation date;
- (e) one London business day before each Funding 1 interest payment date, determining:
  - the amount of Funding 1 available revenue receipts to be applied on the following Funding 1 interest payment date in accordance with the Funding 1 pre-acceleration revenue priority of payments;
  - the amount of Funding 1 available principal receipts to be applied on the following Funding 1 interest payment date in accordance with the Funding 1 pre-acceleration principal priority of payments;
  - the outstanding principal amount of all loan tranches; and
  - the outstanding principal amount of all Funding 1 start-up loans;
- (f) maintaining the following ledgers on behalf of Funding 1:
  - the Funding 1 principal ledger, which records the amount of Funding 1 principal receipts received by Funding 1 on each distribution date;
  - the Funding 1 revenue ledger, which records all other amounts received by Funding 1 on each distribution date;
  - the Funding 1 reserve ledger, which records the amount credited to the Funding 1 reserve fund from (i) a portion of the proceeds of the Funding 1 start-up loan on the closing date or any further Funding company start-up loan (if applicable) and (ii) other amounts standing to the credit of the Funding 1 reserve fund (but not exceeding the Funding 1 reserve fund required amount) and (iii) all deposits and other credits in respect of the Funding 1 reserve fund;
  - the intercompany loan ledger, which records payments of interest and repayments of principal made on each of the loan tranches under each intercompany loan;
  - the cash accumulation ledger, which records the amount accumulated by Funding 1 from time to time to pay the amounts due on scheduled amortisation amounts; and
- (g) investing amounts standing to the credit of the Funding 1 GIC account in authorised investments as determined by Funding 1, the cash manager and the Funding 1 security trustee; and
- (h) providing Funding 1, the mortgages trustee, the issuer, the issuer security trustee, the rating agencies and (if requested) the Funding 1 security trustee with a quarterly report in relation to Funding 1.

### ***Compensation of cash manager***

The cash manager will be paid a fee as agreed from time to time with the mortgages trustee, the Funding 1 security trustee and Funding 1, which at the date of the cash management agreement shall be of 0.01 per cent. per annum of the aggregate outstanding principal amount of the issuer intercompany loan (prior to any repayment of principal on its due date) for its services and will be paid by Funding 1 in four instalments quarterly in arrears on each Funding 1 interest payment date occurring in March, June, September and December in each year in accordance with the Funding 1 deed of charge. The fee will be inclusive of any amounts in respect of VAT, and the aggregate amount payable in respect of such service will not be adjusted in the event of any change in the rate of VAT. Until otherwise agreed by the mortgages trustee, the cash manager and Funding 1, this fee will continue to be payable by Funding 1.

In addition, the cash manager will be entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The cash manager will be paid by the mortgages trustee prior to distributions to Funding 1 and by Funding 1 prior to amounts due under the issuer intercompany loan.

### ***Resignation of cash manager***

The cash manager may resign only on giving 12 months' written notice to Funding 1, the Funding 1 security trustee, any further Funding company, any further Funding security trustee and the mortgages trustee and provided:

- a substitute cash manager has been appointed and a new cash management agreement is entered into on substantially the same terms as the cash management agreement and satisfactory to the Funding 1 security trustee and any further Funding security trustee;
- such substitute cash manager has management experience and is approved by Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee; and
- the rating agencies confirm that the then current ratings of the rated notes would not be downgraded, withdrawn or qualified by the rating agencies as a result of that replacement (unless the relevant classes of noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution).

### ***Termination of appointment of cash manager***

Funding 1 and any further Funding company and/or the seller (with the prior written consent of the Funding 1 security trustee and any further Funding security trustee) may, upon written notice to the cash manager, terminate the cash manager's rights and obligations immediately if any of the following events occurs:

- the cash manager defaults in the payment of any amount due and fails to remedy the default for a period of five London business days after the earlier of becoming aware of the default or receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the default to be remedied;
- the cash manager fails to comply with any of its other obligations under the cash management agreement which, in the reasonable opinion of the Funding 1 security trustee (acting on the instructions of the issuer security trustees and each note trustee in relation to the issuer notes or new issuer notes in relation to which it acts as note trustee), is materially prejudicial to the noteholders and any new noteholders and (if capable of remedy) does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure or receiving a written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the cash manager's non-compliance to be remedied; or
- the cash manager suffers an insolvency event.

Upon termination of the appointment of the cash manager, Funding 1, any further Funding companies and/or the seller (with the prior written consent of the Funding 1 security trustee and any further Funding security trustees) will agree to use their reasonable endeavours to appoint a substitute cash manager. Any such substitute cash manager will be required to enter into a cash management agreement on substantially the same terms as the cash management agreement and the appointment of such substitute cash manager and all other documentation is conditional upon the rating agencies having previously confirmed in writing to the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies and any further Funding security trustees that the then current ratings of the rated notes will not be downgraded, withdrawn or qualified as a result of the appointment (unless the noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution).

If the appointment of the cash manager is terminated or it resigns, the cash manager must deliver its books of account (and any other information reasonably requested by the Funding 1 security trustee or any further Funding security trustee) relating to the loans and/or any monies held on behalf of the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies or any further Funding security trustees to or at the direction of the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company or any further Funding security trustee, as the case may be. The cash management agreement will terminate automatically when Funding 1 and/or any further Funding company have no further interest in the trust property and the issuer intercompany loan and any new issuer intercompany loans have been repaid in full.

### ***Governing law***

The cash management agreement will be governed by English law.

### ***Issuer cash management agreement***

The issuer cash manager will be appointed on the closing date by the issuer to provide cash management services to the issuer pursuant to the issuer cash management agreement. The rights of the issuer in respect of the issuer cash

management agreement will be assigned absolutely (and, to the extent not assignable, charged) to the issuer security trustee pursuant to the issuer deed of charge.

***Cash management services to be provided to the issuer***

The issuer cash manager's duties will include but are not limited to:

- (a) applying issuer revenue receipts and issuer principal receipts in accordance with the relevant issuer priority of payments set out in the issuer cash management agreement or, as applicable, the issuer deed of charge;
- (b) arranging payment of all fees to the London Stock Exchange or, as applicable, the FSA;
- (c) if required, directing the issuer to make drawings under the issuer reserve fund and/or the issuer liquidity reserve fund (if established);
- (d) one London business day before each interest payment date, determining:
  - the amount of issuer revenue receipts to be applied to pay interest on the issuer notes on the following interest payment date and to pay amounts due to other issuer secured creditors;
  - whether issuer revenue receipts will be sufficient to pay items (a) to (d) inclusive and (f) of the issuer pre-acceleration revenue priority of payments;
  - the amount of issuer principal receipts to be applied to repay the issuer notes on the following interest payment date; and
  - such other amounts as are expressed to be calculations and determinations made by the issuer cash manager in accordance with the conditions of the issuer notes;
- (e) if necessary, performing all interest rate conversions (whether it be a conversion from floating rates of interest to fixed rates of interest or vice versa) free of charge, cost or expense at the relevant exchange rate;
- (f) providing the issuer, the issuer security trustee and (if requested) the rating agencies with quarterly reports in relation to the issuer and procuring that such quarterly reports in relation to the portfolio are provided to Bloomberg L.P. for publication on a page of the Bloomberg screen;
- (g) investing amounts standing to the credit of the issuer transaction account, the issuer euro account, the issuer share capital account and the issuer GIC account in authorised investments; and
- (h) maintaining certain ledgers on behalf of the issuer, including the following ledgers:
  - (i) the issuer revenue ledger, which shall record all issuer revenue receipts standing to the credit of the issuer transaction account from time to time;
  - (ii) the issuer principal ledger, which shall record all issuer principal receipts standing to the credit of the issuer transaction account from time to time;
  - (iii) the issuer note ledger, which shall be divided into segregated sub-ledgers each of which shall record payments made under each class of issuer notes (each of which shall be further divided into sub-ledgers to record payments of interest and fees and repayments and prepayments of principal made under such class of issuer notes);
  - (iv) the issuer principal deficiency ledgers, which records the losses allocated by Funding 1 to the issuer intercompany loan, the application of issuer principal receipts to fund the issuer liquidity reserve ledger (if required) and the application of issuer principal receipts to meet any deficiency in issuer revenue receipts;
  - (v) the issuer reserve ledger, which records the amount credited to the issuer reserve fund from (i) a portion of the proceeds of the issuer start-up loan on the closing date (ii) other amounts standing to the credit of the issuer reserve fund (but not exceeding the issuer reserve required amount) and (iii) subsequent withdrawals and deposits in respect of the issuer reserve fund; and
  - (vi) the issuer liquidity reserve ledger (if established), which will record the amounts credited to the issuer liquidity reserve fund from issuer principal receipts and issuer revenue receipts up to the issuer liquidity reserve required amount and withdrawals and deposits made under the issuer liquidity reserve fund.

### ***Compensation of issuer cash manager***

The issuer cash manager will be paid a fee of 0.01 per cent. per annum of the sterling principal amount outstanding of the issuer notes for its services which will be paid in four instalments quarterly in arrear on each interest payment date occurring in March, June, September and December in each year. The fee is inclusive of any amounts in respect of VAT, and the aggregate amount payable in respect of such service will not be adjusted in the event of any change in the rate of VAT.

In addition, the issuer cash manager will be entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The issuer cash manager will be paid by the issuer prior to amounts due on the issuer notes.

### ***Resignation of issuer cash manager***

The issuer cash manager may resign only on giving 12 months' written notice to the issuer security trustee and the issuer and provided the following conditions, *inter alia*, are met:

- a substitute issuer cash manager has been appointed and a new issuer cash management agreement is entered into on substantially the same terms as the issuer cash management agreement and satisfactory to the issuer security trustee; and
- the rating agencies confirm that the ratings of the rated issuer notes then outstanding would not be downgraded, withdrawn or qualified by the rating agencies as a result of that replacement.

### ***Termination of appointment of issuer cash manager***

The issuer (with the prior written consent of the issuer security trustee) may, upon written notice to the issuer cash manager, terminate the issuer cash manager's rights and obligations immediately if any of the following events occurs:

- the issuer cash manager defaults in the payment of any amount due and fails to remedy the default for a period of five London business days after the earlier of the issuer cash manager becoming aware of the default or receipt by the issuer cash manager of written notice from the issuer and/or (following service of a note acceleration notice) the issuer security trustee requiring the default to be remedied;
- the issuer cash manager fails to comply with any of its other obligations under the issuer cash management agreement which in the reasonable opinion of the issuer security trustee (as directed by the note trustee), is materially prejudicial to the interests of the noteholders and does not remedy that failure within 20 London business days after the earlier of the issuer cash manager becoming aware of the failure or receipt by the issuer cash manager of written notice from the issuer and/or (following service of a note acceleration notice) the issuer security trustee requiring the issuer cash manager's non-compliance to be remedied; or
- the issuer cash manager suffers an insolvency event.

Upon termination of the appointment of the issuer cash manager, the issuer will agree to use its reasonable endeavours to appoint a substitute issuer cash manager. Any such substitute issuer cash manager will be required to enter into an issuer cash management agreement on substantially the same terms as the provisions of the issuer cash management agreement and the appointment of such substitute issuer cash manager and all other documentation is conditional upon the rating agencies having previously confirmed in writing to the issuer and the issuer security trustee that the then current ratings of the notes then outstanding will not be downgraded, withdrawn or qualified.

If the appointment of the issuer cash manager is terminated or it resigns, the issuer cash manager must deliver its books of account relating to the notes to the issuer or to the issuer security trustee (as the case may be) or, at the direction of the issuer or the issuer security trustee (as the case may be). The issuer cash management agreement will terminate automatically when the issuer secured obligations have been discharged.

### ***Governing law***

The issuer cash management agreement will be governed by English law.

### ***Funding 1 bank account agreement***

Pursuant to the terms of the Funding 1 bank account agreement to be entered into on the closing date between Funding 1, the Funding 1 account bank, the cash manager and the Funding 1 security trustee, Funding 1 will agree to maintain two bank accounts in England in its name with the Funding 1 account bank. These are:

- (a) the Funding 1 GIC account: the Funding 1 reserve fund is credited to this account and on each distribution date the Funding 1 share of the mortgages trust available revenue receipts, any distribution of

mortgages trust available principal receipts to Funding 1 under the mortgages trust and any balance remaining in the Funding 1 cash accumulation ledger are initially deposited in this account. On any date upon which payment is due, amounts required to meet Funding 1's obligations to its various creditors (including the issuer) and any new issuer are transferred to the Funding 1 transaction account; and

- (b) the Funding 1 transaction account: on each Funding 1 interest payment date, monies standing to the credit of the Funding 1 GIC account are, with the consent of the Funding 1 security trustee, transferred to the Funding 1 transaction account and applied by the cash manager in accordance with the relevant order for priority of payments of Funding 1. Amounts representing Funding 1's profits are retained in the Funding 1 transaction account.

If the Funding 1 account bank ceases to have the Funding 1 account bank ratings then either:

- the Funding 1 transaction account and the Funding 1 GIC account will be closed and all amounts standing to the credit thereof shall within 30 days of such occurrence be transferred to accounts held with a financial institution: (i) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 by Standard & Poor's, P-1 by Moody's and F1 by Fitch; and (ii) which is an authorised person under the FSMA unless Fitch and Standard & Poor's confirm that the then current ratings of the rated notes then outstanding would not be downgraded, withdrawn or qualified; or
- the Funding 1 account bank will obtain a guarantee of its obligations under the Funding 1 bank account agreement from a financial institution whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 by Standard & Poor's, P-1 by Moody's and F1 by Fitch and Fitch and Standard & Poor's confirm that the then current ratings of the rated notes then outstanding would not be downgraded, withdrawn or qualified,

and provided that the Funding 1 account bank shall be responsible for any costs or expenses in relation thereto.

The rights, benefit and interest of Funding 1 in respect of the Funding 1 bank account agreement will be assigned absolutely (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

**The Funding 1 account bank ratings** means the short-term, unsecured, unsubordinated and unguaranteed debt obligation ratings of at least A-1 by Standard & Poor's, P-1 by Moody's and F1 by Fitch.

Under the terms of the Funding 1 bank account agreement, the Funding 1 account bank has agreed to pay interest on the monies standing to the credit of the Funding 1 GIC account at a variable rate of interest of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

### ***Governing law***

The Funding 1 bank account agreement will be governed by English law.

### **Mortgages trustee bank account agreement**

The mortgages trustee will enter into the mortgages trustee bank account agreement with the mortgages trustee account bank, the cash manager, Funding 1 and the Funding 1 security trustee on substantially the same terms as the Funding 1 bank account agreement in relation to the mortgages trustee GIC account.

### **Issuer bank account agreement**

On the closing date, the issuer will enter into the issuer bank account agreement with the issuer account bank, the issuer cash manager and the issuer security trustee on substantially the same terms as the Funding 1 bank account agreement in relation to the issuer GIC account (in which the issuer reserve fund and (if established) the issuer liquidity reserve fund is contained), the issuer transaction account (also known as the issuer sterling account), the issuer euro account and the issuer share capital account.

If the issuer account bank ceases to have the issuer account bank ratings, then either:

- the issuer GIC account, the issuer transaction account, the issuer euro account and the issuer share capital account will be closed provided that all amounts standing to the credit thereof shall within 30 days of such occurrence be transferred to accounts held with a financial institution (with whom the issuer cash manager, the issuer and the issuer security trustee have entered into an agreement in form and substance similar to the issuer bank account agreement) which is an authorised person under the Financial Services and Markets Act 2000 whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 by Standard & Poor's, P-1 by Moody's and F1 by Fitch, unless each of the rating agencies confirms that the then current ratings of the rated notes then outstanding would not be downgraded, withdrawn or qualified as a result of failure to make such transfer; or

- the issuer account bank obtains a guarantee of its obligations under the issuer bank account agreement from a financial institution whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 by Standard & Poor's, P-1 by Moody's and F1 by Fitch and each of the rating agencies confirm that the then current ratings of the rated notes then outstanding would not be downgraded, withdrawn or qualified,

and provided that the issuer bank shall be responsible for any costs or expenses in relation thereto.

The rights, benefits and interests of the issuer under the issuer bank account agreement will be assigned absolutely (and, to the extent not assignable, charged) to the issuer security trustee under the issuer deed of charge.

### **Issuer start-up loan agreement and Funding 1 start-up loan agreement**

The following section contains a summary of the material terms of the issuer start-up loan agreement and the Funding 1 start-up loan agreement (together, referred to herein as the **start-up loan agreements**). The summary does not purport to be complete and is subject to the provisions of the start-up loan agreements.

#### *General description*

Pursuant to the issuer start-up loan agreement to be dated on or about the closing date, Alliance & Leicester (as the **issuer start-up loan provider**) will agree to make available to the issuer an issuer start-up loan. The issuer start-up loan will be a subordinate-ranking sterling loan facility which will be made available to the issuer in the following four tranches: (a) a tranche (the **issuer start-up loan tranche A**) in the amount of up to £1,000,000, which shall be paid into the issuer transaction account, for the purposes of on-lending to Funding 1 an amount corresponding to the Funding 1 start-up loan tranche A (as defined below) under the Funding 1 start-up loan agreement, (b) a tranche (the **issuer start-up loan tranche B**) in the amount of up to £3,870,000, which shall be paid into the issuer transaction account, for the purposes of on-lending to Funding 1 an amount corresponding to the Funding 1 start-up loan tranche B (as defined below) under the Funding 1 start-up loan agreement, (c) a tranche (the **issuer start-up loan tranche C**) in the amount of up to £14,000,000, which shall be paid into the issuer transaction account, for the purposes of on-lending to Funding 1 an amount corresponding to the Funding 1 start-up loan tranche C (as defined below) under the Funding 1 start-up loan agreement and (d) a tranche (the **issuer start-up loan tranche D**) in the amount of up to £21,000,000 for the purposes of funding the issuer reserve fund which shall be paid into the issuer GIC account.

Pursuant to the Funding 1 start-up loan agreement to be dated on or about the closing date, the issuer (as the **Funding 1 start-up loan provider**) will agree to make available to Funding 1 a Funding 1 start-up loan. The Funding 1 start-up loan will be a subordinate-ranking sterling loan which will be made available to Funding 1 in the following three tranches: (a) a tranche in the amount of £1,000,000 for the purposes of funding the Funding 1 reserve fund which shall be paid into the Funding 1 GIC account (the **Funding 1 start-up loan tranche A**), (b) a tranche in the amount of £3,870,000 for the purposes of funding the fees, costs and expenses of Funding 1 (including, for the avoidance of doubt, fees payable by Funding 1 to the issuer under the issuer intercompany loan agreement) (the **Funding 1 start-up loan tranche B**) and (c) a tranche in the amount of £14,000,000 for the purposes of funding the initial payment under the Funding 1 swap (the **Funding 1 start-up loan tranche C**).

#### *Interest*

Each of the Funding 1 start-up loan and the issuer start-up loan will bear interest until repaid at a rate of LIBOR for three-month sterling deposits plus a margin of 0.90 per cent. per annum. Any unpaid interest will not fall due but will instead be due on the next following quarterly interest payment date on which sufficient funds are available to pay such unpaid amount and pending such payment will itself bear interest. Interest in respect of the Funding 1 start-up loan will be payable by Funding 1 on each Funding 1 interest payment date. Interest in respect of the issuer start-up loan will be payable by the issuer on each interest payment date.

#### *Repayment*

Funding 1 will repay the Funding 1 start-up loan tranche A, then the Funding 1 start-up loan tranche B and then the Funding 1 start-up loan tranche C on each Funding 1 interest payment date, but only to the extent that it has Funding 1 available revenue receipts after making higher ranking payments (see further "**Cashflows – Distribution of Funding 1 available revenue receipts**" and "**Cashflows – Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following issuer intercompany loan acceleration**" above). Amounts due to the issuer in respect of the Funding 1 start-up loan are payable after amounts due on the issuer loan tranches. After Funding 1 has repaid the Funding 1 start-up loan, it will have no further recourse to the issuer in respect of the Funding 1 start-up loan.

The issuer will repay the issuer start-up loan to the extent amounts are due and payable under the issuer start-up loan agreement, but only to the extent that it has available issuer revenue receipts after making higher ranking payments (see further "**Cashflow – Distribution of issuer revenue receipts before note acceleration**" and "**Cashflows – Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration**" above). The issuer will repay the issuer start-up loan tranche A, then the issuer start-up loan tranche B and then the

issuer start-up loan tranche C if and to the extent that it receives amounts from Funding 1 representing repayments of principal on the Funding 1 start-up loan, and the issuer will further repay the issuer start-up loan tranche D if and to the extent there are no rated issuer notes then outstanding and only to the extent that it has sufficient issuer revenue receipts standing to the credit of the issuer reserve fund or otherwise available to it after making higher ranking payments. Amounts due to the issuer start-up loan provider are payable after amounts due on the issuer notes. After the issuer has repaid the issuer start-up loan, it will have no further recourse to the issuer start-up loan provider in respect of the issuer start-up loan.

#### *Acceleration*

If an intercompany loan acceleration notice is served on Funding 1, then any portion of the advances under the Funding 1 start-up loan not yet drawn will be cancelled and the advances under the Funding 1 start-up loan (including any accrued and unpaid interest) will become immediately due and payable. If an acceleration notice is served on the issuer, then any portion of the advances not yet drawn under the issuer start-up loan will be cancelled and the advances under the issuer start-up loan (including any accrued and unpaid interest) will become immediately due and payable.

#### *Governing law*

The start-up loan agreements will be governed by English law.

#### **Funding 1 deed of charge**

Funding 1 will grant security for its obligations under the issuer intercompany loan agreement, the Funding 1 start-up loan agreement, the Funding 1 swap agreement and the other transaction documents to which it is a party by entering into the Funding 1 deed of charge with the Funding 1 secured creditors on the closing date.

The Funding 1 deed of charge will have seven primary functions:

- it sets out the covenants of Funding 1;
- it creates security interests in favour of the Funding 1 security trustee which the Funding 1 security trustee then holds on trust for each of the Funding 1 secured creditors (including Funding 1 secured creditors that accede to the Funding 1 deed of charge in connection with any new issuer loan tranches under new issuer intercompany loans);
- it sets out the order in which the cash manager applies money received by Funding 1 prior to enforcement of the security;
- it sets out the enforcement procedures following service on Funding 1 of an intercompany loan acceleration notice (including provisions relating to the appointment of a receiver);
- it sets out the order in which the Funding 1 security trustee applies money received by Funding 1 after the service of an intercompany loan acceleration notice on Funding 1;
- it sets out the appointment of the Funding 1 security trustee, its powers and responsibilities and the limitations on those responsibilities; and
- it sets out how new creditors of Funding 1 can accede to the terms of the Funding 1 deed of charge.

If Funding 1 enters into new issuer intercompany loan agreements with new issuers, then the new issuers (together with any new Funding 1 swap providers) will enter into deeds of accession in relation to the Funding 1 deed of charge which may, depending on the type of new issuer notes to be issued, require amendments, amongst other things, to any of the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments and the Funding 1 post-acceleration priority of payments. Any such new issuers which accede to the Funding 1 deed of charge will share in the security granted by Funding 1. This means that any other applicable creditors of Funding 1 will share in the security granted by Funding 1 under the Funding 1 deed of charge with the Funding 1 secured creditors existing as at the closing date. Consent of existing Funding 1 secured creditors and issuer secured creditors will not be sought in relation to the accession of any new issuer and/or other applicable creditors of Funding 1.

#### ***Covenants of Funding 1***

The Funding 1 deed of charge contains covenants made by Funding 1 in favour of the Funding 1 security trustee on trust for the benefit of itself, any receiver of Funding 1 and the Funding 1 secured creditors.

#### ***Funding 1 security***

Under the Funding 1 deed of charge, Funding 1 will create the security interests set out below in favour of the Funding 1 security trustee for and on behalf of the Funding 1 secured creditors (the **Funding 1 security**) in respect of its obligations under the issuer intercompany loan agreement, any new issuer intercompany loan agreement, the

Funding 1 swap agreement and the other transaction documents to which it is a party. Pursuant to the Funding 1 deed of charge, Funding 1 will:

- assign absolutely or, to the extent not assignable, charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) all of its rights, title, interest and benefit in the Funding 1 share of the trust property;
- assign absolutely or, to the extent not assignable, charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) all of its rights in the transaction documents to which Funding 1 is a party from time to time;
- assign absolutely or, to the extent not assignable, charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) all of its rights in respect of any amount standing to the credit of the Funding 1 accounts and all interest paid or payable in respect of those amounts and all debts represented by those amounts;
- charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) over all of its rights in respect of all authorised investments made by or on behalf of Funding 1 using moneys standing to the credit of the Funding 1 accounts and all interest, moneys and proceeds paid or payable in relation to those authorised investments;
- charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) all of its rights in respect of the benefit of all authorisations held in connection with its use of the Funding 1 charged property and any compensation which may be payable to Funding 1 in respect of those authorisations; and
- create a first floating charge over all of Funding 1's undertaking and all its property and assets (including, without limitation, its uncalled capital) not otherwise effectively charged or assigned (but extending over any property, assets and undertaking of Funding 1 situated in Scotland or the rights to which are governed by Scots law).

#### ***Nature of security – fixed charge***

Whether a fixed security interest expressed to be created by the Funding 1 deed of charge will be upheld under English law and Northern Irish law as a fixed security interest rather than floating security will depend, among other things, on whether the Funding 1 security trustee has the requisite degree of control over the chargors' ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Funding 1 security trustee in practice. In particular, it is likely that the Funding 1 security trustee does not exert sufficient control over the accounts of Funding 1 for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised as a floating charge if the proceeds thereof are paid into a bank account over which the Funding 1 security trustee is not deemed to have sufficient control. Such is likely to be the case in respect of the security (other than the floating charge) referred to in this section. Under Scots law there is no equivalent concept of fixed charges taking effect as floating charges.

#### ***Nature of security – floating charge***

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 Funding 1 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 Funding 1's business. Any of Funding 1's assets acquired after the closing date (including assets acquired as a result of the disposition of any other asset of Funding 1), which are not subject to the fixed charges mentioned in this section will be subject to the floating charge.

The existence of the floating charge will allow the Funding 1 security trustee to appoint an administrative receiver of Funding 1 as long as the capital markets exemption is available. The main advantage of the Funding 1 security trustee being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator of Funding 1 by one of Funding 1's other creditors which allows the Funding 1 security trustee to control proceedings in the event Funding 1's other creditors seek such action.

The interest of the Funding 1 secured creditors in property and assets over which there is a floating charge only will rank behind the expenses of any administration and the claims of certain preferential creditors and, from 6 April 2008 (following implementation of certain sections of the Companies Act 2006), the expenses of liquidation on enforcement of the Funding 1 security. This means that the expenses of any administration and preferential creditors, and (from 6 April 2008) the expenses of any liquidation will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the issuer under the issuer intercompany loan agreement. Section 250 of the Enterprise Act (and the equivalent Section 6 of the Insolvency (Northern Ireland) Order 2005) abolishes crown preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to the debts due to the holder of a floating charge), but a new Section 176A of the Insolvency Act (as inserted by Section 251 of the Enterprise Act and the equivalent Section 7 of the Insolvency (Northern Ireland) Order 2005) 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 administration, the claims of preferential creditors, the beneficiaries of the prescribed part, and (from 6 April 2008) the expenses of any liquidation will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the issuer. 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 Funding 1 deed of charge may “crystallise” and become a fixed charge over the relevant class of assets owned by Funding 1 at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Funding 1 deed of charge, including, among other events, notice to Funding 1 from the Funding 1 security trustee following an intercompany loan event of default, except in relation to Funding 1's Scottish assets where crystallisation will occur only on the appointment of an administrative receiver or on the commencement of the winding-up of Funding 1. A crystallised floating charge will rank ahead of the claims of unsecured creditors but will continue to rank behind the expenses of any administration and the claims of preferential creditors (as referred to in this section) and (from 6 April 2008) the expenses of any liquidation on enforcement of the Funding 1 security.

### ***Funding 1 pre-acceleration priority of payments***

The Funding 1 deed of charge will set out the priority of distribution by the cash manager, as at the closing date and prior to the service of an intercompany loan acceleration notice on Funding 1, of amounts standing to the credit of the Funding 1 transaction account on each Funding 1 interest payment date. This priority is described below in “**Cashflows – distribution of Funding 1 available revenue receipts**” and “**Cashflows – distribution of Funding 1 available principal receipts**”.

### ***Following the creation of new issuer intercompany loan agreements***

Where new issuers make new issuer loan tranches available to Funding 1, those new issuers (together with any new Funding 1 swap providers) will enter into deeds of accession in relation to the Funding 1 deed of charge which will amend the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments (including those priorities of payments applying if an asset trigger event occurs) and the Funding 1 post-acceleration priority of payments to reflect the amounts due to the new issuer, any new Funding 1 start-up loan provider and any new Funding 1 swap provider. The ranking of those new amounts due will be as follows:

- subject to the rules regarding the application of Funding 1 principal receipts by Funding 1 (see “**Cashflows – Distribution of Funding 1 available principal receipts – The rules**” below), all amounts due and payable to the issuer and any new issuers will be paid, *pari passu* and *pro rata* to the outstanding principal amount of the intercompany loan made by each issuer to Funding 1; and
- all Funding 1 swap providers will rank *pari passu* and *pro rata* to the respective amounts due to them.

Other creditors of Funding 1 may from time to time become Funding 1 secured creditors by signing a deed of accession. The prior consent of the noteholders, Funding 1 secured creditors existing at that time and the other issuer secured creditors will not be sought in relation to the accession of a new issuer or new creditor to the Funding 1 deed of charge. The Funding 1 deed of charge directs the Funding 1 security trustee to execute any deed of accession for and on behalf of the Funding 1 secured creditors, provided that the new issuer shall have certified in writing to the Funding 1 security trustee that the conditions precedent to the creation of a new issuer intercompany loan have been satisfied.

### ***Enforcement***

The Funding 1 deed of charge will set out the general procedures by which the Funding 1 security trustee may take steps to enforce the Funding 1 security so that the Funding 1 security trustee can protect the interests of each of the Funding 1 secured creditors.

The Funding 1 deed of charge will provide that, when exercising its powers, trusts, authorities, duties and discretions (including acceleration of the issuer intercompany loan and/or enforcement of the Funding 1 security), the Funding 1 security trustee shall act only at the request or direction of the issuer security trustee and if it is indemnified or secured to its satisfaction. The issuer security trustee will only act at the request or direction of the note trustee and if it is indemnified and/or secured to its satisfaction.

The Funding 1 security will become enforceable upon the service of an intercompany loan acceleration notice under the issuer intercompany loan, provided that, if the Funding 1 security has become enforceable otherwise than by reason of a default in payment of any amount due in respect of any loan tranche, the Funding 1 security trustee will not be entitled to dispose of all or part of the assets comprised in the Funding 1 security unless either:

- (a) Funding 1 provides the Funding 1 security trustee with a certificate signed by two of its directors certifying that a sufficient amount would be realised to allow payment in full of all amounts owing to the Funding 1 issuers under the intercompany loan agreements (excluding any subordinated loan tranches)

after payment of all other claims ranking in priority to such amounts in accordance with the Funding 1 post-acceleration priority of payments; or

- (b) the Funding 1 security trustee has been advised by an independent investment bank or other financial adviser selected by the Funding 1 security trustee that, in its opinion, the cash flow prospectively receivable by Funding 1 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 Funding 1, to discharge in full in due course all amounts due in respect of the issuer intercompany loan agreement after payment of all other claims ranking in priority to such amounts due in accordance with the Funding 1 post-acceleration priority of payments and the resulting shortfall would be greater than the shortfall resulting from a disposal of the assets (or the Funding 1 security trustee considers, in its discretion, that not to effect such disposal would place the Funding 1 charged property in jeopardy) and the Funding 1 security trustee has been indemnified and/or secured to its satisfaction against all liabilities to which it may thereby become liable or which it may incur by so doing.

None of the Funding 1 secured creditors will be entitled to take steps directly against Funding 1 for any amounts owing to them, unless the Funding 1 security trustee has become bound to enforce the Funding 1 security but has failed to do so within a reasonable period of time of becoming so bound.

### ***Funding 1 post-acceleration priority of payments***

The Funding 1 deed of charge will set out the priority of distribution as at the closing date by the cash manager, following service of an intercompany loan acceleration notice, of amounts standing to the credit of the Funding 1 transaction account on any interest payment date and by the Funding 1 security trustee, following enforcement of the Funding 1 security, of amounts received or recovered by the Funding 1 security trustee or a receiver appointed on its behalf on any date. This priority is described in “**Cashflows – distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration**” below.

### ***Appointment, powers, responsibilities and liabilities of the Funding 1 security trustee***

The Funding 1 security trustee will be appointed to act as security trustee on behalf of the Funding 1 secured creditors on the terms and conditions of the Funding 1 deed of charge. It will hold the benefit of the Funding 1 security on trust for each of the Funding 1 secured creditors in accordance with the terms and conditions of the Funding 1 deed of charge.

The Funding 1 security trustee may, without the consent or sanction of the other Funding 1 secured creditors (save where they are party to the transaction document which is the subject of such modification where their actual consent shall be required), concur with any person in making or sanctioning any modifications to the transaction documents if directed or requested by the issuer security trustee, which in turn is directed or requested by the note trustee, provided that:

- the note trustee is of the opinion that such modification will not be materially prejudicial to the interests of the noteholders or, if it is not of that opinion in relation to any class of the noteholders or the modification is a basic terms modification, it has been directed or requested by an extraordinary resolution of such class of the noteholders; or
- the note trustee is of the opinion that such modification is made to correct a manifest error or an error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature.

The note trustee will be entitled to assume that the exercise of its discretions will not be materially prejudicial to the interests of the noteholders if the rating agencies confirm that the then current rating by it of the rated notes then outstanding would not be downgraded, withdrawn or qualified by such exercise.

In addition, each of the note trustee, the issuer security trustee and the Funding 1 security trustee (where applicable) will give its consent to any modifications to any transaction document, that are requested by Funding 1 (or the cash manager, on its behalf) or the issuer (or the issuer cash manager on its behalf) provided that Funding 1 (or the cash manager on its behalf) or the issuer (or the issuer cash manager on its behalf) certifies to the note trustee, the issuer security trustee and the Funding 1 security trustee in writing that such modifications are required in order to accommodate (among other things):

- (i) any new intercompany loans to be advanced to Funding 1 or any further Funding companies and/or the issue of any new issuer notes by any new issuer;
- (ii) the entry by Funding 1 or any further Funding company into any new Funding 1 start-up loan agreement and/or entry by any new issuer into any new issuer start-up loan agreement;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;

- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraph (i) above);
- (vi) the sale of new types of loans or their related security to the mortgages trustee;
- (vii) changes to the Funding 1 reserve required amount, the issuer reserve required amount and/or the issuer liquidity reserve required amount (or equivalent amounts in respect any further Funding company and/or new issuer) and/or the manner in which each of such amounts are funded; and/or
- (viii) changes to the asset trigger events and non-asset trigger events;

and provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1 or the cash manager, the issuer and/or the issuer cash manager certifies to the note trustee, the issuer security trustee and the Funding 1 security trustee (as applicable) in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (viii) above, each of the note trustee, the issuer security trustee and the Funding 1 security trustee has received written confirmation from the rating agencies that as a result of the relevant modifications the then current ratings of the rated notes will not be downgraded, withdrawn or qualified.

### ***Funding 1 security trustee's fees and expenses***

Funding 1 shall reimburse the Funding 1 security trustee for all its costs and expenses properly incurred in acting as security trustee pursuant to the Funding 1 deed of charge. The Funding 1 security trustee shall be entitled to a fee payable annually in the amount agreed from time to time by the Funding 1 security trustee and Funding 1. Funding 1 will agree to indemnify the Funding 1 security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the transaction documents; or
- the Funding 1 security trustee's engagement as security trustee pursuant to the Funding 1 deed of charge.

Funding 1 will not be responsible under the Funding 1 deed of charge for any liabilities, losses, damages, costs or expenses resulting from fraud, negligence or wilful default by the Funding 1 security trustee or any of its officers, employees or advisers or breach by them of the terms of the Funding 1 deed of charge.

### ***Retirement and removal***

Subject to the appointment of a successor security trustee, the Funding 1 security trustee may retire after giving three months' notice in writing to Funding 1. In order to be eligible to act as Funding 1 security trustee, such successor security trustee must be a trust corporation. If within 60 days of having given notice of its intention to retire, Funding 1 has failed to appoint a replacement security trustee, the outgoing Funding 1 security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the Funding 1 deed of charge, and further provided that the rating agencies confirm that the then current ratings of the rated notes then outstanding shall not be downgraded, withdrawn or qualified as a result of such appointment).

Funding 1 may remove the Funding 1 security trustee at any time provided that it has the consent of the issuer security trustee which in turn has the consent of the note trustee, which must not be unreasonably withheld or delayed, to the removal.

In addition, the Funding 1 security trustee may, subject to conditions specified in the Funding 1 deed of charge, appoint a co-trustee to act jointly with it.

### ***Additional provisions of the Funding 1 deed of charge***

The Funding 1 deed of charge will contain a range of provisions regulating the scope of the Funding 1 security trustee's duties and liabilities. These will include the following:

- the Funding 1 security trustee is not responsible for the adequacy or enforceability of the Funding 1 deed of charge or the security interests created thereby or any other transaction document;
- the Funding 1 security trustee is not required to exercise its powers under the Funding 1 deed of charge without being directed to do so by the issuer security trustee;
- the Funding 1 security trustee may rely (without investigation or further inquiry) on documents provided by the mortgages trustee, Funding 1, the cash manager and the ratings agencies and the advice of consultants and advisers and shall not be liable for any loss or damage arising as a result of such reference;

- the Funding 1 security trustee is not required to monitor compliance by Funding 1 with the transaction documents or whether an intercompany loan event of default under an intercompany loan has occurred;
- the Funding 1 security trustee will be taken not to have knowledge of the occurrence of an intercompany loan event of default under the intercompany loan unless the Funding 1 security trustee has received written notice from a Funding 1 secured creditor stating that an intercompany loan event of default has occurred and describing that intercompany loan event of default;
- any action taken by the Funding 1 security trustee under the Funding 1 deed of charge or any transaction document binds all of the Funding 1 secured creditors;
- each Funding 1 secured creditor must make its own independent investigations, without reliance on the Funding 1 security trustee, as to the affairs of Funding 1;
- the Funding 1 security trustee generally has no liability under or in connection with the Funding 1 deed of charge or any other transaction document, whether to a Funding 1 secured creditor or otherwise, other than to the extent to which (1) the liability is able to be satisfied in accordance with the Funding 1 deed of charge out of the property held by it on trust under the Funding 1 deed of charge and (2) it is actually indemnified for the liability, unless the liability has arisen due to the Funding 1 security trustee's or any of its officers', employees' or advisers' fraud, negligence or wilful misconduct or breach of the terms of the Funding 1 deed of charge; and
- the Funding 1 security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of Funding 1 security.

The Funding 1 security trustee has had no involvement in the preparation of any part of this prospectus, other than any particular reference to the Funding 1 security trustee. The Funding 1 security trustee expressly disclaims and takes no responsibility for any other part of this prospectus. The Funding 1 security trustee makes no statement or representation in this prospectus, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The Funding 1 security trustee does not guarantee the performance of the issuer notes or the payment of principal or interest on the issuer notes.

### ***Governing law***

The Funding 1 deed of charge will be governed by English law, provided that any terms which are particular to Northern Irish law or Scots law shall be construed in accordance with the laws of Northern Ireland and Scotland respectively.

### **Issuer deed of charge**

The issuer will provide security for its obligations by entering into the issuer deed of charge on the closing date with the issuer secured creditors.

The issuer deed of charge will have five primary functions:

- it sets out covenants of the issuer;
- it creates security interests in favour of the issuer security trustee which the issuer security trustee then holds on trust for each of the issuer secured creditors;
- it sets out the enforcement procedures following service of a note acceleration notice on the issuer (including the appointment of a receiver);
- it sets out the order in which the issuer security trustee applies monies standing to the credit of the issuer accounts following enforcement of the issuer security; and
- it sets out the appointment of the issuer security trustee, its powers and responsibilities and the limitations on those responsibilities.

### ***Covenants of the issuer***

The issuer deed of charge will contain covenants made by the issuer in favour of the issuer security trustee to be held by it on trust for the benefit of itself, any receiver of the issuer and the issuer secured creditors.

### ***Issuer security***

Under the issuer deed of charge, the issuer will create the security interests set out below in favour of the issuer security trustee for and on behalf of the issuer secured creditors in respect of its obligations. Pursuant to the issuer deed of charge, the issuer will:

- assign absolutely or, to the extent not assignable, charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) all of the issuer's rights, title, interest and benefit under the issuer transaction

documents, including the issuer intercompany loan agreement, the Funding 1 deed of charge, the start-up loan agreements, the paying agent and agent bank agreement, the issuer corporate services agreement, the secretarial services agreement, the issuer bank account agreement, the issuer cash management agreement, the issuer swap agreements and the note trust deed;

- assign absolutely or, to the extent not assignable, charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) all of the issuer's rights, title, interest and benefit in respect of any amount standing to the credit of the issuer accounts and all interest paid or payable in respect of those amounts and all debts represented by those amounts;
- charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) over all of the issuer's rights, title, interest and benefit in respect of all authorised investments made by or on behalf of the issuer using moneys standing to the credit of the issuer accounts and all interest, moneys and proceeds paid or payable in relation to those authorised investments;
- charge by way of a first ranking fixed charge (which is likely to take effect as a floating charge) the benefit of all authorisations (statutory or otherwise) held in connection with the use of any issuer charged property and any compensation which may be payable to the issuer in respect of those authorisations; and
- create a first floating charge over all of the issuer's undertaking and all its property and assets (including, without limitation, its uncalled capital) not otherwise effectively charged or assigned (but extending over all of the issuer's property, assets and undertaking situated in Scotland or the rights to which are governed by Scots law).

### *Nature of security – fixed charge*

Whether a fixed security interest expressed to be created by the issuer deed of charge will be upheld under English law and Northern Irish law as a fixed security interest rather than floating security will depend, among other things, on whether the issuer security trustee has the requisite degree of control over the chargors' ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the issuer security trustee in practice. In particular, it is likely that the issuer security trustee does not exert sufficient control over the accounts of the issuer for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised a floating charge if the proceeds thereof are paid into a bank account over which the issuer security trustee is not deemed to have sufficient control. Such may be the case in respect of the security (other than the floating charge) referred to in this section. Under Scots law there is no equivalent concept of fixed charges taking effect as floating charges.

### *Nature of security – floating charge*

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) which are not subject to fixed charges mentioned in this section (including all of the issuer's Scottish assets) will be subject to the floating charge.

The existence of the floating charge will allow the issuer security trustee to appoint an administrative receiver of the issuer as long as the capital markets exemption is available. The main advantage of the issuer security trustee being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator of the issuer by one of the issuer's other creditors which allows the issuer security trustee to control proceedings in the event the issuer's other creditors seek such action. However, see “**Risk factors – Changes of law may adversely affect your interests**” above relating to the appointment of administrative receivers.

The interest of the issuer secured creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration and the claims of certain preferential creditors and (from 6 April 2008) the expenses of any liquidation on enforcement of the issuer security. This means that the expenses of any any administration and the claims of preferential creditors and (from 6 April 2008) the expenses of any liquidation will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the noteholders. Section 250 of the Enterprise Act (and the equivalent Section 6 of the Insolvency (Northern Ireland) Order 2005) 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 (as inserted by Section 251 of the Enterprise Act and the equivalent Section 7 of the Insolvency (Northern Ireland) Order 2005) 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, the beneficiaries of the prescribed part and (from 6 April 2008) the expenses of any liquidation 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 issuer 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. Except in relation to the issuer's Scottish assets, crystallisation will occur automatically following the occurrence of specific events set out in the issuer deed of charge, including, among other events, service of a note acceleration notice. In relation to the issuer's Scottish assets, crystallisation will occur only on the appointment of an administrative receiver or on the commencement of the winding-up of the issuer. 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, the claims of preferential creditors (as referred to in this section) the beneficiaries of the prescribed part and (from 6 April 2008) the expenses of any liquidation on enforcement of the issuer security.

### ***Enforcement***

If at any time the issuer security becomes enforceable, the note trustee may (for so long as any issuer notes remain outstanding) instruct the issuer security trustee to enforce the issuer security. The issuer security trustee is not bound to enforce the issuer security unless it is so directed by the note trustee (for so long as any issuer notes remain outstanding) and indemnified and/or secured to its satisfaction.

The issuer security will become enforceable at any time following the service of a note acceleration notice on the issuer or, if there are no issuer notes outstanding, following a default in payment of any other secured obligation of the issuer, provided that, if a note acceleration notice is served on the issuer other than due to a default in payment of any amount due on the issuer notes, the issuer security trustee will not be entitled to dispose of all or part of the assets comprised in the issuer security unless either:

- the issuer provides the issuer security trustee with a certificate signed by two of its directors certifying that a sufficient amount would be realised to allow payment in full of all amounts owing in respect of the class A issuer notes and the class B issuer notes; or
- the issuer security trustee is advised by an independent investment bank or other independent financial advisor (which advice and/or opinion shall be conclusive and binding) that a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of the class A issuer notes and the class B issuer notes.

None of the issuer secured creditors will be entitled under the issuer deed of charge to take steps directly against the issuer (other than in accordance with the issuer transaction documents) for any amounts owing to them, unless the issuer security trustee has become bound to enforce the issuer security but has failed to do so within a reasonable period of time of becoming so bound.

### ***Issuer post-acceleration priority of payments and issuer priority of payments following an intercompany loan acceleration notice***

The issuer deed of charge will set out the priority of distribution by the issuer cash manager, following service of a note acceleration notice and/or an intercompany loan acceleration notice, of amounts standing to the credit of the issuer transaction account, the issuer euro account and (if established) the issuer GIC account or, as the case may be, by the issuer security trustee, following enforcement of the issuer security, of amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf). These orders of priority are described in “**Cashflows**” below.

### ***Appointment, powers, responsibilities and liabilities of the issuer security trustee***

The issuer security trustee will be appointed to act as security trustee on behalf of the issuer secured creditors on the terms and conditions of the issuer deed of charge. It will hold the benefit of the security created by the issuer deed of charge on trust for each of the issuer secured creditors in accordance with the terms and conditions of the issuer deed of charge.

The issuer security trustee may concur or direct the Funding 1 security trustee to concur with any person in making any modifications to the issuer transaction documents only if so directed or requested by the note trustee, provided that:

- the note trustee is of the opinion that such modification will not be materially prejudicial to the interests of the noteholders or, if it is not of that opinion in relation to any class of the noteholders or the modification is a basic terms modification, it has been directed or requested by an extraordinary resolution of such class of the noteholders; or
- the note trustee is of the opinion that such modification is being made to correct a manifest error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature.

The note trustee will be entitled to assume that the exercise of its rights, powers, duties and discretions will not be materially prejudicial to the interests of the noteholders if the rating agencies have confirmed that the then current rating by it of the issuer notes then outstanding would not be downgraded, withdrawn or qualified by such exercise.

In addition, each of the note trustee, the issuer security trustee and the Funding 1 security trustee (where applicable) will give its consent to any modifications to any transaction document, that are requested by Funding 1 (or the cash manager, on its behalf) or the issuer (or the issuer cash manager on its behalf) provided that Funding 1 (or the cash manager on its behalf) or the issuer (or the issuer cash manager on its behalf) certifies to the note trustee and the issuer security trustee and to the Funding 1 security trustee in writing that such modifications are required in order to accommodate (among other things):

- (i) any new intercompany loans to be advanced to Funding 1 or any further Funding companies and/or the issue of any new issuer notes by any new issuer;
- (ii) the entry by Funding 1 or any further Funding company into any new Funding 1 start-up loan agreement and/or entry by any new issuer into any new issuer start-up loan agreement;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;
- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraphs (i) and (ii) above);
- (vi) the sale of new types of loans to the mortgages trustee;
- (vii) changes to the Funding 1 reserve required amount, the issuer reserve required amount and/or the issuer liquidity reserve fund required amount (or the equivalent amounts in respect of any further Funding company and/or new issuer) and/or the manner in which each of such amounts are funded; and/or
- (viii) changes to the asset trigger events and non-asset trigger events;

and provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1, the cash manager, the issuer and/or the issuer cash manager certify to the note trustee, the issuer security trustee and the Funding 1 security trustee (as applicable) in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (viii) above, each of the note trustee, the issuer security trustee and the Funding 1 security trustee has received written confirmation from the rating agencies that as a result of the relevant modifications the then current ratings of the rated notes will not be downgraded, withdrawn or qualified.

### ***Issuer security trustee's fees and expenses***

The issuer will reimburse the issuer security trustee for all its costs and expenses properly incurred in acting as issuer security trustee. The issuer security trustee shall be entitled to a fee payable on such dates and in the amount agreed from time to time by the issuer security trustee and the issuer. The issuer has agreed to indemnify the issuer security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the issuer transaction documents; or
- the issuer security trustee's engagement as security trustee pursuant to the issuer deed of charge,

which it or any of its officers, employees or advisers may suffer as a result of the issuer failing to perform any of its obligations.

The issuer will not be responsible under the issuer deed of charge for any liabilities, losses, damages, costs or expenses resulting from the fraud, negligence or wilful default on the part of the issuer security trustee or any of its officers, employees and advisers or breach by them of the terms of the issuer deed of charge.

### ***Retirement and removal***

Subject to the appointment of a successor security trustee, the issuer security trustee may retire after giving three months' notice in writing to the issuer. In order to be eligible to act as issuer security trustee, such successor security trustee must agree to be bound by the terms of the issuer deed of charge and must be a trust corporation. If, within 60 days of having given notice of its intention to retire, the issuer has failed to appoint a replacement security trustee, the outgoing issuer security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the issuer deed of charge, and further provided that the rating agencies confirm that the then current ratings of the rated notes then outstanding shall not be either downgraded, withdrawn or qualified as a result of such appointment).

The noteholders may remove the issuer security trustee at any time by extraordinary resolution of each class of noteholder.

In addition, the issuer security trustee may, subject to the conditions specified in the issuer deed of charge, appoint a co-trustee to act jointly with it.

***Additional provisions of the issuer deed of charge***

The issuer deed of charge will contain a range of provisions regulating the scope of the issuer security trustee's duties and liability. These will include the following:

- the issuer security trustee will, if reasonably practicable, give prior written notification to the seller of the issuer security trustee's intention to enforce the issuer security (although any failure to so notify will not prejudice the ability of the issuer security trustee to enforce the issuer security);
- the issuer security trustee is not responsible for the adequacy or enforceability of the issuer deed of charge or the security interests created thereby or any other issuer transaction document;
- the issuer security trustee is not required to exercise its powers under the issuer deed of charge or the issuer transaction documents unless:
  - (i) whilst the issuer notes are outstanding, it has been directed or requested to do so by the note trustee in accordance with **condition 10** (see “**Terms and conditions of the notes**” below); or
  - (ii) following the redemption of the issuer notes, it has been directed to do so by any other issuer secured creditor;

provided that, in each case, it is indemnified and/or secured to its satisfaction;

- the issuer security trustee may rely (without investigation or further inquiry) on documents provided by the issuer, the issuer cash manager, the agent bank, the paying agents, the registrar, the issuer account bank, the issuer corporate services provider, the secretarial services provider, the rating agencies and the advice of consultants and advisers and shall not be liable for any loss or damage arising as a result of such reliance;
- the issuer security trustee is not required to monitor whether a note event of default has occurred or compliance by the issuer with the issuer transaction documents;
- the issuer security trustee will be taken not to have knowledge of the occurrence of a note event of default unless the issuer security trustee has received written notice stating that a note event of default has occurred;
- the issuer security trustee may rely (without investigation or further inquiry) on any instructions or directions given to it by the note trustee as being given on behalf of the relevant class of noteholders without inquiry about compliance with the note trust deed and shall not be liable for any loss or damage arising as a result of such reliance;
- the issuer security trustee has no duties or responsibilities except those expressly set out in the issuer deed of charge or the issuer transaction documents;
- any action taken by the issuer security trustee under the issuer deed of charge or any of the issuer transaction documents binds all of the issuer secured creditors;
- each issuer secured creditor must make its own independent investigations, without reliance on the issuer security trustee, as to the affairs of the issuer and whether or not to request that the issuer security trustee take any particular course of action under any issuer transaction document;
- the issuer security trustee in a capacity other than as issuer security trustee can exercise its rights and powers as such as if it were not acting as the issuer security trustee;
- the issuer security trustee and its affiliates may engage in any kind of business with the issuer or any of the issuer secured creditors as if it were not the issuer security trustee and may receive consideration for services in connection with any issuer transaction document or otherwise without having to account to the issuer secured creditors;
- the issuer security trustee has no liability under or in connection with the issuer deed of charge or any other issuer transaction document, whether to an issuer secured creditor or otherwise, (1) other than to the extent to which the liability is able to be satisfied in accordance with the issuer deed of charge out of the property held by it on trust under the issuer deed of charge, and (2) it is actually indemnified for the liability, unless such liability has arisen due to its or any of its officers', employees' or advisers' fraud, negligence, wilful misconduct or breach of the terms of the issuer deed of charge; and
- the issuer security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of issuer security.



The issuer security trustee has had no involvement in the preparation of any part of this prospectus, other than any particular reference to the issuer security trustee. The issuer security trustee expressly disclaims and takes no responsibility for any other part of this prospectus. The issuer security trustee makes no statement or representation in this prospectus, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The issuer security trustee does not guarantee the success of the issuer notes or the payment of principal or interest on the issuer notes.

### ***Governing law***

The issuer deed of charge will be governed by English law, provided that any terms which are particular to Northern Irish or Scots law shall be construed in accordance with the laws of Northern Ireland and Scotland respectively.

### **Swap agreements**

Funding 1 will, on the closing date, enter into the Funding 1 swap agreement with Alliance & Leicester (as the Funding 1 swap provider). The issuer will enter into the issuer euro currency swaps with Alliance & Leicester (as the issuer (class A1) swap provider and the issuer (class A2) swap provider). In general, the swaps are designed to do the following:

- Funding 1 swap: to hedge against the possible variance between the mortgages trustee variable rate in respect of the variable rate loans, the Bank of England base rate in respect of the base rate loans and the fixed rates of interest payable on the fixed rate loans on the one hand and a LIBOR-based rate for three-month sterling deposits on the other hand; and
- issuer euro currency swaps: to hedge against the possible changes in the sterling to euro exchange rate following the closing date and the possible variance between a LIBOR-based rate for three-month sterling deposits and a EURIBOR-based rate for three-month euro deposits applicable to the class A1 issuer notes and the class A2 issuer notes.

### ***Funding 1 swap agreement***

Some of the loans in the initial portfolio pay a variable rate of interest for a period of time which may be linked to the mortgages trustee variable rate, a variable interest rate other than the mortgages trustee variable rate or such as a rate set by reference to the Bank of England base rate. Other loans pay a fixed rate of interest for a period of time and may pay a differential rate. However, the interest rate payable by Funding 1 with respect to the issuer loan tranches under the issuer intercompany loan agreement is calculated as a margin over LIBOR for three-month sterling deposits. To provide a hedge against the possible variance between:

- (a) the mortgages trustee variable rate in respect of the variable rate loans (including discount loans and stepped discount loans), the Bank of England base rate in respect of the base rate loans and the fixed rates of interest payable on the fixed rate loans; and
- (b) a LIBOR-based rate for three-month sterling deposits,

Funding 1 and the Funding 1 swap provider will enter into the Funding 1 swap agreement on the closing date (and may amend and restate such Funding 1 swap agreement on each subsequent closing date), such that the Funding 1 swap will:

- have a notional amount that is sized to hedge against any potential interest rate mismatches in relation to the loan tranches which remain outstanding; and
- provide for the notional amount to be increased as appropriate to hedge against similar potential interest rate mismatches in relation to any class of new issuer notes.

The Funding 1 swap does not provide a hedge against the actual rates on the variable rate loans or base rate loans, since the Funding 1 swap is intended to hedge against the possible variance between the underlying basis of calculation of the variable rate loans and base rate loans (without taking into account any discounts applied to such basis) on the one hand and a LIBOR-based rate for three-month sterling deposits on the other hand. Accordingly, the issuer remains exposed to the level of discount applied to the variable rate loans and base rate loans.

Under the Funding 1 swap, on each trust calculation date the following amounts will be calculated:

- the amount produced by applying LIBOR for three-month sterling deposits (as determined in respect of the corresponding interest period under the loan tranches) plus a blended spread for the immediately preceding trust calculation period to the notional amount of the Funding 1 swap (known as the **trust calculation period swap provider amount**) (such spread being the sum of the spreads applicable to fixed rate loans, variable rate loans and base rate loans and including certain upfront fees that have been paid by the borrowers to the seller when the mortgages were first originated); and

- 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, Barclays Bank PLC, Bank of Scotland plc, Lloyds TSB Bank plc, National Westminster Bank Plc, Nationwide Building Society and Northern Rock plc (or their respective successors) and such additional replacement residential mortgage lenders as shall be determined by the cash manager (and where those banks have more than one standard variable rate, the highest of those rates);
  - (ii) the Bank of England base rate for the base rate loans; and
  - (iii) the rates of interest payable on the fixed rate loans;

for the immediately preceding trust calculation period to the notional amount of the Funding 1 swap (known as the **trust calculation period Funding 1 amount**).

On each Funding 1 interest payment date the following amounts will be calculated:

- the sum of each of the trust calculation period swap provider amounts calculated during the preceding interest period; and
- the sum of each of the trust calculation period Funding 1 amounts calculated during the preceding interest period.

After these two amounts are calculated in relation to a Funding 1 interest payment date, the following payments will be made on that Funding 1 interest payment date:

- if the first amount is greater than the second amount, then the Funding 1 swap provider will pay the difference to Funding 1;
- if the second amount is greater than the first amount, then Funding 1 will pay the difference to the Funding 1 swap provider; and
- if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Funding 1 swap provider, that payment will be included in the Funding 1 available revenue receipts and will be applied on the relevant Funding 1 interest payment date according to the relevant priority of payments of Funding 1. If a payment is to be made by Funding 1, it will be made according to the relevant priority of payments of Funding 1.

The **notional amount of the Funding 1 swap** in respect of a trust calculation period will be an amount in sterling equal to:

- the aggregate principal amount outstanding of the issuer intercompany loan and new intercompany loans made to Funding 1 as at the end of the relevant trust calculation period, less
- the balance of the issuer principal deficiency ledger and the principal deficiency ledger of any new issuer as at the end of the relevant trust calculation period, less
- the amount of the principal receipts in the Funding 1 GIC account attributable to the issuer intercompany loan and new intercompany loans made to Funding 1 during the relevant trust calculation period.

In the event that the Funding 1 swap is terminated prior to the service of an intercompany loan acceleration notice or the latest occurring final repayment date of any loan tranche advanced under an intercompany loan agreement, Funding 1 shall enter into a replacement Funding 1 swap on terms acceptable to the rating agencies, with a swap provider whom the rating agencies have previously confirmed in writing to Funding 1, the Funding 1 security trustee, the issuer and the issuer security trustee will not cause the then current ratings of the rated issuer notes then outstanding to be downgraded, withdrawn or qualified. If Funding 1 is unable to enter into a replacement Funding 1 swap on terms acceptable to the rating agencies, this may affect amounts available to pay interest on the issuer loan tranches under the issuer intercompany loan agreement.

### ***Issuer swap agreements***

#### *Issuer (class A1) swap agreement*

The issuer AAA (class A1) loan tranche under the intercompany loan agreement will be denominated in sterling and interest payable by Funding 1 to the issuer under the issuer AAA (class A1) loan tranche is calculated at a rate equal to a margin plus LIBOR for three-month sterling deposits. However, the class A1 issuer notes will be denominated in euro and will accrue interest at a EURIBOR-based rate for three-month euro deposits. To deal with the currency mismatch between (i) its receipts and liabilities in respect of the issuer AAA (class A1) loan tranche and (ii) its receipts and liabilities under the class A1 issuer notes, the issuer will, pursuant to the terms of the issuer (class A1) swap

agreement, swap its receipts and liabilities in respect of the issuer AAA (class A1) loan tranche on terms that match the issuer's obligations under the class A1 issuer notes.

On the issue date of the class A1 issuer notes, the issuer will pay to the issuer (class A1) swap provider the issue proceeds of the class A1 issuer notes in euro and the issuer (class A1) swap provider will pay to the issuer the equivalent amount in sterling, converted by reference to the relevant euro currency exchange rate.

The currency amount of the issuer (class A1) euro currency swap will be the principal amount outstanding under the class A1 issuer notes. The issuer swap provider will pay to the issuer amounts in euro that are equal to the amounts of interest to be paid on the class A1 issuer notes and the issuer will pay to the issuer (class A1) swap provider the sterling interest amounts received on the issuer AAA (class A1) loan tranche. In order to allow for the effective currency amount of the issuer (class A1) euro currency swap to amortise at the same rate as the class A1 issuer notes, the issuer (class A1) swap agreement will provide that, as and when the class A1 issuer notes amortise, a corresponding portion of the currency amount of the issuer (class A1) euro currency swap will amortise. Pursuant to the issuer (class A1) swap agreement, any portion of issuer (class A1) euro currency swap so amortised will be swapped from sterling into euro at the euro currency exchange rate.

On the final maturity date of the class A1 issuer notes or, if earlier, the date on which the class A1 issuer notes are redeemed in full (other than pursuant to **condition 5.5** under “**Terms and conditions of the notes**” below), the issuer (class A1) swap provider will pay to the issuer an amount in euro equal to the principal amount outstanding under the class A1 issuer notes, converted by reference to the euro currency exchange rate, and the issuer will pay to the issuer (class A1) swap provider an equivalent amount in sterling received by it under the issuer AAA (class A1) loan tranche. If the issuer does not have sufficient issuer principal receipts to pay such amount in full on such date and, accordingly, pays only a part of such amount to the issuer (class A1) swap provider, the issuer (class A1) swap provider will be obliged on such date to pay only the equivalent of such partial amount in euro converted by reference to the euro currency exchange rate.

In the event that the issuer (class A1) euro currency swap is terminated prior to the service of a note acceleration notice on the issuer or the final redemption of the class A1 issuer notes, the issuer shall enter into a replacement euro currency swap in respect of the class A1 issuer notes. Any replacement euro currency swap must be entered into on terms acceptable to the rating agencies and the issuer and with a replacement issuer (class A1) swap provider whom the rating agencies have previously confirmed in writing to the issuer will not cause the then current ratings of the rated issuer notes then outstanding to be downgraded, withdrawn or qualified. If the issuer is unable to enter into any replacement euro currency swaps on terms acceptable to the rating agencies, this may affect amounts available to pay amounts due under the class A1 issuer notes.

If the issuer (class A1) swap agreement is terminated and the issuer is unable to enter into a replacement issuer euro currency swap as described above, then any payments received by the issuer from Funding 1 under the issuer AAA (class A1) loan tranche on each Funding 1 interest payment date shall be deposited into an additional issuer account (opened for this purpose) and applied by the issuer to repay the class A1 issuer notes on each interest payment date after exchanging at the “spot” rate the relevant proceeds from sterling into euro.

#### *Issuer (class A2) swap agreement*

The issuer AAA (class A2) loan tranche under the intercompany loan agreement will be denominated in sterling and interest payable by Funding 1 to the issuer under the issuer AAA (class A2) loan tranche is calculated at a rate equal to a margin plus LIBOR for three-month sterling deposits. However, the class A2 issuer notes will be denominated in euro and will accrue interest at a EURIBOR-based rate for three-month euro deposits. To deal with the currency mismatch between (i) its receipts and liabilities in respect of the issuer AAA (class A2) loan tranche and (ii) its receipts and liabilities under the class A2 issuer notes, the issuer will, pursuant to the terms of the issuer (class A2) swap agreement, swap its receipts and liabilities in respect of the issuer AAA (class A2) loan tranche on terms that match the issuer's obligations under the class A2 issuer notes.

On the issue date of the class A2 issuer notes, the issuer will pay to the issuer (class A2) swap provider the issue proceeds of the class A2 issuer notes in euro and the issuer (class A2) swap provider will pay to the issuer the equivalent amount in sterling, converted by reference to the relevant euro currency exchange rate.

The currency amount of the issuer (class A2) euro currency swap will be the principal amount outstanding under the class A2 issuer notes. The issuer swap provider will pay to the issuer amounts in euro that are equal to the amounts of interest to be paid on the class A2 issuer notes and the issuer will pay to the issuer (class A2) swap provider the sterling interest amounts received on the issuer AAA (class A2) loan tranche. In order to allow for the effective currency amount of the issuer (class A2) euro currency swap to amortise at the same rate as the class A2 issuer notes, the issuer (class A2) swap agreement will provide that, as and when the class A2 issuer notes amortise, a corresponding portion of the currency amount of the issuer (class A2) euro currency swap will amortise. Pursuant to the issuer (class A2) swap agreement, any portion of issuer (class A2) euro currency swap so amortised will be swapped from sterling into euro at the euro currency exchange rate.

On the final maturity date of the class A2 issuer notes or, if earlier, the date on which the class A2 issuer notes are redeemed in full (other than pursuant to **condition 5.5** under “**Terms and conditions of the notes**” below), the issuer (class A2) swap provider will pay to the issuer an amount in euro equal to the principal amount outstanding under the class A2 issuer notes, converted by reference to the euro currency exchange rate, and the issuer will pay to the issuer (class A2) swap provider an equivalent amount in sterling received by it under the issuer AAA (class A2) loan tranche. If the issuer does not have sufficient issuer principal receipts to pay such amount in full on such date and, accordingly, pays only a part of such amount to the issuer (class A2) swap provider, the issuer (class A2) swap provider will be obliged on such date to pay only the equivalent of such partial amount in euro converted by reference to the euro currency exchange rate.

In the event that the issuer (class A2) euro currency swap is terminated prior to the service of a note acceleration notice on the issuer or the final redemption of the class A2 issuer notes, the issuer shall enter into a replacement euro currency swap in respect of the class A2 issuer notes. Any replacement euro currency swap must be entered into on terms acceptable to the rating agencies and the issuer and with a replacement issuer (class A2) swap provider whom the rating agencies have previously confirmed in writing to the issuer will not cause the then current ratings of the rated issuer notes then outstanding to be downgraded, withdrawn or qualified. If the issuer is unable to enter into any replacement euro currency swaps on terms acceptable to the rating agencies, this may affect amounts available to pay amounts due under the class A2 issuer notes.

If the issuer (class A2) swap agreement is terminated and the issuer is unable to enter into a replacement issuer euro currency swap as described above, then any payments received by the issuer from Funding 1 under the issuer AAA (class A2) loan tranche on each Funding 1 interest payment date shall be deposited into an additional issuer account (opened for this purpose) and applied by the issuer to repay the class A2 issuer notes on each interest payment date after exchanging at the “spot” rate the relevant proceeds from sterling into euro.

#### ***Ratings downgrade of swap providers***

Under each of the swap agreements, in the event that the relevant rating(s) of a swap provider or its guarantor (as applicable) is or are downgraded by a rating agency below the rating(s) specified in the relevant swap agreement (in accordance with the requirements of the rating agencies) for such swap provider, the relevant swap provider will, in accordance with the Funding 1 swap agreement or the relevant issuer euro currency swap agreement, as applicable, be required to take certain remedial measures which may include providing collateral for its obligations under the relevant swap, arranging for its obligations under the relevant swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency) to become co-obligor or guarantor (as applicable) in respect of its obligations under the relevant swap or taking such other action as it may agree with the relevant rating agency.

#### ***Termination of the swaps***

Any swap agreement may also be terminated in certain other circumstances, including the following, each referred to as a **swap early termination event**:

- at the option of one party to the swap agreement, if there is a failure by the other party to pay any amounts due under that swap agreement and any applicable grace period has expired;
- in respect of the issuer (class A1) euro currency swap and the issuer (class A2) euro currency swap, at the option of the issuer (class A1) swap provider and the issuer (class A2) swap provider, respectively, if a note event of default occurs and the note trustee serves a note acceleration notice on the issuer;
- in respect of the Funding 1 swap, at the option of the Funding 1 swap provider, if an intercompany loan event of default occurs and an intercompany loan acceleration notice is served on Funding 1;
- in respect of the issuer (class A1) euro currency swap and the issuer (class A2) euro currency swap, at the option of either party, if a redemption or purchase of the class A1 issuer notes and the class A2 issuer notes, respectively, occurs pursuant to **conditions 5.4** and **5.5** under “**Terms and conditions of the notes**” below;
- in respect of the issuer (class A1) euro currency swap and the issuer (class A2) euro currency swap, at the option of the issuer, if certain tax representations by the relevant issuer swap provider prove to have been incorrect or misleading in any material respect;
- in respect of the Funding 1 swap, at the option of Funding 1, if certain tax representations by the Funding 1 swap provider prove to have been incorrect or misleading in any material respect;
- at the option of the issuer swap provider, if certain insolvency events occur with respect of the issuer (in the case of the issuer (class A1) euro currency swap and the issuer (class A2) euro currency swap);
- at the option of the Funding 1 swap provider, if certain insolvency events occur with respect Funding 1 (in the case of the Funding 1 swap);

- at the option of Funding 1 (in the case of the Funding 1 swap) or the issuer (in the case of the issuer (class A1) euro currency swap and the issuer (class A2) euro currency swap), upon the occurrence of an insolvency of the Funding 1 swap provider or the relevant issuer swap provider (or, where an issuer swap provider is located in a jurisdiction in which counsel recommend that the swap terminates automatically, without the option of the issuer to elect for termination) or its guarantor, or the merger of the Funding 1 swap provider or the relevant issuer swap provider without an assumption of its obligations under the relevant swap agreement, or if a material misrepresentation is made by the Funding 1 swap provider or the relevant issuer swap provider under the relevant swap agreement, or if the Funding 1 swap provider or the relevant issuer swap provider defaults under an over-the-counter derivatives transaction under another agreement between Funding 1 and the Funding 1 swap provider or the issuer and the relevant issuer swap provider, or if a breach of a provision of the relevant swap agreement by the Funding 1 swap provider or the relevant issuer swap provider is not remedied within the applicable grace period or, if applicable, if the guarantor of the Funding 1 swap provider or the relevant issuer swap provider fails to comply with its obligations under the guarantee;
- if a change in law results in the obligations of one of the parties becoming illegal;
- at the option of an issuer swap provider, if a deduction or withholding for or on account of any taxes is imposed on payments made by that issuer swap provider or the issuer (as the case may be) under the relevant issuer euro currency swap due to a change in law; and
- if the Funding 1 swap provider or an issuer swap provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provision contained in the relevant swap agreement and described under “**Ratings downgrade of swap providers**”.

Upon the occurrence of a swap early termination event, the issuer or the relevant issuer swap provider may be liable to make a termination payment to the other (in the case of an issuer euro currency swap) and/or Funding 1 or the Funding 1 swap provider may be liable to make a termination payment to the other (in the case of the Funding 1 swap). 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 swap as determined on the basis of quotations sought from leading dealers and managers as to the cost of entering into a swap 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.

If an issuer euro currency swap is terminated early and a termination payment is due by the issuer to the relevant issuer swap provider, then, pursuant to its obligations under the issuer intercompany loan, Funding 1 shall pay to the issuer by way of fee an amount equal to the termination payment due to such issuer swap provider less any amount received by the issuer under any replacement issuer swap agreement. The issuer shall apply amounts received from Funding 1 by way of fee under the issuer intercompany loan agreement in accordance with the issuer pre-acceleration revenue priority of payments or, as the case may be, the issuer post-acceleration priority of payments. The application by the issuer of termination payments due to any issuer swap provider may affect the funds available to pay amounts due to the noteholders (see further “**Risk factors – You may be subject to exchange rate risks on the class A issuer notes**” above).

If the issuer receives a termination payment from any issuer swap provider, then the issuer shall apply those funds towards meeting its costs in effecting currency exchanges at the applicable spot rate of exchange until a replacement issuer swap is entered into and/or a replacement issuer swap is acquired.

Noteholders will not receive extra amounts (over and above interest and principal payable on the notes) as a result of the issuer receiving a termination payment.

### ***Transfer of the Swaps***

Each of the swap providers may, subject to certain conditions specified in the relevant swap agreement, including (without limitation) the satisfaction of certain requirements of the rating agencies, transfer its obligations under the relevant swap to another entity.

### ***Taxation***

Neither Funding 1 nor the issuer is obliged under any of the swaps to gross up payments made by it if a withholding or deduction for or on account of tax is imposed on payments made under that swap.

Each swap provider will generally be obliged to gross up payments made by it to Funding 1 or the issuer, if appropriate, if a withholding or deduction for or on account of tax is imposed on payments made under the relevant swap. However, if any issuer swap provider is required to gross up a payment under an issuer euro currency swap due to a change in law, such issuer swap provider may terminate that issuer euro currency swap.

### ***Governing law***

The Funding 1 swap agreement and each issuer swap agreement will be governed by English law.

### **Issuer post-enforcement call option agreement**

The issuer post-enforcement call option agreement will be entered into between the note trustee (as trustee for and on behalf of class A1 noteholders, the class A2 noteholders, the class B noteholders and the class Z noteholders without liability to any person or warranty as to due authority), the issuer and the issuer post-enforcement call option holder. The terms of the option will require, upon exercise of the option by the issuer post-enforcement call option holder following the enforcement and distribution of the issuer security pursuant to the issuer deed of charge, the transfer to the issuer post-enforcement call option holder of all of the class A1 issuer notes and/or the class A2 issuer notes and/or all of the class B issuer notes and/or all of the class Z issuer notes as the case may be. The class A1 noteholders, the class A2 noteholders, the class B noteholders and the class Z noteholders will be bound by the terms of the class A1 issuer notes, the class A2 issuer notes, the class B issuer notes and the class Z issuer notes, respectively, to transfer the class A1 issuer notes, the class A2 issuer notes, the class B issuer notes and the class Z issuer notes, respectively, to the issuer post-enforcement call option holder in these circumstances. The class A1 noteholders, the class A2 noteholders, the class B noteholders and the class Z noteholders will be paid a nominal amount only for that transfer.

### **Corporate services agreements**

The issuer will enter into the issuer corporate services agreement with the issuer corporate services provider by no later than the closing date. The issuer post-enforcement call option holder will enter into the PECO corporate services agreement with the PECO corporate services provider by no later than the closing date. The mortgages trustee will enter into the mortgages trustee corporate services agreement (which will include the provision of secretarial services) with the mortgages trustee corporate services provider by no later than the closing date. Funding 1 and Holdings will enter into the Funding 1 corporate services agreement with the Funding 1 corporate services provider by no later than the closing date. Pursuant to each corporate services agreement, the relevant corporate services provider has agreed or will agree to provide corporate services to each of the entities.

The corporate services agreements are or will be governed by either English or (in the case of the mortgages trustee corporate services agreement) Jersey law.

### **Secretarial services agreements**

Each of Funding 1, the issuer, the issuer post-enforcement call option holder and Holdings will enter into a secretarial services agreement with the secretarial services provider by no later than the closing date. Pursuant to the secretarial services agreement, the secretarial services provider has agreed or will agree to provide secretarial services to each of the entities.

The secretarial services agreement will be governed by English law.

## THE MORTGAGES TRUST

The following section contains a summary of the material terms of the mortgages trust deed. The summary does not purport to be complete and is subject to the provisions of the mortgages trust deed.

### General legal structure

This section describes the material terms of the mortgages trust, including how money is distributed from the mortgages trust to Funding 1, each further Funding company (if any) and the seller.

The mortgages trust will be a bare trust constituted under English law, with the mortgages trustee as trustee, for the benefit of the seller, Funding 1 and each further Funding company (if any) as beneficiaries. The mortgages trust will be constituted for the financing (directly or indirectly) by Funding 1 on the closing date and for the possibility of future financings (directly or indirectly) by any further Funding companies.

The terms of the mortgages trust deed may be amended as and when new issuers are established or new loan types are added to the mortgages trust or when further Funding companies acquire an interest in the trust property. Such amendments may affect the timing of payments on the issuer notes. The prior consent of noteholders will not be sought in relation to any of the proposed amendments to the mortgages trust deed, provided (*inter alia*) that the rating agencies confirm that the ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result of such amendments. There can be no assurance, however, that the effect of any such amendments will not ultimately adversely affect your interests as a noteholder (see “**Risk factors – The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**” above).

### The trust property

Under the terms of the mortgages trust deed, the mortgages trustee will agree to hold all of the trust property on trust absolutely for the benefit of Funding 1 (as to the Funding 1 share), for each further Funding company (as to its respective further Funding company share) and for the seller (as to the seller share). The **trust property** will be, without double counting:

- the initial portfolio of loans and their related security sold to the mortgages trustee by the seller on the closing date;
- any new loans and their related security sold to the mortgages trustee by the seller after the closing date;
- any increase in the current balance of a loan due to a borrower making underpayments or taking payment holidays or making cash withdrawals under a flexible loan or the seller making a further advance under a loan (for the avoidance of doubt, in the case of excluded further advances or further advances otherwise repurchased pursuant to the terms of the mortgage sale agreement, until so repurchased) or due to the capitalisation of arrears or accrued interest and other amounts in arrears in respect of any loan;
- any revenue receipts and principal receipts on the loans in the portfolio;
- any contribution paid by Funding 1, any further Funding company or the seller to the mortgages trustee, for application in accordance with the terms of the mortgages trust deed;
- any other amounts received under or in respect of the loans and their related security on or after the relevant sale date (excluding third party amounts), the proceeds of any sale of loans and their related security and any other proceeds of sale of any other trust property;
- any authorised investments made by or on behalf of the mortgages trustee (and any income earned on those investments);
- rights under the insurance policies that are assigned to the mortgages trustee or which the mortgages trustee has the benefit of; and
- amounts on deposit (and interest earned on those amounts) in the mortgages trustee GIC account,

less:

- any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described in paragraph (a) of “– **Adjustments to trust property**” below;
- distributions of revenue receipts and principal receipts made from time to time to the beneficiaries of the mortgages trust;
- refinancing distributions and/or special distributions made from time to time to the beneficiaries of the mortgages trust; and

- the initial purchase price paid by the mortgages trustee to the seller on the closing date and each subsequent sale date for the sale to the mortgages trustee of the relevant loans and their related security.

No beneficiary is entitled to particular loans and their related security separately from any other beneficiary. Instead each of the beneficiaries has an undivided interest in all of the loans and their related security forming part of the trust property. The beneficial interest of Funding 1, any further Funding company and the seller represent *pro rata* interests in the trust property.

The approximate Funding 1 share and seller share of the trust property as at the closing date will be approximately £1,843,700,000 (representing approximately 24.3 per cent. of the trust property) and £5,750,000,000 (representing approximately 75.7 per cent. of the trust property) respectively.

### **Fluctuation of share in the trust property**

The shares of Funding 1, each further Funding company (if any) and the seller in the trust property will fluctuate depending on a number of factors, including:

- the allocation of revenue receipts and principal receipts to Funding 1, each further Funding company and/or the seller;
- losses arising on the loans in the manner described under "**- Losses**" below;
- if new loans and their related security are sold to the mortgages trustee;
- any of the beneficiaries increasing its beneficial interest in, and hence its share of, the trust property by making contributions (excluding, in respect of the Funding companies, deferred contributions) to the mortgages trustee to be applied in accordance with the mortgages trust deed;
- the mortgages trustee making a special distribution or a refinancing distribution to any beneficiary on a distribution date;
- the mortgages trustee making a payment of the initial purchase price to the seller for loans and their related security sold to it;
- if a borrower makes underpayments or takes payment holidays under a flexible loan;
- if a borrower makes a cash withdrawal under a flexible loan;
- if the seller makes a further advance to a borrower under a loan; and
- the capitalisation of arrears or accrued interest and other amounts in arrears in respect of any loan.

Neither the Funding 1 share nor any further Funding company share of the trust property may be reduced below zero. The seller will not be entitled to receive principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until the Funding 1 share and any further Funding company share of the trust property have been reduced to zero or following the occurrence of an asset trigger event.

### **Contributions to the mortgages trust**

Pursuant to the terms of the mortgages trust deed, each of the beneficiaries may from time to time contribute certain assets to the mortgages trust (each a **contribution**). A contribution may be made to the mortgages trust by way of an initial contribution, a refinancing contribution, a further contribution, a seller contribution or a deferred contribution.

An **initial contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company in respect of any trust property sold to the mortgages trustee at the time of such contribution for the purposes of enabling the mortgages trustee to fund the payment of the initial purchase price owed by the mortgages trustee to the seller, pursuant to the terms of the mortgage sale agreement, in respect of any loans and their related security sold by the seller to the mortgages trustee at such time.

A **refinancing contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by a beneficiary to the mortgages trustee. A refinancing contribution made by a beneficiary will increase the share of that beneficiary in the trust property by a corresponding amount. The mortgages trustee will allocate and pay amounts received as a refinancing contribution on a further contribution date to make a refinancing distribution to Funding 1 or any further Funding company (as applicable) specified by the beneficiary that made the refinancing contribution on such further contribution date. The recipient's share in the trust property will be reduced accordingly (see further "**- Refinancing distributions**" below). A refinancing contribution can be made by any one of the beneficiaries while any indebtedness of any of Funding 1 or the further Funding companies is outstanding where such beneficiary elects, in its sole discretion, to designate all or part of that contribution as a refinancing contribution in relation to the recipient Funding company. The amount of any refinancing contribution cannot exceed the aggregate principal amount of all debt obligations of the Funding companies then outstanding.



A **seller contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by the seller to the mortgages trustee to increase the share of the seller in the trust property. A seller contribution will be in an amount equal to the unpaid interest element otherwise due under any flexible loan which is subject to an authorised underpayment or payment holiday.

A **deferred contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company and in respect of the share of that Funding company in the trust property for the purposes of enabling the mortgages trustee to fund the payment of the deferred purchase price owed by the mortgages trustee, pursuant to the terms of the mortgage sale agreement, to the seller in respect of the portfolio.

A **further contribution** is a contribution (excluding any initial contribution or deferred contribution, but including a refinancing contribution and a seller contribution) by way of cash payable pursuant to the terms of the mortgages trust deed by a beneficiary to the mortgages trustee to increase the share of that beneficiary in the trust property. Upon receipt of a further contribution (other than in respect of a further contribution which is also a refinancing contribution or a seller contribution) made by Funding 1 or any further Funding company on a further contribution date, the mortgages trustee will pay an amount equal to such further contribution to the seller on such further contribution date (whether or not such date is a distribution date) by way of a special distribution (and the payment of such special distribution will decrease the seller share of the trust property by an equal amount).

### Dates for recalculation of the share of each beneficiary

The cash manager will calculate the then current share of each of the beneficiaries on the following dates based on the aggregate current balance of the loans constituting the trust property (as adjusted from time to time) as at the close of business on the last day of the immediately preceding trust calculation period or, as the case may be, interim trust calculation period:

- (a) the closing date, the London business day following the last day of each calendar month and the day on which the mortgages trust is terminated (each such date, a **trust calculation date**). The period from (and including) the first day of each calendar month (or, as applicable, the closing date) to (and including) the last day of that calendar month or, as applicable, the date of termination of the mortgages trust shall be a **trust calculation period**;
- (b) the day on which there is a sale of any new loans to the mortgages trustee (each such date, a **sale date**); and
- (c) the day on which any of the beneficiaries makes a further contribution to the mortgages trust and/or a further Funding company accedes to the mortgages trust deed (each such date, a **further contribution date**).

The reason for the recalculation of the share of each beneficiary on a sale date or further contribution date is so as to determine the percentage share of each beneficiary which will reflect the addition of new loans and their related security or a further contribution (as the case may be) to the trust property. When the cash manager recalculates the relevant shares and share percentages of each beneficiary on a trust calculation date, that recalculation will apply for the then current trust calculation period (commencing on the first day of the calendar month in which such trust calculation date occurs). However, if during such trust calculation period the seller sells new loans to the mortgages trustee or a further contribution (excluding a seller contribution) is made, the recalculation made by the cash manager on that sale date or further contribution date (as applicable) (each an **interim trust calculation date**) will only apply from (and including) that sale date or further contribution date to (and including in the case of (a) and excluding in the case of (b)) the earlier to occur of (a) the end of that then current trust calculation period and (b) the next occurring sale date or further contribution date (which shall be (a), in the case that (a) and (b) occur on the same date). The portion of a trust calculation period that is less than a full trust calculation period is called an **interim trust calculation period**.

The percentage share that each beneficiary has will determine that beneficiary's entitlement to revenue receipts and principal receipts from the loans in the trust property and also the allocation of losses or capitalised arrears arising on the loans for the then current trust calculation period or interim trust calculation period, as applicable. The method of determining those percentage shares is as set out below.

**Distribution date** means the day falling four London business days after the immediately preceding trust calculation date, being the date that the mortgages trustee will distribute principal receipts and revenue receipts to the beneficiaries.

### Funding 1 share – trust calculation date recalculation

On each trust calculation date (also referred to in this section as the **relevant trust calculation date**), the interest of Funding 1 (the **Funding 1 share**) is recalculated to take effect for the then current trust calculation period (commencing on the first day of the calendar month in which such trust calculation date occurs) or the relevant interim trust calculation period (as applicable) in accordance with the following formulae:

- The Funding 1 share will be an amount equal to:

$$A - B - C + D + E + F$$

- The percentage share of Funding 1 (the **Funding 1 share percentage**) will be an amount equal to:

$$\frac{[A - B - C + D + E + F] \times 100}{G}$$

G

in the latter case, expressed as a percentage and rounded upwards to five decimal places,

where:

- A = the amount of the Funding 1 share as determined on the immediately preceding trust calculation date or, as the case may be, the closing date;
- B = the sum of (i) the amount of any principal receipts on the loans to be distributed to Funding 1 on the distribution date immediately following the relevant trust calculation date and (ii) any refinancing distribution made to Funding 1 in the immediately preceding trust calculation period;
- C = the amount of losses sustained on the loans in the immediately preceding trust calculation period and the amount of any reductions occurring in respect of the loans as described in paragraph (a) to (d) in “– **Adjustments to trust property**” below, in each case allocated to Funding 1 in the immediately preceding trust calculation period;
- D = the amount of any initial contribution paid by Funding 1 to the mortgages trustee during the immediately preceding trust calculation period in respect of the Funding 1 share of any new loans sold by the seller to the mortgages trustee during such trust calculation period (the **new trust property**);
- E = the amount of any further contribution paid by Funding 1 to the mortgages trustee during the immediately preceding trust calculation period to increase the Funding 1 share;
- F = the aggregate amount of any interest which is overdue in respect of the loans which the seller has agreed to capitalise and which has been capitalised and added in the accounts of the seller to the outstanding principal balance of a loan (**capitalised arrears**) and the aggregate amount of any capitalised interest accruing on loans due to borrowers taking payment holidays which have been allocated to Funding 1 in the immediately preceding trust calculation period;
- G = the aggregate current balance of all the loans in the trust property as at the last day of the immediately preceding trust calculation period or, as the case may be, the closing date, after making or provisioning for the distributions, allocations and additions referred to in B, C, D, E and F above and after taking account of (without double counting any amounts referred to in B, C, D, E and F above):
  - the sale, if any, of new trust property during the immediately preceding trust calculation period;
  - any distribution of principal receipts and revenue receipts (but only insofar as such revenue receipts are taken into account in determining the current balance) to any of the beneficiaries on the distribution date immediately following the relevant trust calculation date;
  - any contributions by any beneficiaries in the immediately preceding trust calculation period;
  - any distributions to any beneficiaries in the immediately preceding trust calculation period;
  - the amount of any losses or capitalised arrears allocated to the beneficiaries in the immediately preceding trust calculation period;
  - the amount of any increase in the current balances due to capitalisation of insurance premiums due by borrowers during the immediately preceding trust calculation period;
  - the adjustments referred to in paragraphs (a) to (d) in “– **Adjustments to trust property**” below; and
  - the amount of any other additions to or subtractions from the current balance of loans comprising the trust property (including any subtractions made from the current balance resulting from overpayments made by borrowers and/or any additions to the current balance resulting from borrowers making cash withdrawals or underpayments or taking payment holidays under a flexible loan or the seller making further advances to a borrower (for the avoidance of doubt, in the case of excluded further advances or further advances otherwise repurchased pursuant to the terms of the mortgage sale agreement, until so repurchased) or a borrower making further drawdowns under a loan during the immediately preceding trust calculation period, as described below in “– **additions to and reductions in the trust property**”).

### Further Funding company's share

The share of each further Funding company (a **further Funding company share**) and the percentage share of each further Funding company (the **further Funding company share percentage**) will be recalculated on each trust calculation date in the same way that the Funding 1 share and the Funding 1 share percentage are recalculated in the above section (“– **Funding 1 share– trust calculation date recalculation**”), except that references to Funding 1 are to be read as references to the relevant Funding company.

### Funding 1 share – sale date and further contribution date recalculations

On each interim trust calculation date, the Funding 1 share will be recalculated for the related interim trust calculation period, for the sole purpose of calculating the distributions to be made from the trust property on the immediately succeeding distribution date, in accordance with the following formula:

- (a) the then current Funding 1 share will be an amount equal to:

$$A - B + D$$

- (b) the current Funding 1 share percentage will be an amount equal to:

$$\frac{[A - B + D] \times 100}{G}$$

G

expressed as a percentage and rounded upwards to five decimal places,

where:

- A = the size of the Funding 1 share as determined on the later of the trust calculation date or interim trust calculation date (as applicable) immediately preceding the relevant trust calculation date or interim trust calculation date (as applicable);
- B = the actual amount of any refinancing distribution paid to Funding 1 on such interim trust calculation date;
- D = (a) the amount of any initial contribution paid by Funding 1 to the mortgages trustee on such interim trust calculation date which is a sale date in respect of any new loans sold by the seller to the mortgages trustee or, as the case may be, (b) an amount equal to the further contribution paid by Funding 1 to the mortgages trustee on such interim trust calculation date which is a further contribution date; and
- G = the sum of:
- (i) the aggregate current balance of all of the loans in the trust property as at the immediately preceding trust calculation date or the interim trust calculation date (as applicable); and
  - (ii) the aggregate current balance of the new loans sold to the mortgages trustee after the immediately preceding trust calculation date or the interim trust calculation date (as applicable), including the new trust property sold to the mortgages trustee on such interim trust calculation date which is a sale date,

(in each case taking into account the amounts and adjustments referred to in the calculation of “G” as set out in the preceding section).

### Each further Funding company

Each further Funding company share and each further Funding company share percentage will be recalculated on each trust calculation date and, if applicable, each interim trust calculation date occurring during the then current trust calculation period in the same way that the Funding 1 share and the Funding 1 share percentage are recalculated in the above section (“– **Funding 1 share – Sale date and further contribution date recalculations**”), except that references to Funding 1 are to be read as references to the relevant further Funding company.

### Adjustments to trust property

If any of the following events occurs during a trust calculation period or, as applicable, interim trust period immediately preceding the relevant trust calculation date or, as applicable, relevant interim trust calculation date, then the aggregate current balance of the loans in the trust property will be reduced or deemed to be reduced for the purposes of the calculation of G above:

- (a) any borrower exercises a right of set-off so that the amount of principal and interest owing under a loan is reduced but no corresponding payment is received by the mortgages trustee. In this event, the aggregate current

balance of the loans comprised in the trust property will be reduced by an amount equal to the amount of that set-off; and/or

- (b) (i) a loan or its related security does not materially comply with the representations and warranties contained in the mortgage sale agreement and the seller fails to repurchase the loan or loans under the relevant mortgage account and their related security to the extent required by the terms of the mortgage sale agreement; or
- (ii) a loan or its related security is the subject of a product switch or a further advance (other than an excluded further advance), which does not comply with the relevant conditions for remaining in the trust property (and, in each case, the seller fails to repurchase the loan or loans under the relevant mortgage account and their related security to the extent required by the terms of the mortgage sale agreement) or the seller makes an excluded further advance and does not repurchase the loan under the relevant mortgage account and its related security as required under the terms of the mortgage sale agreement; or
- (iii) if the seller accepts an application from a borrower to transfer a portable loan to a new property and the seller fails to repurchase the loan or loans under the relevant mortgage account and their related security, as required under the terms of the mortgage sale agreement.

In any of the events in (b)(i) to (b)(iii), the aggregate current balance of the loans comprised in the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the current balance of the relevant loan or loans under the relevant mortgage account; and/or

- (c) the seller would be required to repurchase a loan and its related security as required by the terms of the mortgage sale agreement, but the loan and its related security is not capable of being repurchased. In this event, the aggregate current balance of the loans comprised in the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the current balance of the relevant loan or loans under the relevant mortgage account; and/or
- (d) the seller breaches any other material warranty under the mortgage sale agreement and/or (for so long as the seller is the servicer) the servicing agreement, which will also be grounds for terminating the appointment of the servicer. In this event, the aggregate current balance of the loans comprised in the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the resulting loss (if any) incurred by the beneficiaries.

The reductions or deemed reductions set out in paragraphs (a) to (d) above will be made on each London business day, but only aggregated and accounted for on the next following relevant trust calculation date, sale date or further contribution date (as applicable), first to the seller's share (including the minimum seller share) and, thereafter will be made to each Funding 1 share and any further Funding company share, *pro rata* according to the then current Funding 1 share and the then current further Funding company share thereof.

Any sums that are subsequently recovered by the mortgages trustee in connection with a reduction or deemed reduction of the trust property under paragraphs (a) to (d) above will be allocated to the beneficiaries and distributed to Funding 1 and any further Funding companies according to the then current Funding 1 share and the current further Funding company share (but only if and to the extent that the related reductions were applied against the Funding 1 share and the further Funding company's share) and, to the extent of any excess, to the seller in accordance with the relevant priority of payments.

### **The weighted average share percentages**

On any trust calculation date where the seller has sold new loans to the mortgages trustee (the date on which such sale occurs being a **sale date**) or a beneficiary has made a further contribution (other than a seller contribution) (the date on which such further contribution is made being a **further contribution date**) during the immediately preceding trust calculation period, the cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately succeeding distribution date) the weighted average of the current Funding 1 share percentage, each further Funding company share percentage and seller share percentage in respect of each interim trust calculation period occurring in that immediately preceding trust calculation period. The calculation will be based on the amount of the revenue receipts and principal receipts received and the losses sustained during each of the preceding interim trust calculation periods.

### **The weighted average Funding 1 share percentage**

The **weighted average Funding 1 share percentage** for any such trust calculation date will be equal to:

- (a) in respect of the distribution of revenue receipts to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (revenue) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
- (i) for each interim trust calculation period during that trust calculation period, the product of:
- (A) the related Funding 1 share percentage for that interim trust calculation period; and

- (B) the amount of all revenue receipts received by the mortgages trustee during that interim trust calculation period;
- divided by:
- (ii) the aggregate of all revenue receipts received by the mortgages trustee during the trust calculation period immediately preceding that trust calculation date;
- (b) in respect of the distribution of principal receipts to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (principal) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
- (i) for each interim trust calculation period during that trust calculation period, the product of:
- (A) the related Funding 1 share percentage for that interim trust calculation period; and
- (B) the amount of all principal receipts received by the mortgages trustee during that interim trust calculation period;
- divided by:
- (ii) the aggregate of all principal receipts received by the mortgages trustee during the trust calculation period immediately preceding that trust calculation date; and
- (c) in respect of the allocation of losses to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (losses) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
- (i) for each interim trust calculation period during that trust calculation period, the product of:
- (A) the related Funding 1 share percentage for that interim trust calculation period; and
- (B) the amount of all losses sustained on the loans during that interim trust calculation period;
- divided by:
- (ii) the aggregate of all losses sustained on the loans during the trust calculation period immediately preceding that trust calculation date.

**The weighted average share percentage of each further Funding company and the weighted average Funding 1 share percentage**

The **weighted average further Funding company share percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (revenue) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (revenue) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (principal) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (principal) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (losses) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (losses) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

**Seller share – trust calculation date recalculation**

On each trust calculation date, the interest of the seller will be recalculated for the relevant trust calculation period or related interim trust calculation period in accordance with the following formulae:

The **seller share** will be an amount equal to:

- the aggregate current balance of the loans comprised in the trust property as at the last day of the trust calculation period immediately preceding the relevant trust calculation date (taking into account the amounts and adjustments referred to in the calculation of "G" as set out above) *minus* the Funding 1 share and each further Funding company share as calculated on the relevant trust calculation date.

The percentage share of the seller will be an amount equal to:

- 100% *minus* the aggregate of (a) the Funding 1 share percentage and (b) each further Funding company share percentage as calculated on the relevant trust calculation date.

None of the Funding 1 share, each further Funding company share or the seller share may be reduced to or below zero, regardless of the requirements in relation to the minimum seller share.

### The weighted average seller share percentage

On any trust calculation date in respect of which the seller has sold new loans to the mortgages trustee or a beneficiary has made a further contribution (other than a seller contribution) during the immediately preceding trust calculation period, the cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately succeeding distribution date) the weighted average of the current seller share percentages that were calculated previously in respect of each interim trust calculation period occurring in that immediately preceding trust calculation period. The calculation will be based on the amount of the revenue receipts and the principal receipts received and the losses sustained during each of the preceding interim trust calculation periods.

The **weighted average seller share percentage** for any such trust calculation date will be equal to:

- in respect of the distribution of revenue receipts to be made on the immediately succeeding distribution date (the **weighted average seller share (revenue) percentage**), the sum based on the following formula:  
100% *minus* (the aggregate of (i) the then current weighted average Funding 1 share (revenue) percentage and (ii) the then current weighted average further Funding company share (revenue) percentage);
- in respect of the distribution of principal receipts to be made on the immediately succeeding distribution date (the **weighted average seller share (principal) percentage**), the sum based on the following formula:  
100% *minus* (the aggregate of (i) the then current weighted average Funding 1 share (principal) percentage and (ii) the then current weighted average further Funding company share (principal) percentage);
- in respect of the allocation of losses to be made on the immediately succeeding distribution date (the **weighted average seller share (losses) percentage**), the sum based on the following formula:  
100% *minus* (the aggregate of (i) the then current weighted average Funding 1 share (losses) percentage and (ii) the then current weighted average further Funding company share (losses) percentage).

### Minimum seller share

The seller share includes an amount known as the **minimum seller share**. The amount of the minimum seller share will fluctuate depending on changes to the characteristics of the loans in the trust property. The seller will not be entitled to receive principal receipts which would reduce the seller share to an amount less than the minimum seller share unless and until:

- each of the Funding 1 share and any further Funding company share is in an amount equal to zero; or
- an asset trigger event occurs.

The minimum seller share will be the amount determined on each trust calculation date (after any sale of loans to the mortgages trustee on that trust calculation date) in accordance with the following formula:

$$X + Y + Z$$

where:

X = 3.35% of the aggregate current balance of loans in the trust property, as calculated on the relevant trust calculation date (as at the end of the immediately preceding trust calculation period) or, if the long-term, unguaranteed, unsecured and unsubordinated rating of Alliance & Leicester is less than Baa3 by Moody's, BBB by Standard & Poor's or BBB- by Fitch, the amount of deposits held by Alliance & Leicester as at the date of notification to the borrowers of the sale of the loans to the mortgages trustee if greater than such amount;

Y = the product of:  $p \times q \times r$

where:

p = 8%;

q = the **flexible draw capacity**, being an amount equal to the maximum amount of cash withdrawal that borrowers may draw under flexible loans included in the trust property as at the end of the immediately preceding trust calculation period; and

r = 3; and

Z = the aggregate current balance of all cash withdrawals made by borrowers under flexible loans in the trust property and the aggregate current balance of all further advances under the loans in the trust property, in each case as at the end of the immediately preceding trust calculation period pursuant to loans that are regulated by the CCA that are not represented to be enforceable and excluding further advances or further advances pursuant to loans repurchased pursuant to the terms of the mortgage sale agreement, in each case as at the end of the immediately preceding calculation period.

The purpose of X is to mitigate the risks relating to certain set-off risks relating to the loans. The amount of X may be reduced from time to time at the request of any of the beneficiaries (acting reasonably) provided that the Funding 1 security trustee and any further Funding security trustee has previously received written confirmation from the rating agencies that the then current ratings of the rated notes then outstanding as a result thereof will not be downgraded, withdrawn or qualified.

The purpose of the calculation in Y is to mitigate the risk of the seller failing to fund cash withdrawals (which borrowers are entitled to draw) under flexible loans in the portfolio (excluding for these purposes further advances that the seller has a discretion to advance).

The purpose of Z is to mitigate enforceability risks relating to cash withdrawals and further advances under loans in the portfolio that are regulated by the CCA that are not represented to be enforceable.

### **Adjustments to distributions**

In calculating on each trust calculation date and making the distributions on each distribution date, the mortgages trustee, or the cash manager on its behalf, will take account of and make adjustments to such calculations and distributions in order that:

- (a) any increase in the Funding 1 share or any further Funding company share as a result of the payment by Funding 1 or any further Funding company of any contribution (excluding a deferred contribution) during the trust calculation period immediately preceding such distribution date (or during any interim trust calculation period during that trust calculation period) is deemed to have taken effect as an increase in Funding 1 or that further Funding company's share from the date on which such contribution was paid to the mortgages trustee; and
- (b) any decrease in the seller share as a result of the payment of a special distribution to the seller is deemed to have taken effect as a decrease in the seller share from the date on which such special distribution was paid to the seller.

### **Cash management of trust property – revenue receipts**

Under the cash management agreement, the cash manager is responsible for distributing revenue receipts on behalf of the mortgages trustee on each distribution date in accordance with the order of priority described in the following section. For further information on the role of the cash manager, see “**Summary of the transaction documents – cash management agreement**” above.

### **Mortgages trust calculation of revenue receipts**

**Mortgages trust available revenue receipts** will be calculated by the cash manager on each trust calculation date and is an amount equal to the sum of:

- revenue receipts on the loans (for the avoidance of doubt, excluding principal receipts);
  - interest received or payable to the mortgages trustee on the mortgages trustee GIC account; and
  - the amount of any seller contribution received by the mortgages trustee;
- less:
- amounts due to third parties (also known as **third party amounts**), including:
    - (a) amounts under a direct debit which are repaid to the bank making the payment if that bank is unable to recoup that amount itself from its customer's account;
    - (b) payments by borrowers to the seller of any fees and other charges which are due to the seller (including payments of insurance premiums, if any, due to the seller in respect of any seller arranged insurance policy to the extent not paid or payable by the seller (or, to the extent such insurance premiums have been paid by the seller in respect of any loan, which is not repurchased by the seller, to reimburse the seller)); and

- (c) recoveries in respect of amounts deducted from loans as described in paragraphs (a) to (d) in “–**Adjustments to trust property**” above, which will belong to and be paid to Funding 1, any further Funding companies and/or the seller as described therein,

which amounts may be paid daily from monies on deposit in the mortgages trustee GIC account.

In the mortgages trust revenue priority of payments below, references to the term **relevant trust calculation date** means the trust calculation date occurring on the first London business day of the immediately preceding trust calculation period.

On each distribution date (or, in respect of amounts due to third parties under paragraph (a) below, when due), the cash manager will apply mortgages trust available revenue receipts in accordance with the following **mortgages trust revenue priority of payments**:

- (a) first, *pari passu* and *pro rata*, to pay:
- amounts due and payable to the mortgages trustee under the provisions of the mortgages trust deed or to become due and payable to the mortgages trustee during the then current trust calculation period; and
  - amounts due and payable to third parties or to become due and payable to third parties during the then current trust calculation period from the mortgages trustee in respect of the mortgages trust, but only if:
    - (i) payment is not due as a result of a breach by the mortgages trustee of the documents to which it is a party; and/or
    - (ii) payment has not already been provided for elsewhere;
- (b) then, *pari passu* and *pro rata*, to pay:
- amounts due and payable to the servicer or to become due and payable to the servicer during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the servicing agreement;
  - amounts due and payable to the cash manager or to become due and payable to the cash manager during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the cash management agreement;
  - amounts due and payable to the mortgages trustee corporate services provider or to become due and payable to the mortgages trustee corporate services provider during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the mortgages trustee corporate services agreement;
  - amounts due and payable to the mortgages trustee account bank or to become due and payable to the mortgages trustee account bank during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the mortgages trustee bank account agreement; and
- (c) finally, *pari passu*, but subject to the proviso below, to allocate and pay the remaining mortgages trust available revenue receipts to:
- Funding 1 in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by the Funding 1 share percentage as calculated on the relevant trust calculation date (or, in the case of the first distribution date, as of the closing date);
  - each further Funding company in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by each further Funding company share percentage as calculated on the relevant trust calculation date (or, in the case of the first distribution date after which such further Funding company acceded to the mortgages trust deed, as of the closing date on which such further Funding company acceded to the mortgages trust deed); and
  - the seller in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by the seller share percentage as calculated on the relevant trust calculation date (or, in the case of the first distribution date, as of the closing date),

**PROVIDED THAT**, if a sale date or further contribution date has occurred during the trust calculation period immediately preceding the relevant distribution date, then the cash manager will use:

- (a) the weighted average Funding 1 share (revenue) percentage (instead of the Funding 1 share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to Funding 1;
- (b) the weighted average further Funding company share (revenue) percentage of each further Funding company (instead of each further Funding company share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to each further Funding company;



- (c) the weighted average seller share (revenue) percentage (instead of the seller share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to the seller.

Amounts due to the mortgages trustee, the servicer, the cash manager, the mortgages trustee corporate services provider and the mortgages trustee account bank by the mortgages trustee include amounts payable in respect of VAT as provided in the relevant transaction documents, if any.

### **Cash management of trust property – principal receipts**

Under the cash management agreement, the cash manager is also responsible for distributing principal receipts on behalf of the mortgages trustee on each distribution date. To understand how the cash manager distributes principal receipts on the loans on each distribution date, you need to understand the definitions set out below. The definitions may change as new trust property is acquired. You will not have any right of prior review or consent to such changes, provided that (among other things) the rating agencies confirm that the ratings of the notes then outstanding will not be downgraded, withdrawn or qualified as a result of such changes.

On each trust calculation date, the cash manager will ascertain whether the following distribution date is within a cash accumulation period relating to a cash accumulation loan tranche for Funding 1 or any further Funding company and will ascertain Funding 1's and any further Funding company's cash accumulation requirement and repayment requirement.

The cash accumulation period is separate for each cash accumulation loan tranche.

### **Definitions**

An **asset trigger event** will occur when an amount is debited to the principal deficiency sub-ledger established for any issuer with respect to its class A notes, unless (in the case of the issuer) such debit is made when the sum of the amount standing to the credit of the issuer reserve ledger, together with amounts determined and due to be credited to the issuer revenue ledger prior to the immediately following interest payment date after such debit is made, is greater than the amount necessary to pay items (a) to (e) of the issuer pre-acceleration revenue priority of payments on the immediately following interest payment date after such debit is made or (in the case of any new issuer) subject to any equivalent provisions agreed in respect of the issue of any new issuer notes. For more information on the principal deficiency ledger, see “**Credit structure**” below. The definition of **asset trigger event** may change as new loan types are sold to the mortgages trustee or when any further Funding company acquires an interest in the trust property, subject to satisfaction of the relevant conditions precedent and confirmation from the rating agencies that the then current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result (see “**Funding 1 deed of charge – Appointment, powers, responsibilities and liabilities of the Funding 1 security trustee**” and “**Issuer deed of charge – Appointment, powers, responsibilities and liabilities of the issuer security trustee**” above).

A **bullet loan tranche** means any issuer loan tranche or any new issuer loan tranche where the full amount of principal is scheduled to be repaid in full on one scheduled repayment date (being the **bullet repayment date**). In respect of any bullet loan tranches made to Funding 1, such bullet loan tranches will be deemed to be pass-through loan tranches if:

- a trigger event occurs;
- in respect of the bullet loan tranches made by a new issuer, the security granted by such new issuer is enforced; or
- the Funding 1 security or the security granted by any further Funding company (as applicable) to which such bullet loan tranche is made is enforced.

No bullet loan tranches will be made by the issuer to Funding 1 on the closing date. Any bullet loan tranches made to Funding 1 after the closing date will be notified to noteholders in the first investor report available after the date such bullet loan tranches are made.

If a bullet loan tranche is made to any further Funding company, the amount and scheduled repayment date of each bullet loan tranche will be notified to noteholders in the first investor report available after the date such bullet loan tranche is made.

There may be circumstances when the original bullet loan tranches made to Funding 1 or a further Funding company will be deemed to be a pass-through loan tranche. Noteholders will not be notified of these circumstances.

A **cash accumulation ledger** means a ledger maintained by the cash manager to record the amount accumulated by Funding 1 or any further Funding company from time to time to pay relevant accumulation amounts. There will be a separate cash accumulation ledger for each Funding company.

A **cash accumulation loan tranche** means a bullet loan tranche and/or scheduled amortisation loan tranche which is within a cash accumulation period.

A **cash accumulation period** means, as applicable, a Funding 1 cash accumulation period and/or a further Funding company cash accumulation period.

A **cash accumulation requirement** means, on a trust calculation date, in relation to Funding 1 or any further Funding company:

- the principal amount remaining to be repaid in relation to each relevant accumulation amount due to that Funding company (without double counting);
- plus, on a trust calculation date falling immediately prior to a Funding company interest payment date, amounts due and payable or which must be provisioned for by that Funding company on the following Funding company interest payment date (or which will become due and payable in the current Funding company interest period) in priority to principal amounts due by that Funding company on the relevant accumulation amount under the pre-acceleration principal priority(s) of payments relevant to that Funding company (for example, in relation to Funding 1, see items (a), (b) and (c) of the Funding 1 pre-acceleration principal priority of payments);
- plus, on a trust calculation date falling immediately prior to a Funding company interest payment date, the amount of principal that will be required on the following Funding company interest payment date to meet the Funding company revenue deficit amount (if any) in respect of that Funding company;
- less the amount standing to the credit of the cash accumulation ledger of the relevant Funding company at the last Funding company interest payment date (which amount was not distributed on that Funding company interest payment date and which is available to reduce the relevant cash accumulation requirement);
- less the sum of each relevant cash accumulation requirement amount paid to the relevant Funding company on a previous distribution date during the relevant Funding company interest period.

**Funding company loan tranche** means any loan tranche made to a Funding company.

**Funding company interest payment date** means the Funding 1 interest payment date or the date for payment of interest by any further Funding company.

**Funding company interest period** means the Funding 1 interest period and the period in respect of which any further Funding company makes a payment of interest.

**Funding 1 cash accumulation period** means, in relation to a bullet loan tranche or a scheduled amortisation loan tranche, (unless otherwise specified in the relevant intercompany loan confirmation) the period of time beginning on the earlier of the following two dates:

- (a) the date determined after counting back the number of months calculated under the definition of the Funding 1 anticipated cash accumulation period for such loan tranche;
- (b) the date determined after counting back 3 months in time from the relevant scheduled repayment date,

provided that, if the beginning of a Funding 1 cash accumulation period as determined above would fall on a date which is not a distribution date, then the Funding 1 cash accumulation period shall commence on the distribution date falling immediately before that date. A Funding 1 cash accumulation period shall end in respect of a relevant accumulation amount (as defined below) when Funding 1 has accumulated an amount equal to that particular relevant accumulation amount.

**Funding 1 anticipated cash accumulation period** means, on any trust calculation date in relation to a bullet loan tranche or a scheduled amortisation loan tranche, the anticipated number of months required by Funding 1 to accumulate sufficient issuer principal receipts to pay the relevant accumulation amount of Funding 1 which will be equal to:

$$\frac{J + K - L}{M \times N \times O}$$

calculated in months and rounded up to the nearest whole number, where:

- J = the amount of funds to be accumulated over a cash accumulation period in order to repay such loan tranche on its scheduled repayment date (whether or not actually repaid on that scheduled repayment date);
- K = the aggregate outstanding principal amount on that trust calculation date of:
- each cash accumulation loan tranche made to Funding 1 that was not fully repaid on its scheduled repayment date; and

- each other cash accumulation loan tranche made to Funding 1, the scheduled repayment date of which falls on or before the scheduled repayment date of the relevant accumulation amount;
- L = the amount of any available cash already standing to the credit of the cash accumulation ledger of Funding 1 at the start of that Funding 1 interest period (which is available to pay the relevant accumulation amount) plus the aggregate amount of cash accumulation requirement paid to Funding 1 since the previous Funding 1 interest payment date;
- M = the sum of each monthly CPR on the 12 most recent trust calculation dates which have occurred prior to that date divided by 12;
- N = 0.85; and
- O = the aggregate current balance of the loans comprised in the trust property as calculated on the previous trust calculation date in respect of the previous trust calculation period (or, if applicable, the closing date).

For other loan tranches of Funding 1, this may be longer or shorter.

A **further Funding company cash accumulation period** means the anticipated period required by that further Funding company to accumulate sufficient funds to repay a scheduled amortisation loan tranche made to a further Funding company (ending when that further Funding company has accumulated an amount equal to that cash accumulation loan tranche, taking into account its obligation to accumulate for any other cash accumulation loan tranche before, or at the same time as, the relevant cash accumulation loan tranche).

A **non-asset trigger event** will occur on a trust calculation date if:

- (a) an insolvency event occurs in relation to the seller on or before that trust calculation date;
- (b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days;
- (c) the current seller share is less than the minimum seller share on two consecutive trust calculation dates; or
- (d) the aggregate current balance of loans comprised in the trust property on two consecutive trust calculation dates during the period from (and including) the closing date to (but excluding) the interest payment date in March 2010 is less than £5,800,000,000.

The definition of non-asset trigger event may change as new loan types are sold to the mortgages trustee or when a further Funding company acquires an interest in the trust property, subject to satisfaction of the relevant conditions precedent and confirmation from the rating agencies that the then current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result (see “**Funding 1 deed of charge – Appointment, powers, responsibilities and liabilities of the Funding 1 security trustee**” and “**Issuer deed of charge – Appointment, powers, responsibilities and liabilities of the issuer security trustee**” above).

An **original bullet loan tranche** means that part of a loan tranche which at any time has been a bullet loan tranche (even if such loan tranche has subsequently become a pass-through loan tranche).

An **original scheduled amortisation instalment** means that part of a loan tranche which at any time has been a scheduled amortisation loan tranche (even if such Funding company loan tranche has subsequently become a pass-through loan tranche).

A **pass-through loan tranche** means a loan tranche which has no scheduled repayment date other than the final repayment date. If a pass-through trigger event occurs or the Funding 1 security or the security of any new issuer is enforced, then any bullet loan tranches or scheduled amortisation loan tranches of any new issuer will be deemed to be pass-through loan tranches. All of the issuer loan tranches are pass-through loan tranches.

The **relevant accumulation amount** means the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet loan tranche or make a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche, in each case on its scheduled repayment date (whether or not actually repaid on that scheduled repayment date).

The **repayment requirement** means, on a trust calculation date, the amount (if any) by which:

the aggregate of all principal amounts that will be due and payable by a Funding company on the next Funding company interest payment date in respect of the loan tranches made to that Funding company on the basis:

- (a) each loan tranche will be treated as due and payable if it is already due and payable, or would become due and payable on or before the next Funding company interest payment date in accordance with the terms of the relevant Funding 1 pre-acceleration principal priorities of payment or, in respect of each further Funding company, the relevant principal priorities of payment for that further Funding company; and

- (b) that amounts due and payable to that Funding company in respect of a bullet loan tranche or scheduled amortisation instalments and other amounts included in the definition of "cash accumulation requirement" are excluded,

exceeds the sum of:

- (i) the amounts standing to the credit of the principal ledger of that Funding company as at the last Funding company interest payment date (which amount was not distributed on that Funding company interest payment date but excluding the amounts standing to the credit of the cash accumulation ledger of that Funding company); and
- (ii) the sum of each repayment requirement amount paid to the relevant Funding company on a previous distribution date during the relevant Funding company interest period.

A **scheduled amortisation instalment** means that part of a scheduled amortisation loan tranche which is payable on each of the scheduled repayment dates of that scheduled amortisation loan tranche.

A **scheduled amortisation loan tranche** means any issuer loan tranche or new issuer loan tranche which is scheduled to be repaid in instalments (being **scheduled amortisation instalments**) on more than one scheduled repayment date in accordance with the terms of the relevant intercompany loan agreement. In respect of any scheduled amortisation loan tranches made to Funding 1 under an intercompany loan agreement, such scheduled amortisation loan tranches will be deemed to be pass-through loan tranches if:

- a trigger event occurs;
- in respect of the scheduled amortisation loan tranches made by a new issuer, the security granted by such new issuer is enforced; or
- the Funding 1 security or the security granted by any further Funding company (as applicable) to which such scheduled amortisation loan tranche is made is enforced.

No scheduled amortisation loan tranches will be made by the issuer to Funding 1 on the closing date. Any scheduled amortisation loan tranches made to Funding 1 after the closing date will be notified to noteholders in the first quarterly report available after the date such scheduled amortisation loan tranche is made.

If a scheduled amortisation loan tranche is made to any further Funding company, the amount and scheduled repayment dates of each scheduled amortisation instalment will be notified to noteholders in the first quarterly report available after the date such scheduled amortisation loan tranche is made.

There may be circumstances when the original scheduled amortisation loan tranches made to Funding 1 or a further Funding company will be deemed to be pass-through loan tranches. Noteholders will also be notified of these.

A **scheduled repayment date** means the Funding company interest payment date when a Funding company is required to repay a bullet loan tranche or make a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche. If bullet loan tranches or scheduled amortisation loan tranches are made to a further Funding company, the scheduled repayment date of those loan tranches will be notified to noteholders in the first quarterly report published after the date such bullet loan tranches or scheduled amortisation loan tranches are made.

A **trigger event** means an asset trigger event and/or a non-asset trigger event.

#### ***Mortgages trust calculation of principal receipts***

**Mortgages trust available principal receipts** are calculated by the cash manager on each trust calculation date and will be equal to the amount that is standing to the credit of the principal ledger on that trust calculation date.

The cash manager will calculate the repayment requirement and the cash accumulation requirement on each trust calculation date and the relevant amounts will be notified to the mortgages trustee (who will be entitled to rely on such notifications).

#### ***Mortgages trust allocation and distribution of principal receipts prior to the occurrence of a trigger event***

On each distribution date (the **relevant distribution date**) where no trigger event has occurred on or before the immediately preceding trust calculation date, the cash manager will apply mortgages trust available principal receipts as follows (the **mortgages trust principal priority of payments**):

- (a) first, *pari passu* and *pro rata* if any of Funding 1 and/or any further Funding company has a cash accumulation requirement on that distribution date:
  - (i) to allocate and pay to Funding 1 an amount equal to the lesser of (1) all mortgages trust available principal receipts multiplied by the Funding 1 share percentage and (2) an amount up to but not exceeding the sum of Funding 1's cash accumulation requirement (if any) on that distribution date; and

- (ii) to allocate and pay to each further Funding company an amount equal to the lesser of (1) all mortgages trust available principal receipts multiplied by the relevant Funding company share percentage and (2) an amount up to but not exceeding the sum of such further Funding company's cash accumulation requirement (if any) on that distribution date;
- (b) then, *pari passu* and *pro rata*:
  - (i) to allocate and pay to Funding 1 an amount up to but not exceeding Funding 1's cash accumulation requirement (if any) on that distribution date after taking into account any amounts received by Funding 1 in accordance with item (a)(i) above; and
  - (ii) to allocate and pay to each further Funding company an amount up to but not exceeding that further Funding company's cash accumulation requirement (if any) on that distribution date after taking into account any amounts received by such further Funding company in accordance with item (a)(ii) above;
- (c) then, *pari passu* and *pro rata*, if any of Funding 1 and/or any further Funding companies has a repayment requirement on that distribution date:
  - (i) to allocate and pay to Funding 1 an amount equal to the lesser of (1) all remaining mortgages trust available principal receipts multiplied by the relevant Funding company share percentage and (2) an amount up to but not exceeding the sum of Funding 1's repayment requirement (if any) on that distribution date; and
  - (ii) to allocate and pay to each further Funding company an amount equal to the lesser of (1) all remaining mortgages trust available principal receipts multiplied by that further Funding company's Funding company share percentage and (2) an amount up to but not exceeding the sum of such further Funding company's repayment requirement (if any) on that distribution date;
- (d) then, *pari passu* and *pro rata*:
  - (i) to allocate and pay to Funding 1 an amount up to but not exceeding Funding 1's repayment requirement (if any) on that distribution date after taking into account any amounts received by Funding 1 in accordance with item (c)(i) above; and
  - (ii) to allocate and pay to each further Funding company an amount up to but not exceeding such further Funding company's repayment requirement (if any) on that distribution date after taking into account any amounts received by such further Funding company in accordance with item (c)(ii) above; and
- (e) finally, provided that the seller share on the immediately preceding trust calculation date is not less than the minimum seller share, to allocate and pay all remaining mortgages trust available principal receipts to the seller,

provided that, in relation to items (a) to (e) above, the following rules shall apply:

- (a) the amount of mortgages trust available principal receipts to be allocated and paid:
  - (i) to Funding 1 on a distribution date will be reduced by an amount equal to the aggregate of issuer available revenue receipts which are to be applied on the immediately succeeding issuer interest payment date in reduction of deficiencies on the principal deficiency ledger; and
  - (ii) to such further Funding company on a distribution date will be reduced by an amount equal to the aggregate of available revenue receipts of such further Funding company which are to be applied on the immediately succeeding relevant Funding company interest payment date in reduction of deficiencies on the principal deficiency ledger(s) of the relevant Funding company or any new issuer making an intercompany loan to the relevant Funding company.

but in each case only to the extent that (following any such reduction) amounts falling due under items (a), (b), (c) and (d) above are still able to be paid in full;

- (b) a Funding company will not be entitled to have allocated to it (nor will it have allocated to it or receive) in aggregate an amount of mortgages trust available principal receipts from the mortgages trustee on a distribution date which is in excess of:
  - (i) in respect of Funding 1, the Funding 1 share on such distribution date;
  - (ii) in respect of each further Funding company, such further Funding company share on such distribution date; and
- (c) if on any trust calculation date prior to the occurrence of a non-asset trigger event the seller share is equal or less than the minimum seller share:
  - (i) the mortgages trustee will make provision in an amount which would have been payable to the seller if the seller share had been greater than the minimum seller share; and
  - (ii) the seller will not receive nor have allocated to it any amount so provided for by the mortgages trustee in item (e) above until such time as the seller share is greater than the minimum seller share and provided

that (i) the seller will not receive nor will have allocated to it any such amount if a non-asset trigger event occurs and is occurring and (ii) if an asset trigger event occurs and is occurring, the seller will have allocated to it and will be paid such amount but only to the extent permitted by the rules governing distribution of principal receipts after the occurrence of an asset trigger event.

***Mortgages trust allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event***

On each distribution date after the occurrence of a non-asset trigger event and until the occurrence of an asset trigger event, the cash manager will apply all mortgages trust available principal receipts by way of allocation and payment to the Funding companies *pari passu* and *pro rata* according to the Funding 1 and the applicable Funding company's share of the Funding companies' aggregate share until each of their respective shares (as calculated on the trust calculation date falling in the immediately preceding trust calculation period) is zero. The remainder, if any, of such receipts will be allocated and paid to the seller.

Notwithstanding the foregoing, if a sale date or a further contribution date has occurred during the trust calculation period immediately preceding such distribution date, the cash manager on behalf of the mortgages trustee will apply all principal receipts by way of allocation and payment to Funding 1 and each further Funding company according to the weighted average Funding 1 share (principal) percentage and the relevant weighted average further Funding company share (principal) percentage for that distribution date, until each of the Funding 1 share and each further Funding company share is zero.

Following the occurrence of a non-asset trigger event, the notes will be subject to prepayment risk (that is, they may be repaid earlier than expected). See above “**Risk factors – The occurrence of a non-asset trigger event may accelerate the repayment of certain issuer notes and/or delay the repayment of other issuer notes**”.

***Mortgages trust allocation and distribution of principal receipts on or after the occurrence of an asset trigger event***

On each distribution date after the occurrence of an asset trigger event, the cash manager will allocate and pay all mortgages trust available principal receipts, *pari passu* and *pro rata*, to Funding 1, each further Funding company and the seller according to the Funding 1 share percentage, the relevant further Funding company percentage and the seller share percentage, respectively (in each case as calculated on the trust calculation date falling in the immediately preceding trust calculation period), until each of the Funding 1 share and each further Funding company share is zero. Following the occurrence of an asset trigger event, the making of allocations and payments to the seller may reduce the seller share below the minimum seller share.

Notwithstanding the foregoing, if a sale date or a further contribution date has occurred during the trust calculation period immediately preceding such distribution date, the cash manager on behalf of the mortgages trustee will apply all principal receipts by way of allocation and payment between and to Funding 1, each further Funding company and the seller according to the weighted average Funding 1 share (principal) percentage, the relevant weighted average further Funding company share (principal) percentage and the weighted average seller share (principal) percentage, for that distribution date, until each of the Funding 1 share and each further Funding company share is zero.

Following the occurrence of an asset trigger event, it is possible that issuer notes may not be repaid in full by their respective final maturity dates. See above “**Risk factors – The occurrence of an asset trigger event may accelerate the repayment of certain issuer notes and/or delay the repayment of other issuer notes**”.

**Losses**

All losses arising on the loans will be applied in reducing each beneficiary's share.

Save as otherwise provided, each beneficiary's share of the losses will be determined on any date by multiplying the amount of losses by:

- in relation to Funding 1, the Funding 1 share percentage (which will then be allocated to each Funding 1 issuer on a pro rata basis);
- in relation to each further Funding company, the relevant further Funding company share percentage; and
- in relation to the seller, the seller share percentage,

in each case as calculated on the trust calculation date in the immediately preceding trust calculation period, until the share of each beneficiary is zero, regardless of the requirements in relation to the minimum seller share.

However, if a sale date or a further contribution date has occurred during the trust calculation period immediately preceding a trust calculation date, then the amount of losses shall be multiplied by, as applicable, the weighted average Funding 1 share (losses) percentage, the relevant weighted average further Funding company share

(losses) percentage of each further Funding company and the weighted average seller share (losses) percentage, in each case as calculated for the immediately preceding trust calculation period on that trust calculation date.

### **Disposal of trust property**

The trust property is held on bare trust for the benefit of Funding 1, any further Funding companies and the seller absolutely. Subject as provided otherwise in the mortgages trust deed and the other transaction documents, the mortgages trustee is not entitled to dispose of the trust property or create any security interests over the trust property.

If an event of default occurs under an intercompany loan agreement relating to Funding 1 and (following the service on Funding 1 of an intercompany loan acceleration notice) the Funding 1 security trustee enforces the Funding 1 security, then the Funding 1 security trustee will be entitled, among other things, to sell the Funding 1 share (see “**Summary of the transaction documents – Funding 1 deed of charge**” above).

### **Additions to and reductions in the trust property**

An overpayment made by a borrower under a flexible loan will constitute a principal receipt in respect of the relevant loan and shall be distributed to the beneficiaries in accordance with the mortgages trust principal priority of payments, and this will result in a reduction of the current balance of the relevant loan by the amount of such overpayment on the following day.

If a borrower makes a cash withdrawal under a flexible loan, then pursuant to the terms of the mortgage sale agreement, the seller will be solely responsible for funding that cash withdrawal. Similarly, pursuant to the terms of the mortgage sale agreement, the seller will be solely responsible for funding any further advance made to a borrower. Any cash withdrawal or further advance made to a borrower where the loan remains in the mortgages trust will increase the current balance of the relevant loan with effect from the following day and will increase the seller share, in each case by the amount of that cash withdrawal or further advance as calculated on the next trust calculation date. Any flexible loan or other loan pursuant to which a further advance is made may be purchased by the seller and, if purchased by the seller, will decrease the aggregate current balance of the loans comprising the trust property, in each case by the current balance of that flexible loan immediately prior to the further advance being made by the seller as calculated on the next trust calculation date.

If a borrower exercises a right to make an underpayment or take a payment holiday under a flexible loan, then that will increase the current balance of the loan with effect from the following day by an amount equal to the amount of interest not paid on the relevant loan in the month during which such underpayment or payment holiday option is exercised. Prior to an insolvency event in respect of the seller, the seller shall make a seller contribution to the mortgages trustee in an amount equal to the unpaid interest element otherwise payable under any loan which is subject to an underpayment or payment holiday. If the seller makes such a seller contribution, then it will be deemed to be a revenue receipt, and only the seller share shall increase by a corresponding amount. The seller may cease making such contributions if it is subject to an insolvency event.

### **Increasing the shares of the Funding companies by way of further contributions and additional initial contributions**

If Funding 1 or any further Funding company enters into a new issuer intercompany loan, then any such Funding company may apply the proceeds of that new issuer intercompany loan as either a further contribution on a further contribution date or an initial contribution to the mortgages trust on a sale date to increase its beneficial interest in and the Funding 1 share or the relevant further Funding company share (as applicable) on the next distribution date. A Funding company will be permitted to do this only if certain conditions are met, including *inter alia*:

- (a) no event of default under the transaction documents or the transaction documents relating to any further Funding company has occurred and is continuing or unwaived as at the relevant further contribution date or sale date (as applicable);
- (b) no deficiency was recorded on the issuer principal deficiency ledger or any principal deficiency ledger of any further Funding company or new issuer (as applicable) as at the relevant further contribution date or sale date (as applicable);
- (c) the rating agencies have confirmed in writing that the proposed increase in the Funding 1 or the relevant further Funding company share (as applicable) would not cause the then current ratings of the rated notes then outstanding to be downgraded, withdrawn or qualified; and
- (d) as of the last day of the immediately preceding trust calculation period, the aggregate current balance of the loans in the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4% of the aggregate current balance of the loans in the trust property as of such date, unless the rating agencies have confirmed that the then current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified as a result of any increase in, as applicable, the Funding 1 share or the Funding company share.

## Special distributions

Pursuant to the terms of the mortgages trust deed, the Funding companies and the seller will agree that amounts held by the mortgages trustee on any date in respect of any further contribution (other than a refinancing contribution) paid by any Funding company to the mortgages trustee (therefore excluding, for the avoidance of doubt, seller contributions) will be allocated and paid by the mortgages trustee to the seller as a distribution (a **special distribution**) from the mortgages trust on such date whether or not such date is a distribution date. The payment of any such special distribution will reduce the seller share with a corresponding increase to the relevant Funding company's share.

## Refinancing distributions

Each of the beneficiaries may make a **refinancing contribution** (being a contribution designated as such by the beneficiary) to the mortgages trustee from time to time. A refinancing contribution is a cash payment made by a beneficiary to the mortgages trustee, which the relevant beneficiary directs the mortgages trustee to apply to reduce the share of another beneficiary (other than the seller). A beneficiary may only give such a direction to the mortgages trustee with the prior consent of the relevant Funding company whose share will be reduced.

Pursuant to the terms of the mortgages trust deed, the beneficiaries will agree that amounts held by the mortgages trustee on any date in respect of any refinancing contribution paid by a beneficiary to the mortgages trustee on that date will be allocated and paid by the mortgages trustee to the relevant Funding company as a distribution (a **refinancing distribution**) from the mortgages trust on such date whether or not such date is a distribution date. The payment of any such refinancing distribution will reduce the share of the receiving Funding company with a corresponding increase to the contributing beneficiary's share.

If a further Funding company enters into new issuer loan tranches that would have the effect of extending the Funding 1 cash accumulation period in respect of any cash accumulation loan tranche of Funding 1 that is, as at the date such new issuer loan tranche is entered into, in a cash accumulation period or which would, as a result of the issue of that such new issuer loan tranche, be in a cash accumulation period (each an **affected scheduled amortisation loan tranche**), then the proceeds of such new issuer loan tranche must be applied to make a refinancing contribution to the mortgages trustee. The mortgages trustee shall apply the proceeds of such refinancing contribution to make a refinancing distribution to Funding 1 in an amount equal to the lesser of:

- (a) the aggregate cash accumulation requirement of Funding 1 in respect of each affected scheduled amortisation loan tranche; and
- (b) the net proceeds of the new intercompany loan to be made to such further Funding company.

Certain conditions will apply to the right of the seller to make refinancing contributions and hence increase the seller share with a corresponding decrease in the relevant Funding company share. In respect of a refinancing contribution to be made by the seller to Funding 1, these are:

- (a) each of the rating agencies has confirmed to Funding 1 that the then current ratings of the rated notes then outstanding would not be downgraded, withdrawn or qualified as a result thereof; and
- (b) Funding 1 agrees to apply the proceeds of that refinancing contribution to repay (in whole or in part) a loan tranche made to it.

## Termination of the mortgages trust

The mortgages trust will terminate on the date on which there is no remaining trust property or, if earlier, the date on which:

- (a) the Funding 1 share and each Funding company share has been reduced to zero; or
- (b) the beneficiaries collectively agree to terminate the mortgages trust so long as all amounts due from the Funding companies pursuant to the intercompany loan agreements have been repaid in full.

Subject to applicable law, the beneficiaries are not entitled to remove or replace the mortgages trustee as the trustee of the mortgages trust. The mortgages trustee is not entitled to retire as the trustee of the mortgages trust or appoint any additional trustee of the mortgages trust.

## Governing law

The mortgages trust deed will be governed by English law.



## CASHFLOWS

### Definition of Funding 1 available revenue receipts

**Funding 1 available revenue receipts** will be calculated by the cash manager for each Funding 1 interest payment date on the day falling one London business day prior to such Funding 1 interest payment date and will be an amount equal to the sum of:

- all mortgages trust available revenue receipts distributed to or to be distributed to Funding 1 during the then current interest period;
- other income of Funding 1 including all amounts of interest received on the Funding 1 GIC account, the Funding 1 transaction account and/or in respect of authorised investments of Funding 1 and all net amounts received by Funding 1 under the Funding 1 swap agreement (other than any early termination amount received by Funding 1 under the Funding 1 swap agreement to the extent used to purchase any replacement Funding 1 swap agreement), in each case to be received by Funding 1 during the then current interest period; and
- the amounts then standing to the credit of the Funding 1 reserve ledger.

Funding 1 available revenue receipts does not include:

- any refinancing contribution which is applied to reduce the Funding 1 share of the trust property during the interest period ending on the relevant Funding 1 interest payment date as described above in “**The mortgages trust**”; or
- any proceeds of a new issuer intercompany loan received by Funding 1 during the interest period ending on the relevant Funding 1 interest payment date as described above in “**Summary of the transaction documents – The issuer intercompany loan agreement – New issuer intercompany loan agreements**”.

### Definition of Funding 1 issuer allocable revenue receipts

**Funding 1 issuer allocable revenue receipts** will be calculated by the cash manager for each Funding 1 issuer on the day falling one London business day prior to each Funding 1 interest payment date based on the outstanding principal amounts of the intercompany loans of each Funding 1 issuer on the immediately preceding Funding 1 interest payment date (following the application of Funding 1 available principal receipts on such Funding 1 interest payment date) and will be an amount (not less than zero) for each Funding 1 issuer calculated by reference to the following formula:

$$\frac{(\text{Funding 1 available revenue receipts} - R) \times \text{outstanding principal amount of the intercompany loan of such Funding 1 issuer}}{\text{aggregate outstanding principal amount of all the intercompany loans of Funding 1 issuers}}$$

where **R** = the sum of items (a), (b), and (c) of the Funding 1 pre-acceleration revenue priority of payments or, as applicable, the sum of items (a), (b) and (c) of the Funding 1 post-acceleration priority of payments.

### Rules for application of Funding 1 available revenue receipts

The Funding 1 deed of charge sets out certain rules for the application by Funding 1, or the cash manager on its behalf, of Funding 1 available revenue receipts on each Funding 1 interest payment date. The principal rules are as follows:

**Rule (1)** Subject as provided in rules (2) and (4) below, the portion of Funding 1 issuer allocable revenue receipts remaining after item (f) of the Funding 1 pre-acceleration revenue priority of payments, shall constitute **shared Funding 1 issuer revenue receipts**. Shared Funding 1 issuer revenue receipts will be allocated by the cash manager on a Funding 1 interest payment date in accordance with item (g) of the Funding 1 pre-acceleration revenue priority of payments and will continue to be distributed on such Funding 1 interest payment date in accordance with item (g) of the Funding 1 pre-acceleration revenue priority of payments until either there are no remaining amounts of shared Funding 1 issuer revenue receipts to be allocated and distributed or there are no remaining Funding 1 issuers entitled to such shared Funding 1 issuer revenue receipts on such Funding 1 interest payment date. If there is more than one Funding 1 issuer that is entitled to shared Funding 1 issuer revenue receipts, then each such Funding 1 issuer will be allocated a portion of shared Funding 1 issuer revenue receipts equal to:

**amount of shared Funding 1 issuer revenue receipts** x **outstanding principal amount of the intercompany loan of such Funding 1 issuer entitled to shared Funding 1 issuer revenue receipts**

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**aggregate outstanding principal amount of all the intercompany loans of Funding 1 issuers entitled to shared Funding 1 issuer revenue receipts**

**Rule (2)** No Funding 1 issuer shall be entitled to nor shall any Funding 1 issuer receive any amount of Funding 1 issuer allocable revenue receipts from Funding 1 on a Funding 1 interest payment date on which such Funding 1 issuer is not required to make a payment in accordance with the applicable Funding 1 issuer pre-acceleration revenue priority of payments or other relevant Funding 1 issuer priority of payments which applies to that Funding 1 issuer on such Funding 1 interest payment date. The cash manager will take account of all of the funds which are or will become available to any Funding 1 issuer on such Funding 1 interest payment date and which constitute Funding 1 issuer available revenue receipts (including any payments due under any swap agreement, any amounts standing to the credit of any Funding 1 issuer reserve fund and any interest or other income received or to be received prior to the relevant Funding 1 interest payment date by that Funding 1 issuer) for the purpose of making this determination.

**Rule (3)** If, on any Funding 1 interest payment date, any Funding 1 issuer allocable revenue receipts and/or any shared Funding 1 issuer revenue receipts are paid to any Funding 1 issuer and are applied by that Funding 1 issuer in reducing any deficiency recorded on any principal deficiency ledger of that Funding 1 issuer (but only to the extent of any deficiency which has arisen as a result of losses on the mortgage loans allocated by Funding 1 to that Funding 1 issuer), then such Funding 1 issuer allocable revenue receipts and/or such shared Funding 1 issuer revenue receipts so applied shall constitute repayments of principal under the intercompany loan agreement of that Funding 1 issuer and shall reduce the outstanding principal amount of the intercompany loan of that Funding 1 issuer accordingly.

**Rule (4)** For the purpose of determining the amount of Funding 1 issuer allocable revenue receipts and/or shared Funding 1 issuer revenue receipts (as defined above) which may be paid to any Funding 1 issuer on any Funding 1 interest payment date, the outstanding principal amount of the intercompany loan of that Funding 1 issuer shall be deemed to be reduced by the amount of any deficiency recorded on the Funding 1 issuer principal deficiency ledger of that Funding 1 issuer as at such Funding 1 interest payment date, but only to the extent that such deficiency has arisen as a result of losses on the mortgage loans allocated by Funding 1 to that Funding 1 issuer.

#### **Distribution of Funding 1 available revenue receipts before an asset trigger event or intercompany loan acceleration**

This section sets out the priority of payments of Funding 1 available revenue receipts as at the closing date.

Except for amounts due to third parties (other than parties to the transaction documents) by each Funding 1 issuer and/or Funding 1 under item (a) or amounts due to the Funding 1 account bank and/or by way of fees under the issuer intercompany loan agreement to the issuer account bank or to any other Funding 1 issuer account bank, which will in each case be paid when due, on each Funding 1 interest payment date (but prior to the date on which an asset trigger event occurs or an intercompany loan acceleration notice is served on Funding 1), the cash manager will apply the Funding 1 available revenue receipts for such date in the following order of priority (the **Funding 1 pre-acceleration revenue priority of payments**):

- (a) without priority among them but in proportion to the respective amounts due (including remuneration), to pay amounts due to:
  - the Funding 1 security trustee (together with interest and any amount in respect of VAT thereon) and to provide for any amounts due or to become due in the immediately following interest period to the Funding 1 security trustee under the Funding 1 deed of charge; and
  - any third party creditors of Funding 1 (other than those referred to later in this priority of payments), which amounts have been incurred without breach by Funding 1 of the transaction documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any of these amounts expected to become due and payable in the immediately following interest period by Funding 1 and to pay or discharge any liability of Funding 1 for corporation tax on any chargeable income or gain of Funding 1;
- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts, if any, due and payable (in each case together with any VAT thereon) to the cash manager under the terms of the cash management agreement, to the account bank under the terms of the Funding 1 bank account agreement, to the Funding 1 corporate services provider under the terms of the Funding 1 corporate services agreement, to the PECO corporate services provider under the terms of the PECO corporate services agreement, and to the secretarial services provider under the terms of the secretarial services agreement;

- (c) towards payment of all amounts (if any) due and payable to the Funding 1 swap provider under the Funding 1 swap agreement (including termination payments but excluding any Funding 1 swap excluded termination amount);
- (d) to pay to each Funding 1 issuer, in no order of priority among them, an amount up to its Funding 1 issuer allocable revenue receipts in respect of interest, fees and other amounts (excluding principal) due and payable under the intercompany loan agreement of that Funding 1 issuer but not exceeding the aggregate amount of, and to be applied in the amounts and priorities set forth in, the applicable **Funding 1 issuer pre-reserve payments** (which means, in the case of the issuer, the payments set out in items (a) to (i) of the issuer pre-acceleration revenue priority of payments as set out below under “**Distribution of issuer revenue receipts before note acceleration**” and, in the case of any other Funding 1 issuer, the relevant payments in the equivalent items under the applicable Funding 1 issuer revenue priority of payments);
- (e) in no order of priority among them, pro rata, from each Funding 1 issuer’s allocable revenue receipts, to credit the Funding 1 reserve ledger in an amount up to the Funding 1 reserve required amount (as defined in “**Credit Structure – Funding 1 reserve fund**”);
- (f) to pay to each Funding 1 issuer, in no order of priority among them, an amount up to its Funding 1 issuer allocable revenue receipts in respect of (i) interest, fees and other amounts (excluding principal) due and payable under the Funding 1 intercompany loan agreement of that Funding 1 issuer and (ii) interest, principal and other amounts due and payable under the start-up loan made available by that Funding 1 issuer but not exceeding the aggregate amount of, and to be applied in the amounts and priorities set forth in the **Funding 1 issuer post-reserve payments** (which means, in the case of the issuer, the payments set out in items (j) to (n) of the issuer pre-acceleration revenue priority of payments set out below under “**Distribution of issuer revenue receipts before note acceleration**” and, in the case of any other Funding 1 issuer, the relevant payments in the equivalent items under the applicable Funding 1 issuer priority of payments);
- (g) to the extent required, to apply all remaining shared Funding 1 issuer revenue receipts in the priorities set forth in (d) to (f) above, but as if references to Funding 1 issuer allocable revenue receipts were to its share of the shared Funding 1 issuer revenue receipts;
- (h) without priority among them but in proportion to the respective amounts due, to pay (without double counting):
  - any other amounts due to each Funding 1 issuer under the intercompany loan agreement of that Funding 1 issuer and not otherwise provided for in this priority of payments; and
  - any Funding 1 swap excluded termination amount due to the Funding 1 swap provider;
- (i) towards an amount to be retained by Funding 1 equal to the sum of: (1) an amount equal to 0.01% of the Funding 1 available revenue receipts for such Funding 1 interest payment date and (2) an amount equal to the aggregate of 0.01% of the Funding 1 available revenue receipts in respect of each previously occurring Funding 1 interest payment date to the extent that such amount was not retained by Funding 1 in accordance with this paragraph (i) on such Funding 1 interest payment date or any subsequently occurring Funding 1 interest payment date;
- (j) towards payment of any deferred contribution due from Funding 1 to the mortgages trustee pursuant to the terms of the mortgages trust deed; and
- (k) the balance (if any) to Funding 1.

For the avoidance of doubt, the Funding 1 pre-acceleration revenue priority of payments will also apply before and after the occurrence of a trigger event or before and after the service of a note acceleration notice on the issuer but not each other Funding 1 issuer.

### **Definition of issuer revenue receipts**

**issuer revenue receipts** will be calculated by the issuer cash manager for each interest payment date on the date falling one London business day prior to such interest payment date and will be an amount equal to the sum of:

- interest and fees to be paid to the issuer by Funding 1 on the relevant interest payment date under the terms of the issuer intercompany loan agreement;
- interest and principal to be paid to the issuer by Funding 1 on the relevant interest payment date under the terms of the Funding 1 start-up loan agreement;
- the amounts standing to the credit of the issuer reserve ledger provided that, if all of the rated notes have been redeemed in full, such amounts shall be applied in repayment of the issuer start-up loan tranche D;
- if the issuer liquidity reserve fund has been established, and there are no amounts standing to the credit of the issuer reserve fund, the amounts standing to the credit of the issuer liquidity reserve fund and available to be drawn to the extent necessary to pay items (a) to (d) inclusive and (f) of the issuer pre-acceleration revenue priority of payments;

- if the issuer liquidity reserve fund has been established, but is no longer required due to an increase in the seller's rating since the preceding interest payment date and the issuer elects to terminate the issuer liquidity reserve fund, all amounts standing to the credit of the issuer liquidity reserve fund;
- if the issuer liquidity reserve has been established, but all of the rated issuer notes have been redeemed in full, all amounts standing to the credit of the issuer liquidity reserve fund;
- any amounts standing to the credit of the issuer liquidity reserve fund or the issuer reserve fund in excess of the issuer liquidity reserve fund required amount or the issuer reserve fund required amount, respectively in each case as a result of a reduction in the issuer liquidity reserve fund required amount or, as applicable, the issuer reserve fund required amount;
- interest payable on the issuer transaction account, the issuer euro account, the issuer share capital account, the issuer swap collateral account, the additional issuer account and the issuer GIC account and any income from authorised investments of the issuer which will be received by the issuer on or before the relevant interest payment date;
- other net income of the issuer, including amounts (other than in respect of principal) received or to be received under any issuer swap agreement on or before the relevant interest payment date (without double counting) (other than any early termination amount received by the issuer under any issuer swap agreement to the extent used to enter into a replacement issuer swap agreement or held in the additional issuer account for such purpose, except to the extent to be applied to payments due and payable under the corresponding issuer notes after having converted such amount into euro at the prevailing spot rate of exchange) but excluding (i) the return or transfer of any excess swap collateral as set out under the relevant issuer swap agreement and (ii) in respect of the relevant issuer swap provider, prior to the designation of an early termination date under the relevant issuer 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 relevant issuer swap provider to the issuer pursuant to the relevant issuer swap agreement (and any interest or distributions in respect thereof);
- any additional amount the issuer receives from any tax authority on account of amounts paid to that taxing authority for and on account of tax by the relevant issuer swap provider under the relevant issuer swap agreement;
- other income of the issuer; and
- (only to the extent required after making the calculation set out below) the aggregate of all issuer principal receipts (if any) which are applied on the relevant interest payment date to pay up to the applicable limits items (a) to (d) inclusive and, provided that the amount recorded on the principal deficiency sub-ledger relating to the class B issuer notes is not greater than 50 per cent. of the aggregate principal amount outstanding of all of the class B issuer notes then outstanding on the relevant interest payment date, item (f) of the issuer pre-acceleration revenue priority of payments (provided that issuer principal receipts may not be used to pay interest on any class of issuer notes if and to the extent that it would result in a deficiency being recorded, or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a class of issuer notes with a higher priority).

One London business day prior to each interest payment date, the issuer cash manager will calculate whether issuer available revenue receipts (as calculated above) will be sufficient to pay items (a) to (d) inclusive and item (f) of the issuer pre-acceleration revenue priority of payments on such interest payment date. If there would be a shortfall, then the issuer would apply available issuer principal receipts towards reducing or eliminating that shortfall.

### **Distribution of issuer revenue receipts before note acceleration**

The issuer cash management agreement sets out the priority of distribution by the issuer cash manager, prior to enforcement of the issuer security, of issuer revenue receipts and issuer principal receipts on each interest payment date.

Except for amounts due to third parties by the issuer under item (b) below or amounts due to the issuer account bank under item (c) below, which will in each case be paid when due, on each interest payment date the issuer cash manager will apply issuer revenue receipts in the following order of priority (the **issuer pre-acceleration revenue priority of payments**):

- (a) without priority among them but in proportion to the respective amounts due (including remuneration), to pay amounts due to:
  - the issuer security trustee, together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due during the following interest period to the issuer security trustee under the issuer deed of charge;
  - the note trustee, together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due during the following interest period to the note trustee under the note trust deed; and

- the agent bank, the paying agent and the registrar, together with interest and any amount in respect of VAT thereon, and any costs, charges, liabilities and expenses then due or to become due during the following interest period to the agent bank, the registrar and the paying agent under the paying agent and agent bank agreement;
- (b) to pay amounts due to any third party creditors of the issuer (other than those referred to later in this priority of payments), which amounts have been incurred without breach by the issuer of the issuer transaction documents and for which payment has not been provided for elsewhere) and to provide for any of those amounts expected to become due and payable during the following interest period by the issuer and to pay or discharge any liability of the issuer for corporation tax on any chargeable income or gain of the issuer;
  - (c) without priority among them but in proportion to the respective amounts due, to pay amounts due, together with any amount in respect of VAT thereon as provided therein, and to provide for any amounts due, or to become due, in the immediately following interest period, to the issuer cash manager under the terms of the issuer cash management agreement, to the issuer corporate services provider under the terms of the issuer corporate services agreement and to the issuer account bank under the terms of the issuer bank account agreement;
  - (d) in no order of priority among them but in proportion to the amount due, to pay on such interest payment date:
    - (i) amounts (other than in respect of principal) due and payable to the issuer (class A1) swap provider (including any termination payment, but excluding any issuer swap excluded termination amount, and from amounts received from the issuer (class A1) swap provider on such interest payment date in respect of interest to pay interest due on the class A1 issuer notes; and
    - (ii) amounts (other than in respect of principal) due and payable to the issuer (class A2) swap provider (including any termination payment, but excluding any issuer swap excluded termination amount, and from amounts received from the issuer (class A2) swap provider on such interest payment date in respect of interest to pay interest due on the class A2 issuer notes;
  - (e) towards a credit to the principal deficiency sub-ledger for the class A issuer notes in an amount up to the amount necessary to eliminate any debit on that ledger;
  - (f) to pay interest due and payable (if any) on the class B issuer notes on such interest payment date;
  - (g) towards a credit to the principal deficiency sub-ledger for the class B issuer notes in an amount up to the amount necessary to eliminate any debit on that ledger;
  - (h) (for so long as the rated issuer notes are outstanding) towards a credit to the issuer reserve ledger to the extent the amount standing to the credit thereof is less than the issuer reserve required amount, less any replenishment to be made of the issuer reserve fund on that interest payment date from issuer principal receipts (see item (a) of the issuer pre-acceleration principal priority of payments and item (a) of the issuer post-asset trigger event principal priority of payments);
  - (i) (for so long as the rated issuer notes are outstanding) towards a credit to the issuer liquidity reserve ledger (if established) to the extent the amount standing to the credit thereof is less than the issuer liquidity reserve required amount, less any replenishment to be made of the issuer liquidity reserve fund on that interest payment date from issuer principal receipts (see item (b) of the issuer pre-acceleration principal priority of payments and item (b) of the issuer post-asset trigger event principal priority of payments);
  - (j) towards a credit to the principal deficiency sub-ledger for the class Z issuer notes in an amount up to the amount necessary to eliminate any debit on that ledger;
  - (k) to pay interest due and payable (if any) on the class of class Z issuer notes on such interest payment date;
  - (l) in no order of priority among them but in proportion to the amount due, towards payment of:
    - (i) any issuer swap excluded termination amount due to the issuer (class A1) swap provider; and
    - (ii) any issuer swap excluded termination amount due to the issuer (class A2) swap provider;
  - (m) towards an amount equal to 0.01% of the interest received by the issuer under the issuer intercompany loan agreement to be retained by the issuer as profit;
  - (n) towards payment of interest, principal and other amounts due to the issuer start-up loan provider under the issuer start-up loan agreement; and
  - (o) the balance (if any) to the issuer.

For the avoidance of doubt, the issuer pre-acceleration revenue priority of payments will also apply before and after the occurrence of a trigger event.

## **Distribution of issuer revenue receipts after note acceleration but before intercompany loan acceleration**

Following the service of a note acceleration notice on the issuer, but prior to the service of an intercompany loan acceleration notice on Funding 1, the issuer cash manager on an interest payment date or, if the issuer security has also been enforced, the issuer security trustee on such date(s) as the issuer security trustee shall determine will apply issuer revenue receipts and any other amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf) in the same priority as set out in the issuer pre-acceleration revenue priority of payments, except that:

- in addition to the amounts due to the issuer security trustee under item (a) of the issuer pre-acceleration revenue priority of payments, issuer revenue receipts will be applied to pay amounts due to any receiver appointed by the issuer security trustee together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due to the receiver during the following interest period; and
- the issuer security trustee will not be required to pay amounts due to any entity which is not an issuer secured creditor.

## **Distribution of Funding 1 available principal receipts**

### ***Payment of principal receipts to Funding 1 by the mortgages trustee***

On each distribution date, mortgages trust available principal receipts will be paid to Funding 1 in the manner and to the extent provided by the mortgages trust principal priority of payments (see "**The mortgages trust – Mortgages trust allocation and distribution of principal receipts prior to the occurrence of a trigger event**", "**- Mortgages trust allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event**" and "**- Mortgages trust allocation and distribution of principal receipts on or after the occurrence of an asset trigger event**" above) and shall be deposited in the Funding 1 GIC account and credited by the cash manager to the **Funding 1 principal ledger** (being a ledger maintained by the cash manager for Funding 1).

## **Definition of Funding 1 available principal receipts**

**Funding 1 available principal receipts** will be calculated by the cash manager for each Funding 1 interest payment date on the day falling one London business day prior to such Funding 1 interest payment date and will be an amount equal to the sum of:

- (i) all mortgages trust available principal receipts received by Funding 1 during the interest period ending on the relevant Funding 1 interest payment date;
- (ii) subject to (iii) below, all other Funding 1 principal receipts standing to the credit of the cash accumulation ledger which are to be applied on the next Funding 1 interest payment date to repay a bullet loan tranche and/or a scheduled amortisation loan tranche made to Funding 1 or to make a payment under items (a), (b) and (c) of the Funding 1 pre-acceleration principal priority of payments;
- (iii) if such Funding 1 interest payment date occurs on or after a trigger event, all Funding 1 issuer allocable principal receipts standing to the credit of the cash accumulation ledger; and
- (iv) any amounts standing to the credit of the Funding 1 principal ledger (other than amounts standing to the credit of the Funding 1 cash accumulation ledger after application in accordance with the paragraph (ii) or (iii) above (as applicable)).

## ***Due and payable dates of loan tranches***

An issuer loan tranche shall become **due and payable** on the earliest to occur of:

- (a) the dates being:
  - (i) in relation to the issuer AAA (class A1) loan tranche, the Funding 1 interest payment date occurring in March 2009 and on each Funding 1 interest payment date thereafter to the extent not repaid in full;
  - (ii) in relation to the issuer AAA (class A2) loan tranche, the Funding 1 interest payment date occurring in March 2011 and on each Funding 1 interest payment date thereafter to the extent not repaid in full, subject to repayment in full of the issuer AAA (class A1) loan tranche;
  - (iii) in relation to the issuer AA (class B) loan tranche, the Funding 1 interest payment date occurring in March 2011 and on each Funding 1 interest payment date thereafter to the extent not repaid in full, subject to repayment in full of the issuer AAA (class A2) loan tranche; and
  - (iv) in relation to the issuer NR (class Z) loan tranche, the Funding 1 interest payment date occurring in March 2011 and on each Funding 1 interest payment date thereafter to the extent not repaid in full, subject to repayment in full of the issuer AA (class B) loan tranche.

- (b) the date upon which a non-asset trigger event occurs, subject to:
  - (i) in relation to the AAA (class A2) loan tranche, the issuer AAA (class A1) loan tranche having been repaid in full;
  - (ii) in relation to the AA (class B) loan tranche, the issuer AAA (class A2) loan tranche having been repaid in full;
  - (iii) in relation to the NR (class Z) loan tranche, the issuer AA (class B) loan tranche having been repaid in full;
- (c) the date upon which an asset trigger event occurs, subject to:
  - (i) in relation to the AA (class B) loan tranche, the issuer AAA (class A1) loan tranche and the AAA (class A2) loan tranche having been repaid in full;
  - (ii) in relation to the NR (class Z) loan tranche, the issuer AA (class B) loan tranche having been repaid in full;
- (d) the date upon which a note acceleration notice is served on the issuer under the note trust deed and/or the issuer security is enforced under the issuer deed of charge; and
- (e) the date upon which an intercompany loan acceleration notice is served on Funding 1 under the intercompany loan agreement and/or the Funding 1 security is enforced under the Funding 1 deed of charge.

In each case, when an issuer loan tranche becomes due and payable, it shall continue to be due and payable until it is fully repaid. If there are insufficient Funding 1 available principal receipts to repay an issuer loan tranche on a Funding 1 interest payment date upon which that issuer loan tranche is due and payable, then the shortfall will be repaid on subsequent Funding 1 interest payment dates from Funding 1 available principal receipts until that issuer loan tranche is fully repaid. Any remaining unpaid amounts under the issuer intercompany loan after the final repayment date of the last maturing issuer loan tranche (after application of any available amounts) will be extinguished.

#### **Repayment of loan tranches before an asset trigger event and before intercompany loan acceleration**

On each Funding 1 interest payment date prior to the occurrence of an asset trigger event or the service on Funding 1 of an intercompany loan acceleration notice, the cash manager shall apply Funding 1 available principal receipts in the following priority (the **Funding 1 pre-acceleration principal priority of payments**) (but, in the case of items (a) and (b) below, only so long as the rated notes are outstanding):

- (a) to pay to each Funding 1 issuer, as a credit towards its Funding 1 issuer reserve fund (which, in the case of the issuer, is the issuer reserve fund), pro rata and in no order of priority between them, the amount required to replenish the Funding 1 issuer reserve fund of that Funding 1 issuer up to the applicable Funding 1 issuer reserve required amount, but only to the extent that monies have been drawn from its Funding 1 issuer reserve fund to make Funding 1 issuer reserve principal payments;
- (b) to pay to each Funding 1 issuer, as a credit towards its Funding 1 issuer liquidity reserve (which, in the case of the issuer, is the issuer liquidity reserve) (if established), pro rata and in no order of priority between them, the amount required by that Funding 1 issuer: (A) to initially fund its Funding 1 issuer liquidity reserve fund up to the applicable Funding 1 issuer liquidity fund reserve required amount, and (B) once its Funding 1 issuer liquidity reserve fund has been initially funded, to the extent that its Funding 1 issuer available revenue receipts or its shared Funding 1 issuer revenue receipts are insufficient to do so, to replenish its Funding 1 issuer liquidity reserve fund up to the applicable Funding 1 issuer liquidity fund reserve required amount;
- (c) to pay to each Funding 1 issuer, in no order of priority between them, an amount equal to the lesser of (i) its remaining Funding 1 issuer allocable principal receipts and (ii) the amount required in respect of principal due and payable on the intercompany loan of that Funding 1 issuer (to the extent not already repaid pursuant to item (b) above), which amount shall be an amount up to the aggregate amount of, and shall be applied in the amounts and priorities set forth in, the Funding 1 issuer principal priority of payments for that Funding 1 issuer (which, in the case of the issuer, is items (c) to (g) (inclusive) of the issuer pre-acceleration principal priority of payments and, in the case of any other Funding 1 issuer, the relevant payments in the equivalent items under the applicable Funding 1 issuer principal priority of payments);
- (d) to apply all shared Funding 1 principal receipts in the accordance with item (c) above, but as if references to Funding 1 issuer allocable principal receipts were to its share of the shared Funding 1 issuer principal receipts; and
- (e) the balance (if any) to be credited to the Funding 1 principal ledger.

For the avoidance of doubt, the Funding 1 pre-acceleration principal priority of payments will also apply after the occurrence of a non-asset trigger event and after the service of a note acceleration notice on a Funding 1 issuer, except it should be noted that following the service of a note acceleration notice on a Funding 1 issuer, such Funding 1

issuer will not be required to further fund its Funding 1 issuer reserve fund or (if established) its Funding 1 issuer liquidity reserve fund.

**The rules**

In the applicable circumstances, the following rules apply in determining the amounts to be paid under the Funding 1 pre-acceleration principal priority of payments set out above on each Funding 1 interest payment date:

**Rule (1)** One business day prior to each Funding 1 interest payment date, the cash manager will calculate the Funding 1 issuer allocable principal receipts for each Funding 1 issuer in respect of such Funding 1 interest payment date. Subject as provided in rules (2) to (6) below, the **Funding 1 issuer allocable principal receipts** for a Funding 1 issuer is an amount that is equal to the sum of:

- (A) the amount, if any, by which the relevant Funding 1 issuer reserve fund will be less than the relevant Funding 1 issuer reserve required amount, in each case prior to the application of Funding 1 available principal receipts on such Funding 1 interest payment date but following the application of Funding 1 available revenue receipts on such Funding 1 interest payment date;
- (B) the amount, if any, by which the relevant Funding 1 issuer liquidity reserve fund will be less than the relevant Funding 1 issuer liquidity reserve required amount, in each case prior to the application of Funding 1 available principal receipts on such Funding 1 interest payment date but following the application of Funding 1 available revenue receipts on such Funding 1 interest payment date;and
- (C) an amount equal to the lesser of: (a) the sum of (i) any bullet loan tranche or scheduled amortisation amount due and payable under the intercompany loan agreement of that Funding 1 issuer on that Funding 1 interest payment date and (ii) any other principal amount due and payable under the intercompany loan of that Funding 1 issuer on such Funding 1 interest payment date; and (b) an amount equal to:

$$\begin{array}{r}
 \text{Funding 1 available principal receipts minus the aggregate amount under (1)(A), (1)(B) and (1)(C) above in respect of all Funding 1 issuers on such Funding 1 interest payment date} \\
 \times \\
 \text{outstanding principal amount of the intercompany loan agreement of that Funding 1 issuer} \\
 \hline
 \text{outstanding principal amount of all intercompany loans of Funding 1 issuers}
 \end{array}$$

**Rule (2)** For the purpose of determining the amount of Funding 1 issuer allocable principal receipts and/or shared Funding 1 issuer principal receipts which may be paid to any Funding 1 issuer on any Funding 1 interest payment date pursuant to rule (1) above or rule (5) below, the outstanding principal amount of the intercompany loan of that Funding 1 issuer shall be deemed to be reduced by the amount of any deficiency recorded on the Funding 1 issuer principal deficiency ledger of that Funding 1 issuer as at such Funding 1 interest payment date, but only to the extent that such deficiency has arisen as a result of losses on the mortgage loans allocated by Funding 1 to that Funding 1 issuer.

**Rule (3)** In determining the amount due and payable under rule (1)(C)(a), the amount of Funding 1 available principal receipts payable to each Funding 1 issuer on a Funding 1 interest payment date will be reduced by an amount equal to the aggregate of the Funding 1 issuer available revenue receipts of that Funding 1 issuer which are to be applied on that Funding 1 interest payment date in reducing deficiencies recorded on the Funding 1 issuer principal deficiency ledgers of that Funding 1 issuer, but only to the extent that such deficiency has arisen as a result of losses on the mortgage loans allocated by Funding 1 to that Funding 1 issuer.

**Rule (4)** No Funding 1 issuer shall be entitled to, or shall receive on a Funding 1 interest payment date, any amount of Funding 1 issuer allocable principal receipts from Funding 1 if that Funding 1 issuer is not required to make a principal payment on the relevant Funding 1 interest payment date in accordance with the applicable Funding 1 issuer pre-enforcement principal priority of payments or to credit that Funding 1 issuer reserve fund and/or that Funding 1 issuer liquidity reserve.

**Rule (5)** The portion of Funding 1 issuer allocable principal receipts (calculated in accordance with rule (1)(C)(b) above), not required to be applied by a Funding 1 issuer on a Funding 1 interest payment date in accordance with the applicable Funding 1 issuer pre-enforcement principal priority of payments (excluding the amount of any Funding 1 issuer reserve fund or Funding 1 issuer liquidity reserve fund (if any)) shall constitute **shared Funding 1 issuer principal receipts**. Shared Funding 1 issuer principal receipts will be allocated by the cash manger in accordance with item (d) of the Funding 1 pre-acceleration principal priority of payments and will continue to be applied in accordance with item (d) until either there are no amounts of shared Funding 1 issuer principal receipts to be allocated and distributed on such Funding 1 interest payment date or there are no remaining Funding 1 issuers entitled to such shared Funding 1 issuer principal receipts. Save as provided in rule (2) above, if there is more than one Funding 1 issuer that is entitled to shared Funding 1 issuer principal receipts, then each such Funding 1 issuer will be allocated a portion of the shared Funding 1 issuer principal receipts equal to:



amount of Funding 1 shared issuer x  
principal receipts

outstanding principal amount of the intercompany loan of  
that Funding 1 issuer entitled to shared Funding 1 issuer  
principal receipts

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aggregate outstanding principal amount of all the  
intercompany loans of Funding 1 issuers entitled to shared  
Funding 1 issuer principal receipts

**Rule (6)** The repayment of the intercompany loan of any Funding 1 issuer prior to the occurrence of a trigger event or the service of an intercompany loan acceleration notice on Funding 1 will be made in accordance with the terms of the intercompany loan agreements and the Funding 1 deed of charge.

#### **Repayment of loan tranches after an asset trigger event and before intercompany loan acceleration**

On each Funding 1 interest payment date after the occurrence of an asset trigger event but before the service on Funding 1 of an intercompany loan acceleration notice, the cash manager shall apply Funding 1 available principal receipts in the following priority (the **Funding 1 post-asset trigger principal priority of payments**) (but, in the case of items (a) and (b) below, only so long as the rated notes are outstanding):

- (a) to pay to each Funding 1 issuer, as a credit towards its Funding 1 issuer reserve fund (which, in the case of the issuer, is the issuer reserve fund), pro rata and in no order of priority between them, the amount required to replenish the Funding 1 issuer reserve fund of that Funding 1 issuer up to the applicable Funding 1 issuer reserve required amount, but only to the extent that monies have been drawn from its Funding 1 issuer reserve fund to make Funding 1 issuer reserve principal payments;
- (b) to pay to each Funding 1 issuer, as a credit towards its Funding 1 issuer liquidity reserve (which, in the case of the issuer, is the issuer liquidity reserve) (if established), pro rata and in no order of priority between them, the amount required by that Funding 1 issuer: (A) to initially fund its Funding 1 issuer liquidity reserve fund up to the applicable Funding 1 issuer liquidity fund reserve required amount, and (B) once its Funding 1 issuer liquidity reserve fund has been initially funded, to the extent that its Funding 1 issuer available revenue receipts or its shared Funding 1 issuer revenue receipts are insufficient to do so, to replenish its Funding 1 issuer liquidity reserve fund up to the applicable Funding 1 issuer liquidity fund reserve required amount;
- (c) to pay to each Funding 1 issuer, in no order of priority between them, an amount equal to the lesser of (i) its remaining Funding 1 issuer allocable principal receipts and (ii) the amount required in respect of principal due on the intercompany loan of that Funding 1 issuer, which amount shall be an amount up to the aggregate amount of, and shall be applied in the amounts and priorities set forth in, the Funding 1 issuer principal priority of payments for that Funding 1 issuer (which, in the case of the issuer, is items (c) to (f) (inclusive) of the issuer post-asset trigger event principal priority of payments and, in the case of any other Funding 1 Issuer, the relevant payments in the equivalent items under the applicable Funding 1 issuer principal priority of payments);
- (d) to apply all shared Funding 1 principal receipts in the accordance with item (c) above, but as if references to Funding 1 issuer allocable principal receipts were to its share of the shared Funding 1 issuer principal receipts; and
- (e) the balance (if any) to be credited to the Funding 1 principal ledger.

#### ***The rules***

In the applicable circumstances, the rules set out above in relation to the application of moneys in the Funding 1 pre-acceleration principal priority of payments will apply to the application of moneys in the Funding 1 post-asset trigger principal priority of payments, except as follows:

- (a) in rule (1), item (1)(C)(a) shall be amended to read "(a) all principal amounts due and payable under the intercompany loan agreement of that Funding 1 issuer on such Funding 1 interest payment date";
- (b) in rule (5), references to item (e) of the Funding 1 pre-acceleration principal priority of payments shall mean references to item (d) of the Funding 1 post-asset trigger principal priority of payments.

#### **Repayment of loan tranches under issuer intercompany loan agreement when Funding 1 receives an amount outstanding under the proceeds of a new intercompany loan or a refinancing distribution**

If either:

- (a) the proceeds of a new issuer intercompany loan are to be used to refinance all or part of the loan tranches outstanding under the issuer intercompany loan as described above in "**Summary of the transaction documents – Issuer intercompany loan agreement – New issuer intercompany loan agreements**"; or

- (b) Funding 1 has received, or will receive during the interest period ending on the relevant Funding 1 interest payment date, a refinancing distribution funded by another beneficiary and either:
  - (i) the issuer has issued, or will issue within the period of 60 days of receipt of that refinancing distribution, an optional redemption notice to the noteholders in the circumstances set out in (and in accordance with) the terms and conditions of the issuer notes; or
  - (ii) with the consent of Funding 1, the contributing beneficiary specifies that the proceeds of the refinancing distribution are to be applied (in whole or in part) by Funding 1 towards repayment of all or part of the loan tranches outstanding under the issuer intercompany loans,

then Funding 1 will not apply the amount received under the new issuer intercompany loan or the relevant refinancing distribution as described above in “**Funding 1 pre-acceleration principal priority of payments**”. Rather, Funding 1 will apply the amount received under the new issuer intercompany loan or, as applicable, the relevant refinancing distribution to repay the relevant loan tranches under the issuer intercompany loan. If (at any time) only one loan tranche is outstanding under the issuer intercompany loan, then Funding 1 shall apply the amount received under the new issuer intercompany loan or, as applicable, the relevant refinancing distribution to repay such loan tranches.

**Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration**

The Funding 1 deed of charge sets out the priority of distribution of amounts received by the cash manager or, if the Funding 1 security has also been enforced, of amounts received or recovered by the Funding 1 security trustee (or a receiver appointed on its behalf) following the service of an intercompany loan acceleration notice on Funding 1.

The cash manager will apply amounts received following the service of an intercompany loan acceleration notice on Funding 1 or, as applicable, the Funding 1 security trustee will apply amounts received or recovered following the enforcement of the Funding 1 security in accordance with the following order of priority (the **Funding 1 post-acceleration priority of payments**):

- (a) without priority among them, but in proportion to the respective amounts due (including remuneration), to pay amounts due to the Funding 1 security trustee and any receiver appointed by the Funding 1 security trustee, together with interest and any amount in respect of VAT thereon as provided therein, and to provide for any amounts due or to become due to the Funding 1 security trustee and the receiver in the following interest period under the Funding 1 deed of charge;
- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts (if any) due to the cash manager under the terms of the cash management agreement, to the account bank under the terms of the Funding 1 bank account agreement, to the Funding 1 corporate services provider under the terms of the Funding 1 corporate services agreement, to the PECO corporate services provider under the terms of the PECO corporate services agreement and to the secretarial services provider under the terms of the secretarial services agreement;
- (c) towards payment of amounts (if any) due to the Funding 1 swap provider under the Funding 1 swap agreement (including any termination payment, but excluding any Funding 1 swap excluded termination amount);
- (d) in no order of priority among them but in proportion to the respective amounts due, to each Funding 1 issuer its Funding 1 issuer allocable revenue receipts (as defined above) and its Funding 1 issuer allocable principal receipts (as defined below) towards payment of amounts of interest, principal and fees due to each Funding 1 issuer under its intercompany loan agreement (which, in the case of the issuer, shall be up to the aggregate of the amounts, and shall be applied in the amounts and priorities, as set forth in items (a) to (g) of the issuer post-enforcement priority of payments below);
- (e) to the extent required, to apply all shared Funding 1 issuer revenue receipts and shared Funding 1 issuer principal receipts in the accordance with item (d) above, but as if (i) references to Funding 1 issuer allocable revenue receipts and Funding 1 issuer allocable principal receipts were to its share of, as applicable, the shared Funding 1 issuer revenue receipts and the shared Funding 1 issuer principal receipts;
- (f) any Funding 1 swap excluded termination amount due to the Funding 1 swap provider;
- (g) to pay interest due or overdue on, and to repay principal of, the Funding 1 start-up loans to the Funding 1 start-up loan provider under the Funding 1 start-up loan agreements;
- (h) towards payment of any deferred contribution due from Funding 1 to the mortgages trustee pursuant to the terms of the mortgages trust deed; and
- (i) the balance (if any) to Funding 1.

**Rules for application of Funding 1 available revenue receipts and Funding 1 available principal receipts following intercompany loan acceleration**

The Funding 1 deed of charge sets out certain rules for the application of moneys by the cash manager or, as applicable, the Funding 1 security trustee following the service of an intercompany loan acceleration notice on Funding 1. The principal rules are as follows:

**Rule (1)** Subject as provided in rules (2) and (3) below, the portion of Funding 1 issuer allocable revenue receipts remaining after item (d) of the Funding 1 post-acceleration priority of payments shall constitute (for the purposes of the Funding 1 post-acceleration priority of payments) **shared Funding 1 issuer revenue receipts**. Shared Funding 1 issuer revenue receipts will be allocated by the cash manager or, as applicable, the Funding 1 security trustee in accordance with item (e) of the Funding 1 post-acceleration priority of payments and will continue to be distributed in accordance with item (e) until each relevant intercompany loan agreement is fully repaid (taking into account any principal repayments). If there is more than one Funding 1 issuer that is entitled to shared Funding 1 issuer revenue receipts, then each such Funding 1 issuer will be allocated a portion of shared Funding 1 issuer revenue receipts equal to:

**amount of shared Funding 1 issuer revenue receipts** x **outstanding principal amount of the intercompany loan of such Funding 1 issuer entitled to such shared Funding 1 issuer revenue receipts**

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**aggregate outstanding principal amount of all the intercompany loans of Funding 1 issuers entitled so such shared Funding 1 issuer revenue receipts**

**Rule (2)** The cash manager or, as applicable, the Funding 1 security trustee will take account of all of the other funds which are or will become available to any Funding 1 issuer on any relevant date and which constitute Funding 1 issuer available revenue receipts (including any payments due under any swap agreement, any amounts standing to the credit of any reserve fund and any interest or other income received or to be received by that Funding 1 issuer). Any such amounts shall reduce the amount payable to the relevant Funding 1 issuer.

**Rule (3)** For the purpose of determining the amount of Funding 1 issuer allocable revenue receipts and/or shared Funding 1 issuer revenue receipts (as defined in rule (1) above) and or Funding 1 issuer allocable principal receipts (as defined in rule (4) below) and/or shared Funding 1 issuer principal receipts (as defined in rule (5) below) which may be paid to any Funding 1 issuer on any date, the outstanding principal amount of the intercompany loan of that Funding 1 issuer shall be deemed to be reduced by the amount of any deficiency recorded on the Funding 1 issuer principal deficiency ledger of that Funding 1 issuer as at such date, but only to the extent that such deficiency has arisen as a result of losses on the mortgage loans allocated by Funding 1 to that Funding 1 issuer.

**Rule (4)** Subject to rule (3) above, for the purpose of the Funding 1 post-acceleration priority of payments, **Funding 1 issuer allocable principal receipts** for a Funding 1 issuer is an amount on any relevant date that is equal to the lesser of: (a) the outstanding principal amount of the relevant intercompany loan agreement of that Funding 1 issuer and (b) an amount equal to:

**Funding 1 available principal receipts** x **outstanding principal amount of intercompany loan of that Funding 1 issuer**

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**outstanding principal amount of all intercompany loans of Funding 1 issuers**

**Rule (5)** The portion of Funding 1 issuer allocable principal receipts (calculated in accordance with rule 4(b) above), not required to be applied by a Funding 1 issuer on a payment date in accordance with the applicable Funding 1 issuer post-enforcement priority of payments shall (for the purposes of the Funding 1 post-acceleration priority of payments) constitute **shared Funding 1 issuer principal receipts**. Shared Funding 1 issuer revenue receipts will be allocated by the cash manager or, as applicable, the Funding 1 security trustee in accordance with item (e) of the Funding 1 post-acceleration priority of payments and will continue to be distributed in accordance with item (e) until each relevant intercompany loan agreement is fully repaid (taking into account any payments of interest and fees). If there is more than one Funding 1 issuer that is entitled to shared Funding 1 issuer principal receipts, then each such Funding 1 issuer will be allocated a portion of the shared Funding 1 issuer principal receipts equal to:

amount of shared Funding 1 issuer x  
principal receipts

outstanding principal amount of the intercompany loan of  
that Funding 1 issuer entitled to shared Funding 1 issuer  
principal receipts

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aggregate outstanding principal amount of all the  
intercompany loans of Funding 1 issuers entitled to shared  
Funding 1 issuer principal receipts

### Definition of issuer principal receipts

Prior to the service of a note acceleration notice, **issuer principal receipts** will be calculated by the issuer cash manager for each interest payment date one London business day prior to such interest payment date and will be an amount equal to:

- all principal amounts to be repaid by Funding 1 to the issuer under the issuer intercompany loan during the relevant interest period;
- the amount, if any, to be credited to the issuer principal deficiency ledger pursuant to the terms of the issuer pre-acceleration revenue priority of payments on the relevant interest payment date;
- in so far as available for and needed to make a reserve principal payment (see “**Credit structure – issuer reserve fund**” below), the amount that would then be standing to the credit of the issuer reserve ledger, less any amounts applied or to be applied on the relevant interest payment date in payment of interest and other revenue expenses as set out in items (a) to (d) inclusive and (f) of the issuer pre-acceleration revenue priority of payments, plus any amounts which will be credited to the issuer reserve ledger under item (h) of the issuer pre-acceleration revenue priority of payments on the next interest payment date;
- in so far as available for and needed to make an issuer liquidity reserve principal payment (see “**Credit structure – issuer liquidity reserve fund**” below), the amount that would then be standing to the credit of the issuer liquidity reserve ledger, less any amounts applied or to be applied on the relevant interest payment date in payment of interest and other revenue expenses as set out in items (a) to (d) inclusive and (f) of the issuer pre-acceleration revenue priority of payments, plus any amounts which will be credited to the issuer liquidity reserve ledger under item (i) of the issuer pre-acceleration revenue priority of payments on the next interest payment date; and
- any amount standing to the credit of the principal ledger of the relevant Funding 1 issuer,  
less (without double counting) amounts to be applied on the relevant interest payment date to pay items (a) to (d) (inclusive) and, provided that the amount recorded on the principal deficiency sub-ledger in respect of the class B issuer notes is not greater than 50 per cent. of the aggregate principal amount outstanding of all of the class B issuer notes then outstanding on the relevant interest payment date, item (f) of the issuer pre-acceleration revenue priority of payments.

Following the service of a note acceleration notice on the issuer, but prior to the service of an intercompany loan acceleration notice on Funding 1, **issuer principal receipts** means the sum calculated by the issuer cash manager one London business day prior to each interest payment date as the amount to be repaid by Funding 1 to the issuer under the issuer intercompany loan during the relevant interest period or, as the case may be, if the issuer security has been enforced, the sum calculated by the issuer security trustee to be the sum recovered by the issuer security trustee (or the receiver appointed on its behalf) on any other business day representing the principal balance of the issuer intercompany loan.

On each interest payment date prior to the service of an intercompany loan acceleration notice on Funding 1, all Funding 1 available principal receipts received by the issuer from Funding 1 constituting principal repayments under the issuer intercompany loan will be credited to the issuer principal ledger.

### Distribution of issuer principal receipts before an asset trigger event and before note acceleration or intercompany loan acceleration

Prior to the service of a note acceleration notice on the issuer or the occurrence of an asset trigger event, the issuer, or the issuer cash manager on its behalf, will apply any issuer principal receipts on each interest payment date to repay the issuer notes in the following order of priority (the **issuer pre-acceleration principal priority of payments**):

- (a) towards a credit to the issuer reserve ledger to the extent received from Funding 1 by way of payment of a principal amount due under the issuer intercompany loan agreement in accordance with paragraph (a) of the Funding 1 pre-acceleration principal priority of payments;

- (b) towards a credit to the issuer liquidity reserve ledger (if established) to the extent received from Funding 1 by way of payment of a principal amount due under the issuer intercompany loan agreement in accordance with paragraph (b) of the Funding 1 pre-acceleration principal priority of payments;
- (c) to pay amounts due and payable in respect of principal (if any) to the issuer (class A1) swap provider under the issuer (class A1) euro currency swap and, from amounts received from the issuer (class A1) swap provider on such interest payment date in respect of principal, to pay principal due and payable (if any) on the class A1 issuer notes on such interest payment date;
- (d) to pay amounts due and payable in respect of principal (if any) to the issuer (class A2) swap provider under the issuer (class A2) euro currency swap and, from amounts received from the issuer (class A2) swap provider on such interest payment date in respect of principal, to pay principal due and payable (if any) on the class A2 issuer notes on such interest payment date;
- (e) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the class B issuer notes;
- (f) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the class Z issuer notes; and
- (g) the remainder (if any) to be retained by the issuer on the issuer principal ledger for allocation on subsequent interest payment dates.

**Distribution of issuer principal receipts after an asset trigger event and before note acceleration or intercompany loan acceleration**

Prior to the service of a note acceleration notice on the issuer or the service of an intercompany loan acceleration notice on Funding 1 but following the occurrence of an asset trigger event, the issuer, or the issuer cash manager on its behalf, will apply any issuer principal receipts on each interest payment date to repay the issuer notes in the following order of priority (the **issuer post-asset trigger event principal priority of payments**):

- (a) towards a credit to the issuer reserve ledger to the extent received from Funding 1 by way of payment of a principal amount due under the issuer intercompany loan agreement in accordance with paragraph (a) of the Funding 1 pre-acceleration principal priority of payments;
- (b) towards a credit to the issuer liquidity reserve ledger (if established) to the extent received from Funding 1 by way of payment of a principal amount due under the issuer intercompany loan agreement in accordance with paragraph (b) of the Funding 1 pre-acceleration principal priority of payments;
- (c) in no order of priority among them, but in proportion to the amounts due, to pay on such interest payment date:
  - (i) amounts due and payable in respect of principal to the issuer (class A1) swap provider under the issuer (class A1) euro currency swap and, from amounts received from the issuer (class A1) swap provider on such interest payment date in respect of principal, to pay principal due and payable (if any) on the class A1 issuer notes; and
  - (ii) amounts due and payable in respect of principal to the issuer (class A2) swap provider under the issuer (class A2) euro currency swap and, from amounts received from the issuer (class A2) swap provider on such interest payment date in respect of principal, to pay principal due and payable (if any) on the class A2 issuer notes;
- (d) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the class B issuer notes;
- (e) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the class Z issuer notes; and
- (f) the remainder (if any) to be retained by the issuer on the issuer principal ledger for allocation on subsequent interest payment dates.

**Distribution of issuer principal receipts after note acceleration but before intercompany loan acceleration**

The issuer deed of charge sets out the priority of distribution of issuer principal receipts received by the issuer cash manager on an interest payment date following the service of a note acceleration notice on the issuer or, as the case may be, received or recovered by the issuer security trustee (or a receiver appointed on its behalf) following the enforcement of the issuer security on an interest payment date or any other day but (in each case) prior to the service of an intercompany loan acceleration notice on Funding 1. In these circumstances, the issuer cash manager on an interest payment date or the issuer security trustee on such date(s) as the issuer security trustee shall determine (as the case may be) will apply issuer principal receipts to repay the issuer notes in the following order of priority (the **issuer post-acceleration principal priority of payments**):

- (a) in no order of priority among them, but in proportion to the amounts due, to pay:

- (i) amounts due and payable in respect of principal to the issuer (class A1) swap provider under the issuer (class A1) euro currency swap and, from amounts received from the issuer (class A1) swap provider on such interest payment date in respect of principal, to pay principal (if any) due and payable on the class A1 issuer notes;
- (ii) amounts due and payable in respect of principal to the issuer (class A2) swap provider under the issuer (class A2) euro currency swap and, from amounts received from the issuer (class A2) swap provider on such interest payment date in respect of principal, to pay principal (if any) due and payable on the class A2 issuer notes;
- (b) to pay amounts due and payable in respect of principal (if any) on the class B issuer notes; and
- (c) to pay amounts due and payable in respect of principal (if any) on the class Z issuer notes.

#### **Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration**

The issuer deed of charge sets out the priority of payments following the service of an intercompany loan acceleration notice on Funding 1 (the **issuer post-enforcement priority of payments**) of amounts received by the issuer cash manager or, following the enforcement of the issuer security, of amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf).

The issuer security trustee will apply such amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf) following service of an intercompany loan acceleration notice on Funding 1 and enforcement of the issuer security as follows (other than amounts representing (y) any excess swap collateral, which shall be returned directly to the relevant issuer swap provider, and (z) in respect of an issuer swap provider, prior to the designation of an early termination date under the relevant issuer 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 relevant issuer swap provider to the issuer pursuant to the relevant issuer swap agreement (and any interest or distributions in respect thereof), provided that the issuer security trustee has received prior written confirmation from the relevant issuer swap provider of the amounts (if any) under (y) and (z) beforehand, which confirmation shall be binding and conclusive on all parties):

- (a) without priority among them but in proportion to the respective amounts due (including remuneration), to pay amounts due to:
  - (i) the issuer security trustee and any receiver appointed by the issuer security trustee together with interest and any amount in respect of VAT thereon as provided therein and any amounts then due or to become due to the issuer security trustee and the receiver under the provisions of the issuer deed of charge;
  - (ii) the note trustee together with interest and any amount in respect of VAT thereon as provided therein and any amounts then due or to become due and payable to the note trustee under the provisions of the note trust deed; and
  - (iii) the agent bank, the paying agent and the registrar together with interest and any amount in respect of VAT thereon as provided therein and any costs, charges, liabilities and expenses then due or to become due and payable to them under the provisions of the paying agent and agent bank agreement;
- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts due and payable, together with any amount in respect of VAT thereon as provided therein to the issuer cash manager under the issuer cash management agreement, to the issuer corporate services provider under the issuer corporate services agreement and to the issuer account bank under the issuer bank account agreement;
- (c) without priority among them but in proportion to the respective amounts due, to pay:
  - (i) amounts (including any termination payment, but excluding any issuer swap excluded termination amount) in respect of the issuer (class A1) euro currency swap due to the issuer (class A1) swap provider under the issuer (class A1) euro currency swap and, from amounts received from the issuer (class A1) swap provider, to pay interest due or overdue on, and to repay principal of, the class A1 issuer notes; and
  - (ii) amounts (including any termination payment, but excluding any issuer swap excluded termination amount) due in respect of the issuer (class A2) euro currency swap to the issuer (class A2) swap provider under the issuer (class A2) euro currency swap, and from amounts received from the issuer (class A2) swap provider to pay interest due or overdue on, and to repay principal of, the class A2 issuer notes;
- (d) to pay interest due or overdue on, and to repay principal of, the class B issuer notes;
- (e) to pay interest due or overdue on, and to repay principal of, the class Z issuer notes;
- (f) in no order of priority among them but in proportion to the amount due, towards payment of:
  - (i) any issuer swap excluded termination amount due to the issuer (class A1) swap provider; and
  - (ii) any issuer swap excluded termination amount due to the issuer (class A2) swap provider;

- (g) to pay interest due or overdue on, and to repay principal of, and other amounts owing under, the issuer start-up loan to the issuer start-up loan provider; and
- (h) the balance (if any) to the issuer.

## CREDIT STRUCTURE

The issuer notes will be obligations of the issuer only and will not be obligations of, or the responsibility of, or guaranteed by, any other party. However, there are a number of features which enhance the likelihood of timely receipt of payments to noteholders, as follows:

- Funding 1 available revenue receipts are expected to exceed interest and fees payable by Funding 1 to the issuer under the issuer intercompany loan in respect of the senior loan tranches;
- in respect of the senior loan tranches only, a shortfall in issuer available revenue receipts may be met from issuer principal receipts;
- in respect of the rated notes only, the Funding 1 reserve fund may also be used to help meet any deficit in Funding 1 available revenue receipts available for payment of interest and fees due under an intercompany loan;
- in respect of the rated issuer notes only, an issuer liquidity reserve fund will be established following a seller rating downgrade to meet interest and principal shortfalls in limited circumstances on the rated issuer notes;
- in respect of the rated issuer notes only, an issuer reserve fund has been established to help meet shortfalls in issuer revenue receipts and issuer principal receipts available for payments of interest and principal, respectively, due on the rated issuer notes;
- following repayment in full of the rated notes, any amounts standing to the credit of the issuer reserve fund will be available to repay all principal amounts then due and repayable on the issuer start-up loan tranche D;
- payments on the class Z issuer notes will be subordinated to payments on the class A issuer notes and the class B issuer notes;
- payments on the class B issuer notes will be subordinated to payments on the class A issuer notes;
- the mortgages trustee GIC account, the Funding 1 GIC account and the issuer GIC accounts all earn interest at a specified rate;
- the issuer start-up loan will be provided to the issuer to, *inter alia*, credit the issuer reserve fund; and
- the Funding 1 start-up loan will be provided to Funding 1 to, *inter alia*, credit the Funding 1 reserve fund.

Each of these factors is considered more fully in the remainder of this section.

### **Credit support for the rated notes provided by Funding 1 available revenue receipts**

It is anticipated that, during the life of the rated notes, the Funding 1 share of the interest received from borrowers on the loans will, assuming that all of the loans are fully performing, be greater than the aggregate amount of interest which the issuer and any new issuer have to pay on all of the rated notes and all other fees and other amounts payable by Funding 1.

The actual amount of any excess will vary during the life of the rated notes. Two of the key factors determining the variation are as follows:

- the interest rate on the loans in the portfolio; and
- the level of arrears experienced.

On any Funding 1 interest payment date, any excess will be available to Funding 1 to make a deferred contribution.

### **Level of arrears experienced**

If the level of arrears of interest payments made by the borrowers results in the issuer experiencing an income deficit, the issuer will be able to use the following amounts to cure that income deficit:

- *first*, amounts standing to the credit of the issuer reserve fund and, if sufficient, the amounts standing to the credit of the issuer liquidity reserve fund, as described in “– **Issuer reserve fund**” and “– **issuer liquidity reserve fund**” below;
- *second*, principal receipts, if any, as described in “– **Use of issuer principal receipts to pay issuer income deficiency**” below.

Any excess of issuer revenue receipts will be applied on each interest payment date to the extent described in the issuer pre-acceleration revenue priority of payments, including to extinguish amounts standing to the debit of any issuer principal deficiency ledger and to replenish the issuer reserve funds and the issuer liquidity reserve fund.



## Use of issuer principal receipts to pay issuer income deficiency

One London business day prior to each interest payment date, the issuer cash manager will calculate whether there will be an excess or a deficit of issuer available revenue receipts to pay items (a) to (d) inclusive and (f) of the issuer pre-acceleration revenue priority of payments.

If there is a deficit, then the issuer shall pay or provide for that deficit by the application of issuer principal receipts, if any, and the cash manager shall make a corresponding entry in the issuer principal deficiency sub-ledger, as described in “– **Issuer principal deficiency ledger**” below as well as making a debit in the issuer principal ledger. Any such entry and debit shall be made and taken into account (including as to which priority of payments shall apply) prior to the application of the issuer principal receipts on the relevant interest payment date.

Issuer principal receipts may only be used to pay interest on rated issuer notes and may not be used to pay interest on any class of issuer notes if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on an issuer principal deficiency sub-ledger relating to a class of issuer notes with a higher priority. Further, issuer principal receipts may only be used to pay interest on the class B issuer notes if, on the relevant interest payment date, the amount recorded on the principal deficiency sub-ledger in respect of the class B issuer notes is not greater than 50 per cent. of the aggregate principal amount outstanding of all of the class B issuer notes then outstanding.

## Funding 1 reserve fund

The Funding 1 reserve fund has been established to help meet any deficit in Funding 1 available revenue receipts available for payment of interest and fees due under the issuer intercompany loan agreement in respect of the senior loan tranches prior to the service of an intercompany loan acceleration notice on Funding 1.

The Funding 1 reserve fund will be funded and replenished from:

- Funding 1 available revenue receipts in accordance with item (e) of the Funding 1 pre-acceleration revenue priority of payments up to an amount equal to the Funding 1 reserve required amount (see “**Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**” above).
- The Funding 1 start-up loan provided to Funding 1 by the issuer pursuant to the Funding 1 start up loan agreement. The **Funding 1 reserve required amount** as at any date and subject to amendment as described below will be the amount of £1,000,000.

Funding 1 may adjust, at any time, the Funding 1 reserve required amount without the consent of noteholders so long as Funding 1 obtains confirmation from the rating agencies that such adjustments will not cause a reduction, qualification or withdrawal of the then current ratings of the rated notes.

The Funding 1 reserve ledger is maintained by the cash manager to record the balance from time to time of the Funding 1 reserve fund.

## Issuer liquidity reserve fund

The issuer will be required to establish an issuer liquidity reserve fund to the extent of the issuer liquidity reserve fund required amount if, and for as long as, the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller cease to be rated at least A1 by Moody's or A- by Fitch (unless Moody's or Fitch, as applicable, confirms that the then current ratings of the rated issuer notes will not be adversely affected by the ratings downgrade) and there are class A issuer notes and/or class B issuer notes then outstanding. Following a subsequent increase in the seller's rating or redemption in full of all class A issuer notes and class B issuer notes, the issuer will not be required to maintain the issuer liquidity reserve fund. The issuer may then at its option terminate the issuer liquidity reserve fund, and all amounts standing to the credit of the issuer liquidity reserve ledger will then be treated as the issuer available revenue receipts for the next interest payment date. In addition, following a reduction in the issuer liquidity reserve fund required amount, amounts standing to the credit of the issuer liquidity reserve ledger in excess of the issuer liquidity reserve fund required amount will then be treated as issuer available revenue receipts for the next interest payment date.

Prior to service of a note acceleration notice on the issuer, the issuer liquidity reserve fund may be used:

- to help meet any deficit in issuer available revenue receipts available for payment of interest on the issuer notes and fees ranking prior thereto;
- to help meet any deficit in issuer principal receipts available for payment of principal on the issuer notes on their final maturity date;
- (each an **issuer liquidity reserve principal payment**),

in each case prior to the service of an intercompany loan acceleration notice on Funding 1.

The issuer liquidity reserve fund, if required to be funded, will be funded initially from issuer principal receipts applied in accordance with item (b) of the issuer pre-enforcement principal priority of payments. The issuer liquidity reserve fund will be deposited in the issuer's name in the issuer's GIC account. All interest or income accrued on the amount of the issuer liquidity reserve fund while on deposit in the issuer's GIC account will belong to the issuer. The issuer cash manager will maintain a separate issuer liquidity reserve ledger to record the balance from time to time of the issuer liquidity reserve fund.

The issuer liquidity reserve fund will be replenished up to and including an amount equal to the issuer liquidity reserve fund required amount on interest payment dates from (as applicable):

- issuer available revenue receipts at item (i) of the issuer's pre-acceleration revenue priority of payments; and
- issuer principal receipts at item (b) of the Funding 1 pre-acceleration principal priority of payments.

**Issuer liquidity reserve fund required amount** is an amount as of any interest payment date equal to the excess (if any) of 3 per cent. of the aggregate outstanding balance of the issuer notes on that interest payment date over the aggregate of amounts standing to the credit of the issuer reserve fund on that interest payment date.

The issuer may adjust, at any time, the issuer liquidity reserve fund required amount without the consent of noteholders so long as the issuer obtains confirmation from the rating agencies that such adjustments will not cause a reduction, qualification or withdrawal of the then current ratings of the rated issuer notes.

Following the service of a note acceleration notice on the issuer, amounts standing to the credit of the issuer liquidity reserve ledger may be applied in making payments of interest and principal due under the rated issuer notes. Following repayment in full of the rated issuer notes, amounts standing to the credit of the issuer liquidity reserve ledger (if established) will be applied as issuer available revenue receipts.

#### **Issuer reserve fund**

On the closing date, the issuer reserve fund will be established by the issuer to help meet any deficit in issuer revenue receipts available for payment of interest due under the rated issuer notes and fees ranking prior thereto and to help meet any deficit in issuer principal receipts available for repayments of principal in respect of the rated issuer notes on their respective final maturity dates only after payment of any revenue deficiency (an **issuer reserve principal payment**), in each case prior to the service of a note acceleration notice on the issuer. The issuer reserve ledger will be maintained by the issuer cash manager to record the balance from time to time of the issuer reserve fund.

The issuer reserve fund will be funded and, if necessary, replenished from (as applicable):

- issuer available revenue receipts in accordance with item (h) of the issuer pre-acceleration revenue priority of payments up to an amount equal to the issuer reserve required amount (see “**Cashflows – Distribution of issuer revenue receipts before note acceleration**” above);
- issuer principal receipts at item (a) of the relevant issuer pre-acceleration principal priority of payments; and
- the issuer start-up loan provided to the issuer by the issuer start-up loan provider pursuant to the issuer start-up loan agreement. The **issuer reserve required amount** as at any date and subject to amendment as described below will be the amount of £21,000,000.

Following the service of a note acceleration notice on the issuer, amounts standing to the credit of the issuer reserve ledger may be applied in making payments of interest and principal due under the rated issuer notes. Following repayment in full of the rated notes, amounts standing to the credit of the issuer reserve ledger will be available to repay all principal amounts then due and repayable on the issuer start-up loan tranche D.

#### **Issuer principal deficiency ledger**

The issuer principal deficiency ledger will be established for the issuer to record:

- on each trust calculation date, any principal losses on the loans allocated by Funding 1 to the issuer intercompany loan of the issuer;
- on each Funding 1 interest payment date, the application of issuer principal receipts in accordance with item (b) of the issuer pre-acceleration principal priority of payments to fund the issuer liquidity reserve ledger (if required); and
- on each Funding 1 interest payment date, any application of issuer principal receipts to meet any deficiency in issuer available revenue receipts (as described in “– **Use of issuer principal receipts to pay issuer income deficiency**” above).

The principal deficiency ledger will be split into three sub-ledgers which will correspond to the class A issuer notes, the class B issuer notes and the class Z issuer notes. The sub-ledger of the class A issuer notes will show separate entries for each of the class A1 issuer notes and the class A2 issuer notes.

Entries on the principal deficiency ledger will be recorded as follows:

- *first*, on the principal deficiency sub-ledger in respect of the class Z issuer notes until the balance of such sub-ledger is equal to the aggregate principal amount outstanding of all the class Z issuer notes;
- *second*, on the principal deficiency sub-ledger in respect of the class B issuer notes until the balance of such principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all the class B issuer notes; and
- *third*, on the principal deficiency sub-ledger in respect of the class A issuer notes, at which point there will be an asset trigger event (unless it is cured on that interest payment date through the application of issuer available revenue receipts).

Prior to the service of an intercompany loan acceleration notice on the issuer, issuer available revenue receipts will be applied on each interest payment date in the manner and to the extent described in the issuer pre-acceleration revenue priority of payments as follows:

- *first*, provided that interest due on the class A issuer notes has been paid, in an amount necessary to reduce to zero the balances on the principal deficiency sub-ledger in respect of the class A issuer notes;
- *second*, provided that interest due on the class B issuer notes has been paid, in an amount necessary to reduce to zero the balance on the principal deficiency sub-ledger in respect of the class B issuer notes;
- *third*, towards a credit to the issuer reserve ledger to the extent the amount standing to the credit thereof is less than the issuer reserve required amount;
- *fourth*, towards a credit to the issuer liquidity reserve ledger (if established) to the extent the amount standing to the credit thereof is less than the issuer liquidity reserve required amount; and
- *fifth*, provided that interest due on the class Z issuer notes has been paid, in an amount necessary to reduce to zero the balance on the principal deficiency sub-ledger in respect of the class Z issuer notes.

See also “– Use of issuer principal receipts to pay issuer income deficiency” above.

#### **Priority of payments among the class A issuer notes, the class B issuer notes and the class Z issuer notes**

Payments of interest on the issuer notes will be prioritised so that interest payments due on the class Z issuer notes on any interest payment date will be subordinated to interest payments on the class B issuer notes and the class A issuer notes due on the same interest payment date and interest payments due on the class B issuer notes on any interest payment date will be subordinated to interest payments on the class A issuer notes on the same interest payment date, in each case in accordance with the issuer priority of payments.

Any shortfall in payments of interest due on the class Z issuer notes and/or class B issuer notes on any interest payment date in respect of such issuer notes will be deferred until the next interest payment date in respect of such issuer notes and interest will accrue on such deferred interest. On that next interest payment date, the amount of interest due on the relevant class of issuer notes will be increased to take account of any deferred interest. If on that interest payment date there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the final maturity date of the class Z issuer notes and/or class B issuer notes, at which point all amounts of deferred interest will become due and payable. However, if there is insufficient money available to the issuer to pay interest on the class Z issuer notes and/or the class B issuer notes, then you may not receive all interest amounts payable on those classes of issuer notes.

The issuer is not able to defer payments of interest due on any interest payment date in respect of the class A issuer notes then outstanding. The failure to pay interest on such issuer notes will be a note event of default.

The class A issuer notes, the class B issuer notes and the class Z issuer notes will be constituted by the note trust deed and will share the same security. However, the class A issuer notes will rank in priority to the class B issuer notes and the class Z issuer notes and the class B issuer notes will rank in priority to the class Z issuer notes.

#### **Mortgages trustee GIC account/Funding 1 GIC account/Issuer GIC Account**

All amounts held by the mortgages trustee will be deposited in the mortgages trustee GIC account with the mortgages trustee account bank. The mortgages trustee account bank has agreed to pay a variable rate of interest on funds in the mortgages trustee GIC account of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

Amounts held in the collection accounts will not have the benefit of such an interest rate but following receipt will be transferred into the mortgages trustee GIC account on a regular basis and in any event in the case of direct debits no later than the next business day after they are deposited in the collection accounts.

All amounts held by Funding 1 will be deposited in the Funding 1 GIC account in the first instance. The Funding 1 GIC account is maintained with the Funding 1 account bank. The Funding 1 account bank has agreed to pay a variable rate of interest on funds in the Funding 1 GIC account of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

All amounts held by the issuer will be deposited in the issuer GIC account in the first instance. The issuer GIC account is maintained with the issuer account bank. The issuer account bank has agreed to pay a variable rate of interest on funds in the issuer GIC account of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

The mortgages trustee account bank, the Funding 1 account bank and the issuer account bank are required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSA from time to time) in order to continue to receive deposits in the mortgages trustee GIC account, the Funding 1 GIC account and the issuer GIC account, respectively. These criteria include a requirement that the short-term, unguaranteed, unsecured and unsubordinated ratings of the mortgages trustee account bank, the Funding 1 account bank or the issuer account bank, as the case may be, are at least A-1 by Standard & Poor's, F1 by Fitch and P-1 by Moody's unless each rating agency confirms that its then current rating of the issuer notes would not be downgraded, qualified or withdrawn as a result of such ratings falling below these minimum ratings. If any of the mortgages trustee account bank, the Funding 1 account bank or the issuer account bank ceases to satisfy these criteria, then the relevant account may be transferred to another entity which does satisfy these criteria.

#### **Issuer start-up loan**

The issuer start-up loan provider will enter into the issuer start-up loan agreement with the issuer on the closing date in order to make, in part, a credit to the issuer reserve fund and to make a loan to Funding 1 in three tranches, as described under "**Summary of the transaction documents – Issuer start-up loan agreement and Funding 1 start-up loan agreement**" above.

#### **Funding 1 start-up loan**

The issuer (in its capacity as the Funding 1 start-up loan provider) will enter into the Funding 1 start-up loan agreement with Funding 1 on the closing date in order to make a credit to the Funding 1 reserve fund and to meet certain fees, costs and expenses of Funding 1. For further information on the Funding 1 start-up loan, see "**Summary of the transaction documents – Issuer start-up loan agreement and Funding 1 start-up loan agreement**" above.

## **USE OF PROCEEDS**

The gross proceeds from the issuance of the issuer notes will equal approximately £1,843,700,000 and will be applied in accordance with the issuer intercompany loan agreement to make the issuer intercompany loan to Funding 1. Our fees and expenses in connection with the issuance of the issuer notes are expected to be approximately £3,870,000. These fees and expenses will be paid by us, but will be funded by a portion of the amount drawn under the Funding 1 start-up loan agreement and paid to us by Funding 1 as an initial fee under the issuer intercompany loan agreement.

## ALLIANCE & LEICESTER

Alliance & Leicester plc is the sponsor of this transaction in connection with which the issuer notes will be issued. In this capacity, Alliance & Leicester participates in structuring the transactions described in this prospectus and the terms of each issuance of notes by the issuer. Alliance & Leicester is the only seller of the loans to the mortgages trustee and is the servicer of all the loans. Alliance & Leicester is also the cash manager, the issuer cash manager, the account bank, the Funding 1 swap provider, the issuer (class A1) swap provider and the issuer (class A2) swap provider.

### History and development

Alliance & Leicester is a public limited company incorporated and registered in England and Wales under the Companies Act 1985. Alliance & Leicester and its subsidiaries (together, the **Group**) is one of the UK's major financial services organisations, offering a broad range of financial services to private and commercial clients.

Alliance & Leicester was originally a building society (a mutual form of organisation existing under English law which engages primarily in residential mortgage lending and deposit taking) prior to its conversion to a public limited company. Alliance & Leicester was incorporated as a public limited company on 10 October 1996 (with registration number 03263713) and the conversion became effective as of 21 April 1997.

Alliance & Leicester is an authorised bank operating within the UK and the Isle of Man, and supervised by the Financial Services Authority (with registration number 189099) and the Financial Supervision Commission, respectively. Shares in Alliance & Leicester have been listed on the London Stock Exchange since 1997 and are owned by both retail and institutional investors.

The registered office of Alliance & Leicester is at Carlton Park, Narborough, Leicester, LE19 0AL, United Kingdom (telephone number +44 (0)116 201 1000).

As at 30 June 2007, Alliance & Leicester and its subsidiaries had total assets of approximately £71.2 billion and employed approximately 8,100 employees. At the date of this prospectus, Alliance & Leicester has a long-term rating of "A+" by Standard & Poor's, "Aa3" by Moody's and "AA-" by Fitch.

### Principal activities

The principal activities of the Group are the provision of a comprehensive range of personal financial services in addition to a wide range of banking and financial services to business and public sector customers.

The Group's business comprises two main business units. Retail Banking provides personal savings and residential mortgage lending, current accounts and unsecured personal finance. Retail Banking also provides credit cards through MBNA, life assurance and long-term investment products through Legal & General, and general insurance products supplied by a range of providers, primarily Zurich Insurance. Commercial Banking provides banking services to commercial customers, including cash and cheque handling for retailers and other corporates, commercial lending, business banking and treasury services. These business units are supported by central group functions including finance, IT, human resources, communications and legal.

The principal markets in which Alliance & Leicester operates are as follows:

#### ***Residential mortgage lending***

Alliance & Leicester's residential mortgage assets are spread geographically throughout the UK. Residential mortgage lending is focused primarily on customers who wish to purchase their primary residence. Arrears at the end of December 2006 and for the six months ended 30 June 2007 totalled less than £7.8 million and £8.0 million, respectively. The indexed loan to value ratio at the end of 2006 and for the six months ended 30 June 2007 was 46 per cent. and 46 per cent., respectively.

At the end of December 2006 and for the six months ended 30 June 2007, Alliance & Leicester had £38 billion and £40.2 billion, respectively, of advances secured on residential property which represents around 55 per cent. and 57 per cent., respectively, of its total assets. At the end of 2006 and for the six months ended 30 June 2007, Alliance & Leicester's market share of UK mortgage balances was 3.5 per cent. and 4.2 per cent., respectively.

Figures relating to residential mortgage lending market shares have been calculated based on market data extracted from the Bank of England's publication, *Monetary & Financial Statistics*. The issuer confirms that such information has been accurately reproduced and that, so far as the issuer is aware, and is able to ascertain from information published by the Bank of England, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## Group structure

The principal operating subsidiaries of Alliance & Leicester at 30 June 2007 are listed below. These subsidiaries are incorporated and all operate in Great Britain, except Alliance & Leicester International Limited which is incorporated and operates in the Isle of Man.

### *Directly held subsidiaries*

Alliance & Leicester Personal Finance Limited

### *Nature of business*

Unsecured lending

### *Indirectly held subsidiaries*

Alliance & Leicester Commercial Finance plc

Alliance & Leicester International Limited

### *Nature of business*

Asset leasing

Offshore deposit taking

All subsidiaries are limited by ordinary shares and are unlisted.

Alliance & Leicester holds a 100 per cent. interest in the ordinary share capital and the voting rights of all its subsidiaries, except for Crossbill Investments Limited, Charta Leasing No. 1 Limited, Charta Leasing No. 2 Limited, Lanebridge Securities Limited and Mitre Capital Partners Limited.

## Subsidiaries of Alliance & Leicester

Alliance & Leicester currently has the following principal directly held subsidiary:

### *Alliance & Leicester Personal Finance Limited*

Alliance & Leicester Personal Finance Limited is a private limited company incorporated in England and Wales on 29 March 1990 with registered number 02486611. Its core business is the provision of unsecured loans for personal customers.

## THE ISSUER

Langton Securities (2008-1) plc, referred to in this prospectus as the issuer, was incorporated in England and Wales on 20 November 2007, changed its name to Langton Securities (2008-1) plc on 3 January 2008 and is a public limited company (registered number 6432564) under the Companies Act 1985. The registered office of the issuer is at 35 Great St. Helen's, London EC3A 6AP (telephone number +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, all of which are one quarter paid and all of which are beneficially owned by Holdings (see “**Holdings**”). Under the Funding 1 corporate services agreement, Holdings has agreed to comply with all requests of the issuer security trustee in relation to the appointment and/or removal by Holdings of any of the directors of the issuer.

The issuer is organised as a special purpose company. The issuer has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or the issuer.

The issuer was established as a special purpose company for the purposes of issuing the issuer notes and making the issuer loan tranches under the issuer intercompany loan agreement to Funding 1. The activities of the issuer are limited to passively owning or holding the issuer loan tranches, issuing the issuer notes supported by the issuer intercompany loan agreement and other activities reasonably incidental thereto. The principal objects of the issuer are set out in its memorandum of association and include:

- lending money and giving credit, with or without security;
- borrowing or raising money and obtaining credit or finance; and
- securing payment or repayment of money, credit or finance by any security over the issuer's property.

Under the Companies Act 1985 (as amended), the issuer's governing documents, including the principal objects of the issuer, may be altered by a special resolution of the shareholders.

The activities of the issuer will be further restricted by the terms and conditions of the issuer notes and will be limited to the issue of the issuer notes, the making of the issuer loan tranches under the issuer intercompany loan agreement to Funding 1, the exercise of related rights and powers and other activities referred to in this prospectus or incidental to those activities.

Since its incorporation, other than changing its name to Langton Securities (2008-1) plc on 3 January 2008, the issuer has not commenced operations and has not engaged in any material activities other than those incidental or ancillary to its incorporation as a public limited company under the Companies Act 1985 (as amended) and to the proposed issue of the issuer notes and to the authorisation of the other issuer transaction documents referred to in this prospectus to which it is or will be a party.

There is no intention to accumulate surplus cash in the issuer.

The accounting reference date (i.e. the last day of the fiscal year) of the issuer is 31 December. The first financial period of the issuer will end on 31 December 2008. As at the date hereof, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the issuer.



## Directors and secretary

The following table sets out the directors of the issuer and their respective business addresses and occupations. Each director has served in office since the incorporation of the issuer.

<b>Name</b>	<b>Business address</b>	<b>Principal activities/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
Ian John Hares	Carlton Park Narborough Leicester LE19 0AL	Group Treasurer of Alliance & Leicester
Christopher Robert Annis (as alternate director to Ian John Hares)	Carlton Park Narborough Leicester LE19 0AL	Head of Treasury Documentation of Alliance & Leicester

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

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
Robert William Berry	35 Great St. Helen's London EC3A 6AP	Company Director
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

The company secretary of the issuer is:

<b>Name</b>	<b>Business address</b>
Richard Allen Hawker	Carlton Park Narborough Leicester LE19 0AL

In accordance with the issuer corporate services agreement, the issuer corporate services provider will provide the issuer with directors and a registered office, arrange meetings of directors and shareholders and procure book-keeping services and the preparation of accounts by Alliance & Leicester. No other remuneration is paid by the issuer to or in respect of any director or officer of the issuer for acting as such.

## Capitalisation statement

The following table shows the capitalisation of the issuer as at 25 January 2008:

	£
<b>Authorised share capital</b>	
Ordinary shares of £1 each	50,000
<b>Issued share capital</b>	
50,000 ordinary shares of £1 each one quarter paid	12,500
	12,500

## FUNDING 1

Funding 1 was incorporated in England and Wales on 20 November 2007 as a private limited company (registered number 6432610) under the Companies Act 1985. The authorised share capital of Funding 1 comprises 100 ordinary shares of £1 each. The issued share capital of Funding 1 comprises one ordinary share of £1, which is owned by Holdings (see “**Holdings**”). The registered office of Funding 1 is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Funding 1's registered office is +44 (0) 20 7398 6300.

Funding 1 has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or Funding 1.

The principal objects of Funding 1 are set out in its memorandum of association and are, among other things, to:

- carry on business as a general commercial company;
- acquire trust property and borrow or raise money by any method and to obtain any form of credit or finance;
- enter into financial instruments, including derivative instruments; and
- secure the payment of any monies, the discharge of any liabilities and the observance or performance of any kind of obligations by any charge over the whole or any part of its undertaking or assets.

Since its incorporation, Funding 1 has not engaged in any material activities, other than those incidental to the authorisation of the transaction documents referred to in this prospectus to which it is or will be a party, filing a notification under the Data Protection Act 1998 and other matters which are incidental to those activities. Funding 1 has no employees.

The accounting reference date of Funding 1 is 31 December. The first financial period of Funding 1 will end on 31 December 2008.

### Directors and secretary

The following table sets out the directors of Funding 1 and their respective business addresses and occupations.

<b>Name</b>	<b>Business address</b>	<b>Principal activities/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
Ian John Hares	Carlton Park Narborough Leicester LE19 0AL	Group Treasurer of Alliance & Leicester
Christopher Robert Annis (as alternate director to Ian John Hares)	Carlton Park Narborough Leicester LE19 0AL	Head of Treasury Documentation of Alliance & Leicester

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their respective business addresses and principal activities or business occupations are set out under “**The issuer**”.

The company secretary of Funding 1 is:

<b>Name</b>	<b>Business address</b>
Richard Allen Hawker	Carlton Park Narborough Leicester LE19 0AL

The directors and secretary of Funding 1 have no potential conflicts of interest between their duties to Funding 1 and their private interests and/or other duties.

In accordance with the Funding 1 corporate services agreement, the Funding 1 corporate services provider will provide Funding 1 with directors and a registered office, arrange meetings of directors and shareholders and procure book-keeping services and preparation of accounts by Alliance & Leicester. No other remuneration is paid by Funding 1 to or in respect of any director or officer of Funding 1 for acting as such.

## THE MORTGAGES TRUSTEE

The mortgages trustee was incorporated in Jersey, Channel Islands on 27 November 2007 as a private company (registered number 99388) with limited liability under the Companies (Jersey) Law 1991, as amended, for a period of unlimited duration. The authorised share capital of the mortgages trustee is 10,000 shares of one class with no par value and designated as ordinary shares. Two ordinary shares have been issued and fully paid to the Jersey share trustee and are held on trust for charitable purposes under a charitable trust governed by Jersey law. The registered office of the mortgages trustee is at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands. The Jersey share trustee has and will have no beneficial interest in or derive any benefit (other than fees) for acting as Jersey share trustee from its holding of shares in the mortgages trustee.

The mortgages trustee was established as a special purpose company to hold the loans and related mortgages security constituting the trust property as bare trustee for the seller, Funding 1 and any further Funding companies pursuant to the terms of the mortgages trust deed. The mortgages trustee has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the mortgages trustee.

The capacity of the mortgages trustee is not subject to legal limitation and the principal activities of the mortgages trustee are, among other things, to:

- invest and deal in mortgage loans secured on residential or other properties within England, Wales, Northern Ireland and Scotland;
- invest in, buy, sell and otherwise acquire and dispose of mortgage loans, advances, other similar investments and all forms of security;
- carry on business as a moneylender, financier and investor;
- undertake and carry on all kinds of loan, financial and other operations; and
- act as trustee in respect of carrying on any of these activities.

The mortgages trustee has not engaged, since its incorporation, in any material activities other than those incidental to its incorporation, the settlement of the trust property on the mortgages trustee, the authorisation of the transaction documents referred to in this prospectus to which it is or will be a party, applying for a standard licence under the Consumer Credit Act 1974, as amended, filing a notification under the Data Protection Act 1998, registering as a data user under the Data Protection (Jersey) Law 2005, as amended, and other matters which are incidental or ancillary to the foregoing. The mortgages trustee has no employees.

The accounting reference date of the mortgages trustee is 31 December. The first financial period of the mortgages trustee will end on 31 December 2008.

In accordance with the mortgages trustee corporate services agreement, the mortgages trustee corporate services provider will provide to the mortgages trustee directors and a registered and administrative office and the service of a company secretary, arrange meetings of directors and shareholders and procure book keeping services and the preparation of accounts by Alliance & Leicester. No other remuneration is paid by the mortgages trustee to or in respect of any director or officer of the mortgages trustee for acting as such.

## HOLDINGS

Holdings was incorporated in England and Wales on 20 November 2007 as a private limited company (registered number 6432540) under the Companies Act 1985. The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP.

Holdings has an authorised share capital of £100 divided into 100 ordinary shares of £1 each, of which one share has been issued and fully paid and is owned by SFM Corporate Services Limited on a discretionary trust for charitable purposes.

Holdings is organised as a special purpose company. The seller does not own directly or indirectly any of the share capital of Holdings. Holdings has no subsidiaries other than the issuer and Funding 1, although it is expected that, subject to certain conditions, Holdings may establish new issuers and further Funding companies from time to time to issue new issuer notes. Each new issuer and further Funding company will be a subsidiary of Holdings.

The principal objects of Holdings are set out in its memorandum of association and are, among other things, to carry on business as a general commercial company, including to (i) acquire and hold, by way of investments or otherwise, and/or (ii) deal in or exploit in such manner as may from time to time be considered expedient, all or any part of any securities or other interests of or in any company (including the issuer, any new issuers, Funding 1 and any further Funding companies).

Holdings has acquired all of the issued share capital of the issuer and Funding 1 and has not engaged in any other activities since its incorporation other than those incidental to the authorising of the transaction documents to which it is a party and other matters which are incidental or ancillary to the foregoing. Holdings has no employees.

The accounting reference date of Holdings is 31 December. The first financial period of Holdings will end on 31 December 2008.

## **THE ISSUER POST-ENFORCEMENT CALL OPTION HOLDER**

The issuer post-enforcement call option holder was incorporated in England and Wales on 20 November 2007 as a private limited company (registered number 6432571) under the Companies Act 1985. The registered office of the issuer post-enforcement call option holder is 35 Great St. Helen's, London EC3A 6AP.

The authorised share capital of the issuer post-enforcement call option holder comprises 100 ordinary shares of £1 each. The issued share capital of the issuer post-enforcement call option holder comprises one ordinary share of £1, which is owned by Independent Share Trustees Limited, the PECO share trustee, on trust pursuant to the terms of a discretionary trust for charitable purposes.

The issuer post-enforcement call option holder is organised as a special purpose company. The issuer post-enforcement call option holder has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the issuer post-enforcement call option holder.

The principal objects of the issuer post-enforcement call option holder are as set out in its memorandum of association and are, among other things, to carry on business as a general commercial company, including to hold bonds, notes, obligations and securities issued or guaranteed by any company and any options or rights in respect of them. The issuer post-enforcement call option holder has not engaged since its incorporation in any material activities other than those incidental to the authorising of the issuer transaction documents referred to in this prospectus and other matters which are incidental or ancillary to the foregoing. The issuer post-enforcement call option holder has no employees.

The accounting reference date of the issuer post-enforcement call option holder is 31 December. The first financial period of the issuer post-enforcement call option holder will end on 31 December 2008.

Pursuant to the terms of an option granted to the issuer post-enforcement call option holder under the issuer post-enforcement call option agreement, following the enforcement and distribution of the security granted by the issuer pursuant to the issuer deed of charge, the issuer post-enforcement call option holder can require the transfer to it of all of the issuer notes outstanding for a nominal amount.

As the issuer post-enforcement call option granted pursuant to the issuer post-enforcement call option agreement can be exercised only after the Funding 1 security trustee has enforced the security granted by the issuer under the issuer deed of charge and has determined that there are no further assets available to pay amounts due and owing to the noteholders, the exercise of the issuer post-enforcement call option and delivery by the noteholders of the issuer notes to the issuer post-enforcement call option holder will not extinguish any other rights or claims other than the rights to payment of interest and repayment of principal under the issuer notes that such noteholders may have against the issuer.

## **THE NOTE TRUSTEE, ISSUER SECURITY TRUSTEE AND FUNDING 1 SECURITY TRUSTEE**

Citicorp Trustee Company Limited acts as note trustee, issuer security trustee and Funding 1 security trustee in this transaction.

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, Funding 1 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, Funding 1 or any other party to the transaction documents under the transaction documents. Citicorp Trustee Company Limited will not be liable to any noteholder, issuer secured creditor or Funding 1 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 issuer security, Funding 1 security and the transaction documents.

## THE LOANS

### Introduction

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 UK. At October 2007, mortgage loans outstanding in the UK amounted to £1,180.70 billion. Outstanding mortgage debt grew at an annual average rate of 11.61 per cent. between December 1999 and November 2007. At November 2007, 53.33 per cent. of outstanding mortgage debt was held with banks and 17.05 per cent. with building societies. The statistics in this paragraph have been sourced from The Council of Mortgage Lenders and the Bank of England.

The following is a description of some of the characteristics of the loans currently or previously originated since 1993 by the seller, including details of loan types, the underwriting process and lending criteria and selected statistical information.

The portfolio of loans together with their related security, accrued interest and other amounts derived from the loans to be sold by the seller to the mortgages trustee on the closing date will make up the trust property on the closing date and is called the initial portfolio. These items as they make up the trust property at other times are referred to simply as the portfolio.

In selecting which loans to assign to the mortgages trustee, the seller has compiled a portfolio of loans called the expected portfolio. Each loan in the expected portfolio may incorporate one or more of the features referred to in this section.

The seller will select which loans from the expected portfolio will be assigned to the mortgages trustee by excluding from the expected portfolio those loans that have been repaid in full or that do not comply with the terms of the mortgage sale agreement on the closing date. The portfolio is not expected to differ materially from the expected portfolio. Unless otherwise indicated, the description that follows relates to types of loans that will be sold to the mortgages trustee on the closing date and which will form part of the initial portfolio as at the closing date or which may be sold as a new loan to the mortgages trustee from time to time.

The expected portfolio was drawn up as at 11 November 2007 (the **cut-off date**) and comprised 75,561 mortgage accounts having an aggregate outstanding current balance of £7,859,896,693 as at that date. The loans in the expected portfolio were originated by the seller between 10 October 1994 and 7 November 2007. No loan in the expected portfolio was, at the date that the expected portfolio was drawn up, delinquent or non-performing.

After the closing date, the seller may sell new loans and their related security to the mortgages trustee. The seller reserves the right to amend its lending criteria and the right to sell to the mortgages trustee new loans which are based upon mortgage terms different from those upon which the initial loans are based. Those new loans may include loans which have been or are currently being offered to borrowers which may or may not have some of the characteristics described here, but may also include loans with other characteristics that are not currently being offered to borrowers or that have not yet been developed. All new loans will be required to comply with the representations and warranties set out in the mortgage sale agreement and all the material representations and warranties in the mortgage sale agreement are described in this document. See "**Summary of the transaction documents – The mortgage sale agreement**" above. The representations and warranties may be amended if new loan types are to be sold to the mortgages trustee. The consent of noteholders will not be obtained in relation thereto if (among other things) the rating agencies have confirmed to the Funding 1 security trustee that the ratings of the notes then outstanding will not be downgraded, withdrawn or qualified if those new loan types are sold to the mortgages trustee.

Each of the English loans is governed by the laws of England and Wales, each of the Scottish loans is governed by the laws of Scotland and each of the Northern Irish loans is governed by the laws of Northern Ireland.

### Characteristics of the loans

#### *Repayment terms*

Loans are typically 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; or

*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 repayable in one lump sum; or

*Combination repayment and interest-only:* the borrower effects a separation of the repayable amounts into two portions, one in respect of which it will only pay interest until the date of the loan's maturity (the **interest-only portion**)



and the other in respect of which the borrower will make payments incorporating both interest and principal components. When the loan matures, the principal amount of the interest-only portion of the loan is still outstanding and is repayable in one lump sum. Such loans may be referred to elsewhere in this prospectus as part-and-part loans.

In each case, the required monthly payment may alter from month to month for various reasons, including changes in interest rates and the ability to make overpayments of £500 or more, see “– **Flexible payments**” below. The ability to make underpayments and take payment holidays applies to flexible loans only.

For interest-only loans and for the interest-only portion of combination repayment and interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the seller requests but does not verify that the borrower has some repayment mechanism (such as an investment plan or a pension plan) in place to ensure that funds will be available to repay the principal at the end of the term.

### ***Interest payments and interest rate setting***

The seller offers a range of interest rates on each of the following products which may be eligible for inclusion in the portfolio from time to time:

- **variable rate loans:** loans subject to the seller's standard variable rate (the **variable rate**) for the life of the loan. The variable rate is set by the seller by reference to the general level of interest rates and competitive rates in the UK mortgage market.
- **discount loans:** loans which allow the borrower for a specified period of time (the **discount rate period**), which is usually between one and five years, to pay interest at a specified discount to the variable rate (the **discount rate**). An early repayment charge may be payable in respect of some of these loans (but not all) for a set period of time, which generally corresponds with the term of the discount rate period.
- **fixed rate loans:** loans subject to a fixed rate of interest (the **fixed rate**) for a specified period of time (the **fixed rate period**), which is usually for a period of either two, three or five years. At the expiration of the fixed rate period these fixed rate loans generally convert to variable rate loans or base rate loans (as described below). An early repayment charge may be payable in respect of some of these loans (but not all) for a set period of time, which generally corresponds with the term of the fixed rate period.
- **base rate loans:** loans subject to a variable rate of interest (the **base rate-linked rate**) that is a margin (expressed as a percentage figure) above and/or equal to and/or below the Bank of England base rate (the **base rate**) for a set period as specified in the offer (the **premium rate period**). During the applicable premium rate period, or for a certain period within the premium rate period, an early repayment charge may be payable in respect of some (but not all) of these loans. At the expiration of any applicable premium rate period, base rate loans will (unless a base rate-linked rate applies for the term of the loan) convert to a variable rate loan. The base rate-linked rate may differ for each product type. The percentage amount of the relevant margin to be charged under or over the base rate is set by the seller at the commencement of the loan and is dependent on the product type and the LTV. This percentage margin, which is fixed, is specified in the borrower's offer of advance.

No capped rate loans will form part of the initial portfolio as at the closing date.

New loan types may be included in the portfolio in the future by the seller.

All interest rates depend on the product type and the LTV ratio. Under the 2002 and 2004 mortgage conditions, interest may be calculated and charged on a daily, monthly or yearly basis depending upon the borrower's mortgage product. Under the 1993 and 1997 mortgage conditions, interest is calculated and charged on a yearly basis. Under the 1998 mortgage conditions, interest is calculated and charged on a monthly basis. Where interest is calculated on a daily basis, in every month interest is charged each day on the capital and on any unpaid interest or expenses outstanding as at the end of the previous day, excluding interest charged in that month. Where interest is calculated on a monthly basis, in every month interest is charged for the month on the capital and on any unpaid interest or expenses outstanding as at the end of the previous month. Where interest is charged on a yearly basis, in every year interest is charged for the year on the capital and on any unpaid interest or expenses outstanding as at the end of the previous year. Payments of interest in respect of all loans are payable either monthly in arrears or in advance or monthly partially in advance and partially in arrears, depending upon a borrower's interest payment date. Monthly payments due by borrowers are paid normally (although not always) by direct debit and are due on the first day of each month unless (under the 2002 and 2004 mortgage conditions only) the borrower has chosen a different monthly instalment date. The seller may give a borrower notice at any time that a different instalment date will apply.

The variable rate for existing and/or new borrowers as at the cut-off date was 7.89 per cent. If the variable rate changes and that change affects the interest rate applicable to a borrower's mortgage, the seller is obliged to give the borrower written notice of the change. Notice will be given to borrowers prior to any changed monthly instalment becoming due. The actual gross rate of interest that the seller charges for variable rate loans, discount loans linked to the variable rate or fixed rate loans upon conversion from a fixed rate to the variable rate may be changed for various reasons, which include:

- to reflect a change in the rates of interest paid to customers with savings accounts with the seller;
- to reflect a change in the cost of other funds used by the seller in its mortgage lending business;
- to reflect a change in the base rate;
- to make sure the seller's business is run in a prudent manner;
- to allow the seller to raise additional funds to improve its services or facilities, to promote the growth of its business or to invest in new technology;
- to reflect changes in the law or recommendations by a court or by an ombudsman or regulatory requirements or guidance;
- to reflect a merger of its business; and
- to reflect a transfer of its business;

Under the 1997 and 1998 mortgage conditions and under the offers of advance sent out to borrowers with mortgages subject to the 1993 mortgage conditions, the variable rate may also be changed for any “other valid reason”.

Under the 1997, 1998, 2002 and 2004 mortgage conditions, if a borrower's interest rate is increased as a result of a change to the variable rate, the borrower may repay the loan without paying interest at the increased rate and without paying any early repayment charge which would otherwise be due under the terms of the loan, if the seller receives notice from the borrower of that borrower's intention to repay within one month after the increase takes effect and the repayment is made within three months after the increase takes effect. Under the 1993 mortgage conditions, if a borrower's interest rate is increased and if that borrower gives notice within one month of the date upon which that increase is to take effect, the borrower can redeem the mortgage without paying the additional interest resulting from the increase (provided such redemption is effected within three months of the increase date).

Except in limited circumstances, as set out above in “**Summary of the transaction documents – Servicing agreement – Undertakings by the servicer**”, the servicer is responsible for setting the variable rate on the loans in the initial portfolio as well as on any new loans that are sold to the mortgages trustee. The servicer may vary the variable rate for any of the reasons listed above.

In maintaining, determining or setting the variable rate, the servicer will apply the factors set out here and, except in limited circumstances as set out in “**Summary of the transaction documents – Servicing agreement – Undertakings by the servicer**”, has undertaken to maintain, determine or set the variable rate at a rate which is not higher than the variable rate from time to time.

Where a borrower's interest rate is set by reference to a margin (a **differential rate**), which will generally be a margin below the variable rate in relation to discount loans, under the 1997, 1998, 2002 and 2004 mortgage conditions the seller may change or disapply the differential rate where this is agreed with the relevant borrower or where this reflects a change in the way the mortgaged property is used or occupied. The differential rate will only be changed without a borrower's agreement if the change in the way in which a mortgaged property is used affects the seller's assessment of how likely the borrower is to carry out its obligations under the mortgage. Under the 1997 and 1998 mortgage conditions, the seller may also change the differential rate for any “other valid reason”. If a borrower's interest rate is increased as a result of a change to the differential rate, the borrower may repay the loan without paying interest at the increased rate and without paying any early repayment charge which would otherwise be due under the terms of the loan, if the seller receives notice from the borrower of that borrower's intention to repay within one month after the increase takes effect and the repayment is made within three months after the increase takes effect. If applicable, the servicer will also be responsible for maintaining, determining or setting any differential rates and in doing so the servicer will apply the factors set out here and, except in limited circumstances as set out above in “**Summary of the transaction documents – Servicing agreement – Undertakings by the servicer**”, has undertaken to maintain, determine or set any differential rate at a level which is not higher than the differential rates set in accordance with the seller's policy from time to time.

Loans may combine one or more of the features listed in this section and these will be specified in the offer of advance in relation to a loan or by the seller from time to time. Other customer incentives may be offered with the product including cashback, free valuations and payment of legal fees. Additional features in relation to a loan may include a flexible payment facility whereby the borrower may make overpayments and then use the accumulated overpayments to make underpayments, take payment holidays and make cash withdrawals (together, the **flexible features**). See “– **Flexible payments**” below. Borrowers who do not have the benefit of the flexible features are also able to make overpayments in addition to their usual monthly payment but early repayment charges may be payable. See “– **Flexible payments**” below.

### **Portability**

Certain mortgage products incorporate a portability facility, which allows the borrower to transfer the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property. A loan is only

portable during any applicable discount rate period, fixed rate period or premium rate period. Variable rate loans are not portable.

The borrower can have the same or a lower level of funding for the loan for the new property as for the existing loan, however, if additional funding is required, this additional funding will only be available on the terms and conditions being offered by the seller at the time. Where flexible terms and conditions apply to a borrower's existing loan, flexible terms and conditions must also apply to any additional funding to which the seller agrees. Where flexible terms and conditions do not apply to a borrower's existing loan, flexible terms and conditions cannot apply to any additional funding to which the seller agrees. If a customer with a fixed rate loan, discount loan or base rate loan requires a level of funding for the new property which is less than 75 per cent. of the level of funding previously required, the seller will charge any applicable early repayment charge (as set out in the relevant offer of advance) on the difference between the balance of the existing loan and the balance of the new loan.

### ***Early repayment***

This term is used to describe instances when the borrower pays back either all or part of the loan (in an amount exceeding their normal monthly payments) before the maturity date of the loan. When a loan is redeemed in full or in part in this way, an early repayment charge may be payable. Early repayment charges are usually (but not exclusively) payable during a fixed rate period or discount rate period or the early years of the premium rate period depending upon the concessionary rate offered.

Capital repayments may be made, in whole or in part, at any time during the term of a loan. The borrower is obliged to pay any applicable early repayment charge in relation to such capital repayment, as specified in the relevant offer of advance (other than where the capital repayment is an overpayment being made in relation to a mortgage to which flexible features apply: see “– **Flexible payments**” below). In relation to certain products without flexible features, the seller permits borrowers to repay up to 10 per cent. of the amount outstanding on a mortgage in addition to scheduled repayments in any one year without having to pay any applicable early repayment charge. To benefit from this, the borrower must make the capital repayment during January and the capital repayment must be £500 or more above that borrower's normal monthly payment. A repayment of the entire outstanding balance of all loans secured by a customer's mortgage discharges the mortgage. Any prepayment in full must be made together with all accrued interest, any amounts in arrears, any unpaid expenses and any applicable early repayment charge(s). In addition, a “redemption administration charge” of £295 is currently payable where a borrower prepays in full (except in relation to mortgages which were taken out before August 2004 and not subsequently re-executed or revised, in which case the charge is £195).

If interest is paid at either a fixed rate, a base rate-linked rate or a discount rate, an early repayment charge may be charged on the amount repaid at the rate which applies during the early repayment charge period (which is normally the discount rate period, fixed rate period or premium rate period as the case may be) stated in the conditions of the loan.

### ***Flexible payments***

The 2002 and 2004 mortgage conditions incorporate the concept of “flexible mortgage provisions”, which are available for certain products in the portfolio through a running account credit facility (the **flexible facility**). A borrower's offer of advance states whether the flexible mortgage provisions are applicable to a borrower's loan.

In relation to loans subject to the 1998 mortgage conditions, flexible mortgage provisions are incorporated in the “additional special conditions” applicable to the loan. The additional special conditions are issued to borrowers with the offer of advance and form part of the offer document.

In relation to customers who have the benefit of flexible mortgage provisions pursuant to the 1998 and 2002 mortgage conditions, each customer will have signed a running account credit agreement regulated by the CCA.

The flexible facility enables borrowers to make overpayments or underpayments, take payment holidays or make cash withdrawals in certain circumstances. A borrower may make overpayments throughout the life of the loan and may make underpayments, take payment holidays or make cash withdrawals provided that there is credit available on the flexible facility. A borrower accumulates credit on the flexible facility by making overpayments. Where the available credit on the flexible facility is reduced to zero via underpayments, cash withdrawals or payment holidays or because no overpayments have been made, a borrower may not make underpayments, take payment holidays or make cash withdrawals.

There is no limit to the number of times the flexible facility can be exercised provided that there is available credit on the flexible facility.

Flexible features comprise the following:

- **overpayments** – These are paid in addition to scheduled monthly repayments without the borrower having to pay an early repayment charge, except in respect of an overpayment which has the effect of redeeming the

borrower's mortgage. There is no minimum or maximum level of overpayment. Borrowers can overpay for as long and as regularly as they like.

- **underpayments** – The borrower may pay less each month by an amount agreed between the borrower and the seller. The borrower must agree in advance how many underpayments the borrower will make and the borrower may not make underpayments when the accrued overpayments have depleted.
- **payment holidays** – Accrued overpayments can be used to take payment holidays during which the borrower may suspend mortgage payments without penalty for a period agreed between the borrower and the seller. The borrower may not take a payment holiday when the accrued overpayments have been depleted.
- **cash withdrawals** – All or part of the accrued overpayments can be taken out in cash. The minimum cash withdrawal that can be made is £500.

Borrowers are entitled to make overpayments even where the flexible mortgage provisions do not apply to their mortgage, although any applicable early repayment charge may be payable in relation to such overpayments; see “– **Early Repayment**”. Only borrowers with the benefit of the flexible mortgage provisions have the ability to make underpayments or cash withdrawals or take payment holidays.

Any overpayments which are less than £500 are deducted from the outstanding principal balance at the end of the month in which the overpayment is made in the case of products for which interest is calculated on a monthly basis or at the end of the year in the case of products for which interest is calculated on a yearly basis. Any overpayments (whether or not the flexible mortgage provisions apply) which are £500 or more are deducted from the outstanding principal balance immediately. Where the flexible mortgage provisions apply and the overpayment is £500 or more, the borrower can opt to reduce the monthly payment or else the term of the relevant loan is reduced accordingly. The change in the monthly payment will be notified to the borrower a reasonable time in advance of when the monthly payment is due. In respect of flexible loans only, underpayments and cash withdrawals can only be made and payment holidays can only be taken to the limit of previous overpayments by the borrower.

The outstanding principal balance is increased following any underpayment, cash withdrawal or payment holiday, and interest is charged on such increased outstanding principal balance in accordance with the mortgage conditions.

The administration of the flexible facility is undertaken by the seller.

See “**Risk factors – Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your issuer notes**” above.

### ***Product switches***

A product switch is a variation in the financial terms and conditions applicable to the borrower's loan as agreed between the borrower and the seller. If a product switch is made, the mortgage conditions relating to a borrower's loan will be updated to the then current version.

If a borrower wishes to make a product switch, the seller will use the lending criteria applicable to product switches at that time in determining whether to approve the application. None of the loans in the initial portfolio as at the closing date will oblige the seller to make product switches. However, some loans in the initial portfolio as at the closing date may have product switches made on them prior to their being sold to the mortgages trustee, and new loans added to the portfolio in the future may have had product switches made on them prior to the relevant sale date.

If a loan, following a product switch, does not meet certain criteria, then the seller will be required to repurchase the loan or loans under the relevant mortgage account and its or their related security from the mortgages trustee. See “**Summary of the transaction documents – The mortgage sale agreement – Product switches and further advances**” and “**Risk factors – In limited circumstances, loans subject to product switches and further advances will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans and this may affect the yield to maturity of your issuer notes**” above.

### ***Origination of the loans***

The seller currently derives its mortgage-lending business through its branch network throughout the United Kingdom, through intermediaries, through its internet website and through telephone sales.

Under the seller's policy, it can provide many customers with an agreement in principle to lend almost immediately upon application.

The seller has been authorised and regulated by the Financial Services Authority for mortgage business since 31 October 2004 and is therefore subject to the FSA's Mortgage Conduct of Business rules. The seller is also subject to the compulsory jurisdiction of the Financial Ombudsman Service, which is a statutory scheme under the FSMA. Prior to 31

October 2004, the seller subscribed to the CML Code from its inception in 1997. The CML Code was a voluntary code of good practice and was independently monitored by the Mortgage Code Compliance Board.

### ***Underwriting***

Applicants are credit scored to establish which applications can be approved, declined or referred for manual assessment by an underwriter. See “– **Credit scorecard**” below.

Pre-completion processing and certification of data together with an automated credit search is the first stage of the process. Cases that meet specified criteria, for example high value, are also manually underwritten.

To gain the authority to approve loans, each underwriter must first undertake training conducted by the seller. Underwriters then undergo a periodic assessment of their work. The seller has established various levels of authority for its underwriters who approve loan applications. The levels are differentiated by, among other things, the ratio of the loan amount to the value of the mortgaged property and the size of the loan applied for. An underwriter wishing to move to the next level of authority must undertake further training. The seller's lending policy sets out the discretion available to underwriters where a proposal is made to lend outside the seller's standard policy. Requests outside the scope of such discretion are escalated to the Director of Credit & Risk for approval.

Credit Operations carry out a quality check of a portion of the underwriters' decisions on a monthly basis to ensure adherence to the seller's lending policy and procedures. All underwriting decisions are monitored for bad debt and further quality checking where an individual's bad debt performance warrants investigation. All loans underwritten are subject to the seller's underwriting policies, lending criteria and internal procedures for compliance with government regulations, such as those concerning money laundering.

### ***Lending criteria***

Each loan in the expected portfolio as at the cut-off date was originated according to the seller's lending criteria applicable at the time the loan was offered, which included some or all of the criteria set out in this section. The geographical location of a mortgaged property (i.e. England, Wales, Scotland or Northern Ireland) has no impact upon the seller's lending criteria and current credit scoring tests. New loans, including loans with product switches, may only be included in the portfolio if they were or are originated in accordance with the lending criteria applicable at the time the loan was or is offered and if the conditions contained above in “**Summary of the transaction documents – The mortgage sale agreement – Sale of loans and their related security**” have been satisfied.

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). The seller may take the following into account when exercising discretion: credit history, LTV ratio, affordability, residency, residential history, employment history and nature of income. However, the seller retains the right, in its sole discretion, to revise its lending criteria from time to time, so the criteria applicable to new loans may not be the same as those currently used. Some of the factors currently used in making a lending decision are outlined below.

#### ***(a) Type of property***

Mortgaged properties may be freehold, leasehold, commonhold in England, freehold or leasehold in Northern Ireland or heritable or long lease in Scotland. Leases must have an unexpired term of at least 50 years at the commencement of the loan and at least 30 years (or, from 28 March 2006, at least 35 years) remaining on the maturity of the loan.

The mortgaged property must be used for residential purposes, however, a mortgaged property may be used, in limited circumstances, partially for business purposes provided that no more than 60 per cent. of the mortgaged property is used for such business purposes, that no items are held for storage in connection with the business usage, no structural alterations have been made to accommodate the business and, from 31 October 2004, at least 40 per cent. of the mortgaged property is occupied by the borrower or the borrower's spouse, common-law partner, same sex partner, parent(s), grandparent(s), sibling(s), children or grandchildren. Any business use other than clerical is unlikely to be considered acceptable. A mortgaged property must be marketable, habitable and insurable.

A mortgaged property must be owner-occupied or may be occupied by the borrower's spouse, common-law partner, same sex partner, parent(s), grandparent(s), sibling(s), children or grandchildren. The seller does not lend on buy-to-let properties (although the seller may provide consent during the life, but not at the start, of the mortgage for the mortgaged property to be let for a specified period). In any event, no such buy-to-let loans are expected to be comprised in the initial portfolio on the closing date. Mortgaged properties must be situated in England, Wales, Scotland and Northern Ireland.

The following are examples (non-exhaustive) of the types of properties considered by the seller to be unacceptable security: freehold flats, flats in ex-local authority buildings of more than five storeys or mobile homes.

(b) *Term of the loan*

There is no minimum term for loans, although where an early repayment charge applies, the term cannot be less than the period during which the early repayment charge is payable. The maximum term for endowment linked mortgages or mortgages repaid on a repayment basis is 40 years and, subject to this, the maximum term for pension backed mortgages is 50 years.

(c) *Age of applicant*

All borrowers must be aged 18 or over. The current maximum age limit is 75 at the maturity of the loan. If the term of the loan extends past an applicant's normal retirement age, the applicant must confirm that he or she will have adequate income to maintain repayments beyond his or her retirement.

(d) *LTV*

The maximum loan available (excluding any high percentage loan fee) is based on the lower of the current value or purchase price of the mortgaged property. The maximum LTV for loans of up to £250,000 is 95 per cent. The maximum LTV for loans of up to £500,000 is 90 per cent. The maximum LTV for loans of up to £1,000,000 is 85 per cent. The maximum LTV for loans of above £1,000,000 is negotiable. Existing Alliance & Leicester mortgagors are considered for loans of over 95 per cent. LTV where essential repairs are required. The maximum LTV in this situation is 100 per cent. and the loan must be agreed by a senior underwriter. A revaluation must be carried out before the offer is issued to establish that the repairs are essential and will restore the property value after they have been completed. Where the loan is advanced for the purchase of a second/holiday home, or a home for a dependent relative, the maximum LTV is 85 per cent. (or 75 per cent. where the purchase price or valuation is greater than £500,000).

(e) *Mortgage indemnity guarantee (MIG) policies*

Since 1996, the seller has not required cover under MIG policies for any loans.

***Income verifications***

The seller accepts the following original documents by way of income verification in relation to “employed” applicants:

- existing Alliance & Leicester borrowers and new borrowers with an LTV less than or equal to 75 per cent.: latest monthly or four weeks' payslips or latest year's accounts where self-employed;
- new borrowers with an LTV greater than 75 per cent.: latest three months' payslips or last three years' accounts if self employed;
- loans over £500,000: latest three months' payslips or last three years' accounts if self-employed.

The seller includes in its calculations, in relation to employed applicants, the employee's basic salary, pension or permanent disability allowance together with 100 per cent. of any mortgage subsidy received, guaranteed overtime, bonuses and commission, car and large town allowances and working/family tax credits. The seller accepts 50 per cent. of any regular but not guaranteed overtime, bonuses and commission. The figures used as allowable income for self-employed applicants are as follows:

- LTV less than or equal to 75 per cent. and where the loan is less than or equal to £500,000: latest year's net profit attributable to the applicant;
- existing Alliance & Leicester borrowers regardless of LTV or loan amount: latest year's net profit attributable to the applicant; and
- LTV above 75 per cent. or where the loan is greater than £500,000: an average of the last three years' net profit attributable to the applicant. Two years' full accounts and a projection verified by a qualified accountant sufficing for the third year may be acceptable where the applicant has been self-employed for less than three years. Draft accounts are acceptable only if verified by a qualified accountant and the applicant has been self-employed for over three years.

A maximum of four applicants may apply for a loan and a maximum of two incomes can be used.

Positive proof of the borrower's identity and address is established in line with money laundering regulations.

Currently, the seller does not accept third party guarantees.

For low risk applications, income is verified at the point of sale and a percentage is audited by a central processing unit for accuracy. Low risk applications are defined as below £500,000 and 75 per cent. LTV where the applicant is employed and either remortgaging or a next-time buyer.

## ***Credit history***

Applications where an adverse credit history exists (i.e. bankruptcy, county court judgment (or the Scottish equivalent) or outstanding defaults registered with a credit reference agency) are unacceptable, unless the bankruptcy has been discharged for more than three years or the county court judgment has been satisfied for more than three years. There are limited circumstances where exceptions to these rules may be made, for example where the underwriter is satisfied that the outstanding default did not represent a deliberate breach of a financial contract.

## ***Credit scorecard***

The seller uses certain criteria described in this section 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. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of an account going into arrears. All loan applications are subject to credit scoring.

### ***(a) Eligibility***

**UK residents** – British citizens normally resident in the UK are eligible to apply for all loan products. Applicants entitled to claim diplomatic immunity are unacceptable. Applications from non-British citizens are only acceptable where the applicant can prove a right to live and work in the United Kingdom. Applications from foreign nationals without an indefinite right to stay in the United Kingdom are usually unacceptable.

**Non-residents** – Applications from expatriates are unacceptable.

### ***(b) Employment***

**Employed applicants** – Employed applicants must have been in their present employment for a minimum of three months. The seller will accept contracted staff provided that they have been employed as a contractor for a minimum of three months and have been in employment for the last 12 months. There is no minimum length of time that should be left to run on a temporary contract. Contractors are treated as self-employed for the assessment and verification of income if they are classed as self-employed for tax purposes; otherwise they are treated as employed applicants.

**Self-employed applicants** – See “**Income Verifications**” above. An individual will be deemed to be self-employed when his or her shareholding is more than ten per cent. of the total share capital of the applicant's employer or the applicant is in a partnership. Sole traders will be deemed to be self-employed.

## ***Insurance policies***

### ***(a) Insurance on the property***

A borrower is required to insure the mortgaged property with buildings insurance for the duration of the loan. The insurance may have been purchased through the seller or, alternatively, the borrower or landlord (in the case of a leasehold property) may arrange for the buildings insurance independently. The building must be insured for its full reinstatement value, i.e. the cost to rebuild as new, including site clearance, debris removal, cost to comply with the latest building regulations and architects and surveyors fees. The borrower must ensure that the buildings insurance payments are kept up to date.

Under the 1997, 1998, 2002 and 2004 mortgage conditions, if the borrower does not insure the mortgaged property, or insures the mortgaged property but violates a provision of the mortgage terms which relates to insurance, the seller, upon becoming aware of the same, is entitled to insure the mortgaged property itself for its own benefit, in which case the seller may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. Under the 1993 mortgage conditions, the seller may itself insure the mortgaged property or, at the seller's option, require the borrower to insure the property. Under each set of mortgage conditions the borrower will be responsible for the payment of insurance premiums and the seller retains the right to settle all insurance claims which concern the mortgaged property without the borrower's consent.

### ***(b) Alliance & Leicester arranged buildings insurance***

Where a borrower purchases buildings insurance through the seller, the borrower will be responsible for paying the premiums for that insurance to the insurer by the payment method acceptable to the relevant insurer.

Where the seller has had to insure a mortgaged property as a result of a borrower's inability to do so, the borrower must repay the premium in relation to this insurance as soon as payment of this premium is requested by the seller. Except for the loans originated under the 1997 and 1998 mortgage conditions, interest is chargeable on the

premium at the applicable interest rate in relation to the relevant mortgage. Under each of the mortgage conditions the premium may be paid by the borrower in monthly instalments.

*(c) Borrower-arranged buildings insurance*

A borrower is required to arrange for the mortgaged property to be insured by a third party if the borrower did not arrange for the seller to insure the mortgaged property on its behalf. The mortgaged property must be insured under a comprehensive policy and for an amount not less than the full cost of rebuilding the mortgaged property, including all professional fees, debris removal and the cost of meeting planning and local authority requirements.

Under the 2004 mortgage conditions for both England & Wales and Northern Ireland, the policy must include the seller's interest noted on the policy or be in the joint names of the borrower and the seller. The 1997, 1998 and 2002 mortgage conditions for both England & Wales and Northern Ireland, require the policy to be in the joint names of the borrower and the seller. Under the 1997, 1998, 2002 and 2004 mortgage conditions, if the mortgaged property is leasehold and the lease provides for the landlord to insure, the borrower must arrange for the seller's interest to be noted on the landlord's policy. The mortgage conditions for Scotland all require that the seller's interest is noted on the policy. In all cases, the borrower must inform the seller of any event which might give rise to a claim under the policy.

*(d) Title insurance*

Since 21 October 1999, the seller has offered a service (the **mortgage transfer service**) which allows remortgages of properties to be completed under an expedited procedure. The mortgage transfer service takes care of the legal administration involved in a remortgage and, rather than following the traditional conveyancing practice, to protect its interests the seller takes out a policy of title insurance in relation to each relevant property. The process differs from the traditional conveyancing procedures in that there is no in-depth investigation of title or searches carried out. If defects in a title become evident during any later repossession of a property, the seller is able to claim against the title insurance policy. The title insurance used by the seller for the mortgage transfer service is provided by First Title Insurance plc (**first title**), a company which provides this type of title insurance and whose address is Walkden House, 3-10 Melton Street, London NW1 2EB. Amongst other things, the first title policy provides protection (a) that there is good and marketable title to the property; (b) that the property was built, and (if relevant) modified or extended since, in compliance with all necessary planning and building regulation approvals; (c) against adverse information which would be discovered from Local Authority searches; and (d) against costs or legal expenses necessary to defend the title. After an agent of first title, as applicable, checks ownership of the relevant property, first title provides a certificate of insurance to the seller. The agent then arranges execution of the relevant documents, requests the funds from the seller and, upon receipt, disburses such funds under the seller's instructions and completes the transaction. The mortgage transfer service is not available for mortgage applications on unencumbered properties, purchases of second homes where the mortgagor will not reside at the property address, cases where there is any element of shared ownership or right-to-buy cases within 18 months of the original purchase or within the discount period.

Some loans in the expected portfolio may have the benefit of defective title indemnity insurance, restrictive covenant indemnity insurance or other similar types of indemnity insurance.

### ***Servicing of loans***

Servicing procedures include responding to customer enquiries, monitoring compliance with the mortgage terms, servicing the loan features and facilities applicable to the loans and management of amounts in arrears. See “**Summary of the transaction documents – Servicing agreement**” above.

Pursuant to the terms and conditions of the loans, borrowers must pay the monthly payments required under the mortgage terms of the loans on or before each monthly instalment due date within the month they are due. Interest accrues in accordance with the mortgage terms of each loan and is collected from borrowers monthly.

In the case of variable rate loans, Alliance & Leicester, acting as servicer, sets the variable rate and the margin applicable to any variable rate loan and any differential rate applicable to any discount loan on behalf of the mortgages trustee and the beneficiaries, except in the limited circumstances set out in the servicing agreement. In the case of some loans that are not payable at the variable rate, for example fixed rate loans, the borrower will continue to pay interest at the relevant fixed rate until the relevant period ends in accordance with the borrower's offer conditions. After that period ends interest will be payable at the variable rate or a base rate-linked rate.

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 variable rate or any variable margin or any differential rate or as a consequence of any provisions of those terms.

Payments of interest in respect of all loans are payable either monthly in arrears or in advance, or monthly partially in advance and partially in arrears, depending upon a borrower's interest payment date. The servicer is responsible for ensuring that all payments are made by the relevant borrower into the collection accounts and



subsequently transferred into the mortgages trustee GIC account on the next London business day after they are deposited in the seller's accounts. Payments are normally (although not always) made by direct debit. Under the 2002 and 2004 mortgage conditions, the borrower may select the monthly instalment date. Under the 1993, 1997 and 1998 mortgage conditions, the instalment date is the first day of the month unless the borrower or the seller selects a different monthly instalment date. All amounts which are paid to the collection accounts will be held on trust by the seller for the mortgages trustee until they are transferred to the mortgages trustee GIC account.

The servicer initially credits the mortgages trustee GIC account with the full amount of the borrowers' monthly payments. However, direct debits may be returned unpaid up to three London business days after the due date for payment, and a borrower may make a claim at any time to their bank for a refund of direct debit payments. In each case, the servicer is permitted to reclaim from the mortgages trustee GIC account the corresponding amounts previously credited. In these circumstances the usual arrears procedures described below in “– **Arrears and default procedures**” will be taken.

### **Arrears and default procedures**

The servicer will regularly provide the mortgages trustee and the beneficiaries with written details of loans that are in arrears. For operational purposes, a loan is identified as being “in arrears” when one or more monthly payments in respect of a mortgage account is overdue and the total arrears across all sub-accounts is more than £150. 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. Alliance & Leicester uses a case control cycle featuring three stages: collection, negotiation and recovery.

Alliance & Leicester's system tracks arrears and advances and calculates when an amount is in arrears. When arrears are first reported and are less than 2.5 months overdue, the borrower is contacted and asked for payment of the arrears. Until an account reaches 2.5 months in arrears, this is largely an automatic process in which the borrower is contacted through a series of letters and telephone calls.

Where considered appropriate, the servicer may enter into arrangements with the borrower regarding the arrears, including:

- arrangements to make each monthly payment as it falls due plus an additional amount to pay the arrears over a period of time;
- 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 or parts of any of them. 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 amounts in arrears.

Once the arrears are equivalent to more than 2.5 months overdue, the collection process progresses towards litigation. The late stage process will also involve contact by letter and telephone and may also include counsellors hired to meet with the borrower at the mortgaged property and assess the arrears arrangements.

Legal proceedings usually commence when the arrears become two to three months overdue. 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 for possession is made for payment and the borrower subsequently defaults in making the payment, then the servicer may take action as it considers appropriate, including entering into a further arrangement with the borrower. If the servicer applies to the court for a warrant for possession, the court has discretion as to whether it will grant the order.

After possession, the servicer may take action as it considers appropriate, including to:

- secure, maintain or protect the mortgaged property and put it into a suitable condition for sale;
- create (other than in Scotland) any estate or interest on the mortgaged property, including a leasehold; and
- dispose of the mortgaged property (in whole or in part) or of any interest in the mortgaged 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 works on the property as it considers appropriate to maintain the market value of the mortgaged 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 is the case for both sole and joint borrowers.

It should also be noted that the servicer's ability to exercise its power of sale in respect of the mortgaged property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the control of the servicer, such as whether the borrower contests the sale and/or the market conditions at the time of sale, which may affect the length of time between the decision of the servicer to exercise its power of sale and final completion of the sale.

It should also be noted in relation to Scottish mortgages that the Mortgage Rights (Scotland) Act 2001 confers upon the court a discretion (upon application by a borrower or 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. See "**Material legal aspects of the loans and their related security – Scottish loans**" below.

The net proceeds of sale of the mortgaged 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 these 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 paying principal. The servicer may then institute recovery proceedings against the borrower. If, after the sale of the mortgaged property and redemption of the loan, there are remaining funds, 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 Alliance & Leicester's or the servicer's business practices or of legislative and regulatory changes.

### **Arrears experience**

The following table summarises loans in arrears and repossession experience for loans serviced by Alliance & Leicester, including the loans that were contained in the expected portfolio as at the cut-off date (with the exception of any loans originated before 1991). All of the loans in the table were originated by Alliance & Leicester, but not all of the loans form part of the expected portfolio. Alliance & Leicester services all of the loans in the expected portfolio.

Alliance & Leicester identifies a loan as being in arrears where an amount equal to or greater than a full month's contractual payment is past its due date. Alliance & Leicester does not define a loan as defaulted at any particular delinquency level, but rather at the time it takes the related property into possession. Alliance & Leicester does not charge off a loan as uncollectible until it disposes of the property relating to that loan following default. The percentage of loans by total outstanding loan balance which were in arrears by more than 90 days was: 0.32% of the book as at 31 December 2006 (compared to 31 December 2005: 0.28%; 31 December 2004: 0.26%; 31 December 2003: 0.28%; 31 December 2002: 0.43%).

	<b>31 December 2002</b>	<b>31 December 2003</b>	<b>31 December 2004</b>	<b>31 December 2005</b>	<b>31 December 2006</b>
Outstanding balance (£ millions)	£21,298.4	£23,227.6	£26,436.7	£31,643.3	£36,769.4
Number of loans outstanding (thousands)	348.0	355.0	380.0	408.1	422.1
<b>Outstanding balance of loans in arrears (£ millions)</b>					
2 – 3 payments in arrears	£205.3	£149.7	£158.5	£186.5	£186.8
4 – 5 payments in arrears	£45.7	£34.0	£34.5	£51.8	£55.0
6 – 7 payments in arrears	£18.9	£13.1	£17.9	£18.7	£25.2
8 – 9 payments in arrears	£10.0	£7.3	£7.1	£7.7	£11.5
10 – 11 payments in arrears	£5.7	£2.9	£2.9	£3.2	£7.7
12 or more payments in arrears	£10.9	£7.0	£5.8	£8.6	£14.5
Total outstanding balance of loans in arrears (£ millions)	£296.5	£214.0	£226.7	£276.5	£300.6
Total outstanding balance of loans in arrears as % of the outstanding balance	1.4%	0.9%	0.9%	0.9%	0.8%
Outstanding balance of loans relating to properties in possession (£ millions)	£2.3	£3.0	£1.6	£2.2	£3.2
Outstanding balance at sale of loans relating to properties sold during the year (£ millions) <sup>(1)</sup>	£8.7	£5.6	£3.6	£4.4	£5.2
Net loss on sales of all repossessed properties (£ millions) <sup>(2)</sup>	£2.4	£1.4	£0.5	£0.2	£0.2
Ratio of aggregate net losses to average aggregate outstanding balance of loans <sup>(3)</sup>	<u>0.0113%</u>	<u>0.0058%</u>	<u>0.0019%</u>	<u>0.0008%</u>	<u>0.0006%</u>
Average net loss on all properties sold (£ thousands)	<u>£11.3</u>	<u>£11.0</u>	<u>£6.2</u>	<u>£3.2</u>	<u>£2.8</u>
<b>Number of loans outstanding in arrears (thousands)</b>					
2 – 3 payments in arrears	4.3	3.0	3.1	3.3	3.0
4 – 5 payments in arrears	1.0	0.7	0.7	0.9	0.8
6 – 7 payments in arrears	0.4	0.3	0.3	0.3	0.3
8 – 9 payments in arrears	0.2	0.2	0.1	0.1	0.2
10 – 11 payments in arrears	0.1	0.1	0.1	0.1	0.1
12 or more payments in arrears	0.2	0.2	0.1	0.2	0.2
Total number of loans outstanding in arrears	6.2	4.4	4.5	4.8	4.5
Total number of loans outstanding in arrears as % of the number of loans outstanding	1.8%	1.2%	1.2%	1.2%	1.1%
Number of properties in possession	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Number of properties sold during the year	<u>0.21</u>	<u>0.12</u>	<u>0.08</u>	<u>0.08</u>	<u>0.08</u>

(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.

(3) Average of opening and closing balances for the period.

There can be no assurance that the arrears experience with respect to the loans comprising the portfolio will correspond to the experience of Alliance & Leicester's originated loan portfolio as set forth in the foregoing table. The statistics in the preceding table represent only the arrears experience for the periods presented, whereas the arrears experience on the loans in the portfolio depends on results obtained over the life of the loans in the portfolio. The foregoing statistics include loans with a variety of payment and other characteristics that may not correspond to those of the loans in the portfolio. Moreover, 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 comprising the overall pool, the

actual rates of arrears could be significantly higher than those previously experienced by the servicer. 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.

Alliance & Leicester's level of mortgage arrears has reduced since the recession in the United Kingdom in the early 1990s.

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.

Alliance & Leicester regularly reviews its lending policies in the light of prevailing market conditions and reviews actions so as to mitigate possible problems. The performance of Alliance & Leicester's new business and the arrears profiles are continuously monitored in monthly reports.

#### Statistical information on the expected portfolio

The statistical and other information contained in this prospectus has been compiled by reference to the loans in the expected portfolio as at the cut-off date. Columns stating percentage amounts may not add up to 100% due to rounding. Except as otherwise indicated, these tables have been prepared using the current balance as at the cut-off date, which includes all principal and excludes accrued interest for the loans in the expected portfolio.

#### Outstanding balances as at the cut-off date

The following table shows the range of outstanding mortgage account balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date.

Range of outstanding balances as at the cut-off date £	Current balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
< £50,000	522,384,998	6.65	16,540	21.89
=> £50,000 and < £100,000	1,916,441,829	24.38	25,638	33.93
=> £100,000 and < £150,000	2,292,877,102	29.17	18,740	24.80
=> £150,000 and < £200,000	1,444,760,434	18.38	8,447	11.18
=> £200,000 and < £250,000	809,548,864	10.30	3,663	4.85
=> £250,000 and < £300,000	315,378,484	4.01	1,166	1.54
=> £300,000 and < £350,000	177,684,369	2.26	555	0.73
=> £350,000 and < £400,000	113,071,127	1.44	305	0.40
=> £400,000 and < £450,000	81,914,597	1.04	194	0.26
=> £450,000 and < £500,000	48,556,373	0.62	103	0.14
=> £500,000 and < £550,000	30,653,057	0.39	59	0.08
=> £550,000 and < £600,000	26,396,716	0.34	46	0.06
=> £600,000 and < £700,000	21,454,230	0.27	34	0.04
=> £700,000 and < £800,000	25,514,181	0.32	34	0.04
=> £800,000 and < £900,000	15,291,788	0.19	18	0.02
=> £900,000 and < £1,000,000	17,968,544	0.23	19	0.03
Totals	7,859,896,693	100.00	75,561	100.00

The maximum, minimum and average outstanding balances of the mortgage accounts as at the cut-off date were £999,936, £1,002 and £104,021, respectively.

### ***Cut-off 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 fees, insurance fees, booking fees and valuation fees) as at the cut-off date divided by the value of the property securing the loans in that mortgage account as at the date of the initial loan origination or the most recent valuation thereof. When granting a further advance, the seller may in some circumstances, where the relevant loan meets certain criteria, apply movements in the Halifax House Price Index for the relevant region, between the date of the most standard valuation held on file and the date of the further advance application, to the most recent standard valuation to produce an updated indexed valuation. No revaluation of the property securing the loans has been done for the purposes of the issuance of the issuer notes by the issuer.

<b>Range of LTV ratios at the cut-off date</b>	<b>Current balance at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
< 25%	275,040,864	3.50	7,763	10.27
=> 25% and < 50%	1,492,219,011	18.99	19,535	25.85
=> 50% and < 55%	497,610,589	6.33	4,939	6.54
=> 55% and < 60%	547,568,898	6.97	5,065	6.70
=> 60% and < 65%	599,030,189	7.62	5,234	6.93
=> 65% and < 70%	636,538,942	8.10	5,246	6.94
=> 70% and < 75%	707,034,794	9.00	5,431	7.19
=> 75% and < 80%	700,874,497	8.92	5,158	6.83
=> 80% and < 85%	725,839,888	9.23	5,210	6.90
=> 85% and < 90%	1,002,311,438	12.75	7,038	9.31
=> 90% and < 95%	513,439,674	6.53	3,656	4.84
=> 95% and < 100%	162,387,909	2.07	1,286	1.70
=> 100%	0	0.00	0	0.00
<b>Totals</b>	<b>7,859,896,693</b>	<b>100.00</b>	<b>75,561</b>	<b>100.00</b>

The maximum, minimum and weighted average LTV ratio of the mortgage accounts (including any capitalised high LTV fees, capitalised booking fees and valuation fees) at the cut-off date were 99.54%, 0.09% and 65.9%, respectively.

### ***Cut-off date indexed 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 fees, insurance fees, booking fees and valuation fees) as at the cut-off date divided by the most recent indexed valuation of the property securing the loans in that mortgage account.

<b>Range of LTV ratios as at the cut-off date</b>	<b>Current balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Less than 25%	657,243,107	8.36	15,038	19.90
=> 25% and < 50%	2,200,153,776	27.99	24,614	32.58
=> 50% and < 55%	547,458,916	6.97	4,610	6.10
=> 55% and < 60%	561,116,191	7.14	4,375	5.79
=> 60% and < 65%	595,166,843	7.57	4,383	5.80
=> 65% and < 70%	646,083,909	8.22	4,432	5.87
=> 70% and < 75%	679,526,647	8.65	4,658	6.16
=> 75% and < 80%	695,886,584	8.85	4,661	6.17
=> 80% and < 85%	598,094,362	7.61	4,124	5.46
=> 85% and < 90%	489,597,806	6.23	3,309	4.38
=> 90% and < 95%	186,886,164	2.38	1,334	1.77
=> 95% and < 100%	2,682,387	0.03	23	0.03
=> 100%	0	0.00	0	0.00
<b>Totals</b>	<b>7,859,896,693</b>	<b>100.00</b>	<b>75,561</b>	<b>100.00</b>

The maximum, minimum and weighted average LTV ratio as at the cut-off date of the mortgage accounts (including any capitalised high LTV fees, capitalised high LTV fees, insurance fees, valuation fees and booking fees) were 99.35%, 0.07% and 57.4%, respectively.

## Geographical distribution

The following table shows the distribution of properties securing the loans throughout England, Wales, Scotland and Northern Ireland as at the cut-off date. No such properties are situated outside England, Wales, Scotland and Northern Ireland.

Region	Current balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
East Anglia	267,596,970	3.40	2,773	3.67
East Midlands	560,093,930	7.13	6,364	8.42
Greater London	743,938,509	9.46	4,029	5.33
North West	676,636,917	8.61	7,363	9.74
Northern	276,877,061	3.52	3,159	4.18
Northern Ireland	467,194,836	5.94	5,541	7.33
Outer South East	2,127,085,016	27.06	15,821	20.94
Scotland	751,400,469	9.56	9,221	12.20
South West	652,011,793	8.30	6,243	8.26
Wales	289,854,529	3.69	3,486	4.61
West Midlands	502,465,519	6.39	5,331	7.06
Yorkshire & Humberside	544,741,142	6.93	6,230	8.24
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>75,561</u>	<u>100.00</u>

\* [Where the postal code for the relevant property has not yet been allocated or is not shown in the seller's records.]

The table below summarises the major industries for each region. For a discussion of geographic concentration risks, see “**Risk factors – The timing and amount of payments on the loans could be affected by various factors which may adversely affect payments on the issuer notes**” in the prospectus.

Region	Type of industry
North	Traditional heavy industry concentrated around Tyneside and Teesside
Yorks and Humber	Iron and steel; textiles and clothing; coal; fishing
East Midlands	Diverse industry but specialises in hosiery, footwear and clothing
East Anglia	Agriculture and food processing; footwear and tourism; micro-technology
South East	Financial and commercial centre; technological and light engineering
South West	Agriculture and food processing; tourism; aerospace; tobacco
West Midlands	Mechanical and electrical engineering; vehicles; iron and steel; potteries
North West	Heavy engineering; cotton; clothing; glass; chemicals; vehicles
Wales	Coal, iron and steel in Southern Wales; agriculture; light engineering
Scotland	North Sea oil; agriculture; shipbuilding; tourism
Northern Ireland	Shipbuilding; textiles

Source: <http://www.bized.ac.uk/learn/economics/firms/locationnotes.htm#Heading73>

House prices and incomes vary throughout England, Scotland, Wales and Northern Ireland. The table below summarises the average house price in 2004 and the average income over the period from 2001 to 2004 for each region in order to produce a house price to earnings ratio for each region.

Regions	Average Price (£)	Average earnings (£ per annum)	Price/earnings ratio
East Anglia	221,125	33,904	6.52
East Midlands	164,336	29,328	5.60
Greater London	305,544	39,832	7.67
Northern Ireland	169,259	25,896	6.54
North East	141,125	23,660	5.96
North West	157,506	28,028	5.62
Scotland	137,192	28,288	4.85
South East	256,889	35,724	7.19
South West	213,586	29,536	7.23
Wales	157,457	25,584	6.15
West Midlands	177,182	29,276	6.05
Yorkshire & Humberside	158,247	27,508	5.75

Source: Department for Communities and Local Government office of National Statistics

### Seasoning of loans

The following table shows the number of months since the date of origination of the initial loan in a mortgage account.

Age of loans in months as at the cut-off date	Current balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
< 6 months	1,674,369,388	21.30	12,308	16.29
=> 6 months and < 12 months	1,202,469,259	15.30	9,576	12.67
=> 12 months and < 18 months	993,069,752	12.63	7,977	10.56
=> 18 months and < 24 months	1,022,857,345	13.01	8,425	11.15
=> 24 months and < 30 months	756,881,087	9.63	7,078	9.37
=> 30 months and < 36 months	190,405,541	2.42	2,083	2.76
=> 36 months and < 42 months	381,876,753	4.86	4,456	5.90
=> 42 months and < 48 months	364,499,412	4.64	4,461	5.90
=> 48 months and < 54 months	262,377,425	3.34	3,322	4.40
=> 54 months and < 60 months	72,420,480	0.92	879	1.16
=> 60 months and < 66 months	163,075,743	2.07	2,161	2.86
=> 66 months and < 72 months	111,540,801	1.42	1,523	2.02
=> 72 months	664,053,707	8.45	11,312	14.97
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>75,561</u>	<u>100.00</u>

The maximum, minimum and weighted average seasoning of loans in mortgage accounts as at the cut-off date was 575, 3 and 26.7 months, respectively.

### Months to maturity of loans

The following table shows the number of remaining months of the term of the initial loan in a mortgage account as at the cut-off date.

Months to maturity	Current balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
< 60 months	121,497,353	1.55	3,140	4.16
=> 60 months and < 120 months	473,352,564	6.02	8,215	10.87
=> 120 months and < 180 months	857,645,393	10.91	11,329	14.99
=> 180 months and < 240 months	1,605,456,381	20.43	16,301	21.57
=> 240 months and < 300 months	3,347,026,240	42.58	25,551	33.82
=> 300 months and < 360 months	873,712,428	11.12	6,650	8.80
=> 360 months and < 420 months	406,577,470	5.17	3,090	4.09
=> 420	174,628,864	2.22	1,285	1.70
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>75,561</u>	<u>100.00</u>

The maximum, minimum and weighted average remaining term of the loans in mortgage accounts in the expected portfolio as at the cut-off date was 39.83, 1 and 21.3 years, respectively.

### Purpose of loan

The following table shows whether the purpose of the initial loan on origination was to finance the purchase of a new property or to remortgage a property already owned by the borrower. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

Use of proceeds	Current balance as at the cut-off date (£)	% of total	Number of product holdings	% of total
Other	256,097	0.00	3	0.00
Purchase	5,134,218,369	65.32	49,894	48.98
Remortgage (capital raising)	1,337,071,280	17.01	32,360	31.77
Remortgage (existing loan) (capital raising)	1,388,350,947	17.66	19,599	19.24
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>101,856</u>	<u>100.00</u>

As at the cut-off date, the average balance of loans used to finance the purchase of a new property was £102,903 and the average balance of loans used to remortgage a property already owned by the borrower was £52,453.

### **Property type**

The following table shows the types of properties to which the mortgage accounts relate.

<b>Property type</b>	<b>Current balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Converted Flat	346,715,118	4.41	2,509	3.32
Council Bungalow	758,430	0.01	7	0.01
Council Flat	7,191,777	0.09	76	0.10
Council House	25,481,938	0.32	355	0.47
Council Maisonette	1,294,824	0.02	13	0.02
Detached Bungalow	316,919,246	4.03	3,656	4.84
Detached House	2,094,890,308	26.65	17,052	22.57
Maisonette	138,118,765	1.76	1,175	1.56
Other Residential Property	2,448,575	0.03	95	0.13
Purpose Built Flat	681,450,627	8.67	6,454	8.54
Semi-Detached Bungalow	116,697,093	1.48	1,565	2.07
Semi-Detached House	2,123,630,830	27.02	22,141	29.30
Terraced Bungalow	14,661,796	0.19	200	0.26
Terraced House	<u>1,989,637,366</u>	<u>25.31</u>	<u>20,263</u>	<u>26.82</u>
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>75,561</u>	<u>100.00</u>

### **Repayment terms**

The following table shows the repayment terms for the loans in the expected portfolio mortgage accounts as at the cut-off date. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

<b>Repayment terms</b>	<b>Current balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of product holdings</b>	<b>% of total</b>
Interest only	2,857,844	0.04	26	0.03
Repayment	4,946,598,817	62.93	70,824	69.53
Part and Part	<u>2,910,440,031</u>	<u>37.03</u>	<u>31,006</u>	<u>30.44</u>
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>101,856</u>	<u>100.00</u>

### **Rate type**

The following table shows the distribution of rate types as at the cut-off date. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

<b>Type of rate</b>	<b>Current balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of product holdings</b>	<b>% of total</b>
Base rate loans	2,015,901,147	25.65	24,864	24.41
Discount loans	675,054,904	8.59	10,746	10.55
Fixed rate loans	4,857,931,492	61.81	51,934	50.99
Variable rate loans	<u>311,009,150</u>	<u>3.96</u>	<u>14,312</u>	<u>14.05</u>
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>101,856</u>	<u>100.00</u>



### Payment methods

The following table shows the payment methods for the mortgage accounts as at the cut-off date.

Payment method	Current balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
Cheque/Cash	23,982,510	0.31	481	0.64
Direct debit	7,835,914,182	99.69	75,080	99.36
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>75,561</u>	<u>100.00</u>

### Distribution of fixed rate loans

As at the cut-off date, approximately 61.81% of the loans in the expected 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. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

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 variable rate or some other rate as specified in the offer conditions.

Fixed rate	Current balance as at the cut-off date (£)	% of total	Number of fixed rate product holdings	% of total
=> 2% and < 3%	5,960,706	0.12	33	0.06
=> 3% and < 4%	17,762,530	0.37	276	0.53
=> 4% and < 5%	2,872,618,862	59.13	29,409	56.63
=> 5% and < 6%	1,832,435,202	37.72	19,895	38.31
=> 6% and < 7%	129,154,192	2.66	2,321	4.47
Totals	<u>4,857,931,492</u>	<u>100.00</u>	<u>51,934</u>	<u>100.00</u>

Year in which current fixed rate period ends	Current balance as at the cut-off date (£)	% of total	Number of fixed rate product holdings	% of total
2007	71,925,836	1.48	1,129	2.17
2008	1,633,850,198	33.63	17,278	33.27
2009	1,748,276,061	35.99	17,605	33.90
2010	598,215,143	12.31	6,804	13.10
2011	453,517,302	9.34	4,980	9.59
2012	352,146,952	7.25	4,138	7.97
Totals	<u>4,857,931,492</u>	<u>100.00</u>	<u>51,934</u>	<u>100.00</u>

### Employment status

The following table shows the employment status of the borrowers of the loans in the expected portfolio as at the cut-off date.

Status	Current balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
Employed	7,284,121,674	92.67	70,504	93.31
Self employed	575,775,018	7.33	5,057	6.69
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>75,561</u>	<u>100.00</u>

### ***First time buyer***

The following table shows the split between the borrowers of the loans in the expected portfolio who are first time buyers and non-first time buyers as at the cut-off date.

<b>Status</b>	<b>Current balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Non-first time buyer	6,310,854,139	80.29	62,667	82.94
First time buyer	1,549,042,553	19.71	12,894	17.06
Totals	<u>7,859,896,693</u>	<u>100.00</u>	<u>75,561</u>	<u>100.00</u>

### ***Delinquency and loss experience of the expected portfolio***

As at the cut-off date, the total outstanding balance of loans in the expected portfolio that were more than the amount of the monthly payment then due was £0, representing 0% of the outstanding balance of loans in the expected portfolio as at such date.

### ***Characteristics of the United Kingdom residential mortgage market***

Set out in the following tables are certain characteristics of the United Kingdom mortgage market. The issuer confirms that all the information contained in the tables below has been accurately reproduced and, as far as it is aware and able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate and misleading.

Note, however, that the issuer has neither participated in the preparation of the information set out in the tables below nor made any enquiry with respect to such information. Neither the issuer, Bank of Scotland plc, Nationwide Building Society nor the Council of Mortgage Lenders makes any representation as to the accuracy of the information or has any liability whatsoever to you in connection with such information. Anyone relying on the information does so at their own risk.

### ***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.

<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>
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	10.75	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	10.01	9.06
September 1993	10.68	9.30	December 1993	10.03	9.81
March 1994	9.00	9.93	June 1994	10.52	10.06
September 1994	11.10	10.16	December 1994	10.72	10.33
March 1995	9.15	10.37	June 1995	10.51	10.37
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

<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 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	12.61	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	13.87	14.55
September 2000	14.88	14.38	December 2000	15.56	14.53
March 2001	15.46	14.94	June 2001	17.35	15.81
September 2001	19.12	16.87	December 2001	19.00	17.73
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	21.66	20.88	December 2003	21.33	20.67
March 2004	19.90	20.77	June 2004	21.42	21.08
September 2004	21.41	21.01	December 2004	18.72	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	21.24	20.15	December 2006	21.07	20.33
March 2007	19.57	20.31	June 2007	19.25	20.28
September 2007	21.25	20.29			

Source: Council of Mortgage Lenders Research - <http://www.cml.org.uk/cml/statistics>

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 to stock 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		
1992	0.69	2000	0.20		

Source: Council of Mortgage Lenders - <http://www.cml.org.uk/cml/statistics>

### **House price to earnings ratio**

The following table shows the ratio for each year of the average annual value of houses compared with 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.

<b>Year</b>	<b>House Price to Earnings Ratio</b>	<b>Year</b>	<b>House Price to Earnings Ratio</b>
1994	3.59	2001	4.73
1995	3.53	2002	5.33
1996	3.57	2003	5.90
1997	3.79	2004	6.29
1998	4.04	2005	6.43
1999	4.28	2006	6.47
2000	4.65		

Source: Council of Mortgage Lenders - <http://www.cml.org.uk/cml/statistics>

## 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 Bank of Scotland plc is a UK bank who publishes the Halifax Price Index.)

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	92.8	5.9	66.2	11.2	112.2	8.7
June 1985	95.4	6.7	68.2	10.3	115.9	8.5
September 1985	95.4	5.7	69.2	10.5	117.6	7.4
December 1985	96.0	5.5	70.7	8.5	120.7	8.4
March 1986	96.7	4.1	71.1	7.1	122.5	8.8
June 1986	97.8	2.5	73.8	8.0	128.6	10.4
September 1986	98.3	3.0	76.3	9.7	133.1	12.4
December 1986	99.6	3.7	79.0	11.1	136.9	12.6
March 1987	100.6	3.9	81.6	13.7	140.6	13.8
June 1987	101.9	4.1	85.8	15.0	147.3	13.6
September 1987	102.4	4.1	88.6	15.0	152.6	13.7
December 1987	103.3	3.6	88.5	11.4	158.2	14.5
March 1988	104.1	3.4	90.0	9.8	164.9	15.9
June 1988	106.6	4.5	97.6	13.0	180.2	20.2
September 1988	108.4	5.7	108.4	20.1	198.9	26.5
December 1988	110.3	6.6	114.2	25.5	212.0	29.3
March 1989	112.3	7.6	118.8	27.8	217.8	27.8
June 1989	115.4	7.9	124.2	24.1	226.8	23.0
September 1989	116.6	7.3	125.2	14.4	227.3	13.3
December 1989	118.8	7.4	122.7	7.2	222.8	5.0
March 1990	121.4	7.8	118.9	0.1	220.7	1.3
June 1990	126.7	9.3	117.7	(5.4)	224.3	(1.1)
September 1990	129.3	10.3	114.2	(9.2)	224.2	(1.4)
December 1990	129.9	8.9	109.6	(11.3)	222.9	0.0
March 1991	131.4	7.9	108.8	(8.8)	220.2	(0.2)
June 1991	134.1	5.7	110.6	(6.2)	223.2	(0.5)
September 1991	134.6	4.0	109.5	(4.2)	220.8	(1.5)
December 1991	135.7	4.4	107.0	(2.4)	217.5	(2.5)
March 1992	136.7	4.0	104.1	(4.4)	210.6	(4.4)
June 1992	139.3	3.8	105.1	(5.1)	210.4	(5.9)
September 1992	139.4	3.5	104.2	(5.0)	208.4	(5.8)
December 1992	139.2	2.5	100.1	(6.7)	199.3	(8.7)
March 1993	139.3	1.9	100.0	(4.0)	196.9	(6.7)
June 1993	141.0	1.2	103.6	(1.4)	203.2	(3.5)
September 1993	141.9	1.8	103.2	(1.0)	204.2	(2.0)
December 1993	141.9	1.9	101.8	1.7	202.5	1.6
March 1994	142.5	2.3	102.4	2.4	202.3	2.7
June 1994	144.7	2.6	102.5	(1.1)	204.3	0.5
September 1994	145.0	2.2	103.2	(0.0)	204.3	0.0
December 1994	146.0	2.8	104.0	2.1	200.9	(0.8)
March 1995	147.5	3.4	101.9	(0.5)	200.3	(1.0)
June 1995	149.8	3.5	103.0	0.5	201.0	(1.6)
September 1995	150.6	3.8	102.4	(0.8)	199.0	(2.6)
December 1995	150.7	3.2	101.6	(2.3)	197.8	(1.6)
March 1996	151.5	2.7	102.5	0.6	200.9	0.3
June 1996	153.0	2.1	105.8	2.7	208.6	3.7
September 1996	153.8	2.1	107.7	5.1	209.8	5.3
December 1996	154.4	2.4	110.1	8.0	212.6	7.2
March 1997	155.4	2.5	111.3	8.3	215.3	6.9
June 1997	157.5	2.9	116.5	9.6	222.6	6.5
September 1997	159.3	3.5	121.2	11.8	223.6	6.4
December 1997	160.0	3.6	123.3	11.4	224.0	5.2
March 1998	160.8	3.4	125.5	12.0	226.4	5.0

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
June 1998	163.4	3.7	130.1	11.0	234.9	5.4
September 1998	164.4	3.2	132.4	8.8	236.1	5.4
December 1998	164.4	2.7	132.3	7.0	236.3	5.3
March 1999	164.1	2.0	134.6	7.0	236.3	4.3
June 1999	165.6	1.3	139.7	7.1	247.7	5.3
September 1999	166.2	1.1	144.4	8.6	256.7	8.4
December 1999	167.3	1.7	148.9	11.8	263.4	10.9
March 2000	168.4	2.6	155.0	14.1	270.5	13.5
June 2000	171.1	3.3	162.0	14.8	275.6	10.7
September 2000	171.7	3.3	161.5	11.2	277.6	7.8
December 2000	172.2	2.9	162.8	9.0	278.3	5.5
March 2001	172.2	2.2	167.5	7.8	279.0	3.1
June 2001	174.4	1.9	174.8	7.6	297.0	7.5
September 2001	174.6	1.7	181.6	11.8	305.0	9.4
December 2001	173.4	0.7	184.6	12.5	310.9	11.1
March 2002	174.5	1.3	190.2	12.7	324.3	15.0
June 2002	176.2	1.0	206.5	16.6	346.6	15.4
September 2002	177.6	1.7	221.1	19.7	369.1	19.1
December 2002	178.5	2.9	231.3	22.6	393.0	23.4
March 2003	179.9	3.0	239.3	22.9	400.1	21.0
June 2003	181.3	2.9	250.1	19.2	422.5	19.8
September 2003	182.5	2.7	258.9	15.8	437.6	17.0
December 2003	183.5	2.8	267.1	14.4	453.5	14.3
March 2004	184.6	2.6	277.3	14.8	474.0	16.9
June 2004	186.8	3.0	296.2	16.9	513.2	19.4
September 2004	188.1	3.0	306.2	16.8	527.2	18.6
December 2004	189.9	3.4	304.1	13.0	522.0	14.1
March 2005	190.5	3.1	304.8	9.4	520.2	9.3
June 2005	192.2	2.8	314.2	5.9	532.1	3.6
September 2005	193.1	2.6	314.4	2.7	543.1	3.0
December 2005	194.1	2.2	314.0	3.2	548.4	4.9
March 2006	195.0	2.3	319.8	4.8	552.6	6.0
June 2006	198.5	3.2	329.2	4.7	582.1	9.0
September 2006	200.1	3.6	336.1	6.6	586.7	7.7
December 2006	202.7	4.3	343.2	8.9	602.8	9.5
March 2007	204.4	4.7	350.2	9.1	613.9	10.5
June 2007	207.3	4.3	362.7	9.7	644.1	10.1
September 2007	208.0	3.9	367.3	8.9	649.3	10.1
December 2007	210.9	4.0	367.0	6.7	634.4	5.1

Source: HBOS plc (<http://www.hbosplc.com/economy/housingresearch.asp>) and Nationwide Building Society (<http://www.nationwide.co.uk/hpi/>)

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.

## THE ISSUER NOTES, THE DEFINITIVE NOTES AND THE GLOBAL ISSUER NOTES

The issue of the issuer notes will be authorised by a resolution of the board of directors of the issuer passed prior to the closing date. The issuer notes will be constituted by an issuer trust deed to be dated the closing date, between the issuer and the note trustee, as trustee for, among others, the holders for the time being of the issuer notes. While the material terms of the issuer notes, the definitive notes and the global issuer notes are described in this prospectus, the statements set out in this section with regard to the issuer notes and the global issuer notes are subject to the detailed provisions of the issuer trust deed. The issuer trust deed will include the form of the global issuer notes and the form of definitive issuer notes. The issuer trust deed includes provisions which enable it to be modified or supplemented and any reference to the issuer trust deed is a reference also to the document as modified or supplemented in accordance with its terms.

An issuer paying agent and agent bank agreement between the issuer, the note trustee, Citibank, N.A. in London as paying agent, the registrar and the agent bank regulate how payments will be made on the issuer notes and how determinations and notifications will be made. The issuer paying agent and agent bank agreement will be dated as of the closing date and the parties will include, on an ongoing basis, any successor party appointed in accordance with its terms.

### Global issuer notes

Each class of issuer notes (other than the class Z issuer notes) offered and sold outside the United States to non-U.S. persons in reliance on Reg S will be represented on issue by a global issuer note in fully registered form without interest coupons or principal receipts attached (each a **Reg S global issuer note**) which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Reg S global issuer note may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See “**Book-entry clearance procedures**” below.

### Definitive issuer notes

The class Z issuer notes will be issued in definitive registered form and deposited with the custodian on behalf of the note purchaser on or about the closing date. Owners of beneficial interests in the Reg S global issuer notes will not be entitled to receive physical delivery of individual certificated notes except at any time after the 40th day following the later of the date of the issue of such global note and the commencement of the offer of the issuer notes in the following limited circumstances (each, an **exchange event**):

- as a result of a change in UK law, the issuer or the paying agent is or will be required to make any deduction or withholding for or on account of tax from any payment on the notes that would not be required if the notes were in definitive form; or
- Clearstream, Luxembourg and Euroclear are closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announce an intention to cease business permanently or do in fact do so and no alternative clearing system satisfactory to the note trustee is available.

In no event will definitive issuer notes in bearer form be issued. Any definitive issuer notes will be issued in registered form in minimum denominations of (in the case of sterling issuer notes) £50,000 and integral multiples of £1,000 thereafter and (in the case of euro issuer notes) €50,000 and integral multiples of €1,000 thereafter. Any definitive issuer notes will be registered in that name or those names as the registrar shall be instructed by Clearstream, Luxembourg, Euroclear and any alternative clearing system agreed by the issuer, as applicable. It is expected that these instructions will be based upon directions received by Clearstream, Luxembourg, Euroclear and any alternative clearing system agreed by the issuer, from their participants reflecting the ownership of book-entry interests. To the extent permitted by law, the issuer, the note trustee and the paying agent shall be entitled to treat the person in whose name any definitive issuer notes are registered as the absolute owner thereof. The paying agent and agent bank agreement contains provisions relating to the maintenance by a registrar of a register reflecting ownership of the notes and other provisions customary for a registered debt security.

Any person receiving definitive issuer notes will not be obligated to pay or otherwise bear the cost of any tax or governmental charge or any cost or expense relating to insurance, postage, transportation or any similar charge, which will be solely the responsibility of the issuer. No service charge will be made for any registration of transfer or exchange of any definitive issuer notes.

## BOOK-ENTRY CLEARANCE PROCEDURES

*The information set out below has been obtained from the clearing systems (as defined herein) and the issuer believes that such sources are reliable, but prospective investors are advised to make their own enquiries as to such procedures. The issuer accepts responsibility for the accurate reproduction of such information from publicly available information. In particular, such information is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the **clearing systems**) currently in effect and investors wishing to use the facilities of any of the clearing systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the note purchaser, the sponsor, the seller, the servicer, Funding 1, the mortgages trustee, the issuer security trustee, the Funding 1 security trustee, the note trustee, the issuer swap providers, the paying agent, the agent bank or any issuer account bank (or any affiliate of any of the above, as defined in the Securities Act) will have any responsibility for the performance by the clearing systems or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described below.*

### **Euroclear, Clearstream, Luxembourg**

Custodial and depositary links have been established between the clearing systems to facilitate the initial issue of notes and cross-market transfers of notes associated with secondary market trading see “– **Settlement and transfer of notes**” below.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such global issuer notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**direct participants**) or indirectly (**indirect participants** and, together with direct participants, **participants**) through organisations which are accountholders therein.

### **Book-entry ownership**

Each Reg S global issuer note will have an ISIN and a Common Code and will be deposited with Citibank, N.A., as common depositary on behalf of Euroclear and Clearstream, Luxembourg.

### **Payments and relationship of participants with clearing systems**

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a note represented by a Reg S global issuer note must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the issuer to the holder of such Reg S global issuer note and in relation to all other rights arising under the Reg S global issuer note, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The issuer expects that, upon receipt of any payment in respect of issuer notes represented by a Reg S global issuer note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Reg S global issuer note as shown on the records of the relevant clearing system or its nominee. The issuer also expects that payments by direct participants in any clearing system to owners of beneficial interests in any Reg S global issuer note held through such direct participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the issuer in respect of payments due on the issuer notes for so long as the issuer notes are represented by such Reg S global issuer note and the obligations of the issuer will be discharged by payment to the registered holder, as the case may be, of such Reg S global issuer note in respect of each amount so paid. None of the note purchaser, the sponsor, the seller, the servicer, Funding 1, the mortgages trustee, the issuer security trustee, the Funding 1 security trustee, the note trustee, the issuer swap providers, the paying agent, the agent bank or any issuer account bank will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, ownership interests in any global issuer note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Principal and interest payments on the class Z issuer notes in definitive registered form will be made in accordance with the terms and conditions of the issuer notes.

## **Settlement and transfer of notes**

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through direct participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **beneficial owner**) will in turn be recorded on the participant's records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct and indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in notes held within the clearing system will be effected by entries made on the books of participants acting on behalf of beneficial owners. **Beneficial owners will not receive individual certificates representing their ownership interests in such notes.**

No clearing system has knowledge of the actual beneficial owners of the notes held within such clearing system and their records will reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

### ***Trading between Euroclear and/or Clearstream, Luxembourg participants***

Secondary market sales of book-entry interests in the issuer notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the issuer notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional, sterling denominated bonds.

**Although, Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of beneficial interests in a global issuer note among participants 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 relevant note trustee, the issuer security trustee or any of their respective agents will have any responsibility or liability for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.**



## 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) which will be incorporated by reference into each Global Note and each Definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the Note Purchaser at the time of issue but, if not so permitted and agreed, such Definitive Note will have endorsed thereon or attached thereto such Conditions.

The €1,060,000,000 Floating Rate Class A1 Notes due December 2054 (the **Class A1 Notes** and, the holders thereof, the **Class A1 Noteholder**), the €1,200,000,000 Floating Rate Class A2 Notes due December 2054 (the **Class A2 Notes** and, together with the Class A1 Notes, the **Class A Notes** and, the holders thereof, the **Class A2 Noteholders** and, together with the Class A1 Noteholders, the **Class A Noteholders**), the £70,000,000 Floating Rate Class B Notes due December 2054 (the **Class B Notes** and, the holders thereof, the **Class B Noteholders**) and the £90,000,000 Floating Rate Class Z Notes due December 2054 (the **Class Z Notes** and, the holders thereof, the **Class Z Noteholders** and, the Class Z Notes together with the Class A Notes and the Class B Notes, the **Notes** and the holders thereof, the **Noteholders**) in each case of the Issuer are constituted by a trust deed (the **Note Trust Deed**) dated the Closing Date and made between the Note Trustee (as defined below) as trustee for the Noteholders.

Any reference in these Conditions to a **Class** shall be a reference to each class of the Class A Notes, the Class B Notes and/or the Class Z Notes, as the case may be or to the respective holders thereof.

The security for the Notes is created pursuant to, and on the terms set out in, the Issuer Deed of Charge. By the Principal Paying Agent and Agent Bank Agreement, the Issuer Deed of Charge and the Issuer Cash Management Agreement, provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

References herein to the **Notes** shall, unless the context otherwise requires, be references to all the Notes issued by the Issuer and constituted by the Note Trust Deed and shall mean:

- (a) in relation to any Notes of a Class represented by a Global Note, units of the Minimum Denomination in each case of such Class of Notes;
- (b) any Global Note; and
- (c) any Definitive Note.

In addition to the Note Trust Deed and the Issuer Deed of Charge, the Notes are the subject of the Principal Paying Agent and Agent Bank Agreement dated the Closing Date.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Note Trust Deed, the Issuer Deed of Charge and the Principal Paying Agent and Agent Bank Agreement.

Copies of the Note Trust Deed, the Issuer Deed of Charge, the Principal Paying Agent and Agent Bank Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office of the Note Trustee, being Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and at the registered office of the Issuer, being at 35 Great St. Helen's, London EC3A 6AP, United Kingdom and the specified office for the time being of the Principal Paying Agent, being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and any Noteholder must produce evidence satisfactory to the Principal Paying Agent as to its holding of Notes and identity.

The Holders of any Class of Notes are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of, and definitions contained or incorporated in, the Note Trust Deed, the Issuer Deed of Charge, the Principal Paying Agent and Agent Bank Agreement and each of the other Transaction Documents.

A list of defined terms used in these Conditions appears in **Condition 19**.

References herein to the Class A Noteholders, the Class B Noteholders and the Class Z Noteholders shall, in each case and unless specified otherwise, be references to the Holders of the Notes of all Classes thereof.

### 1. FORM, DENOMINATION, REGISTER, TITLE AND TRANSFERS

#### 1.1 Form and Denomination

The Sterling Issuer Notes will be issued in sterling and the Euro Issuer Notes will be issued in euro. The Class A1 Notes, the Class A2 Notes and the Class B Notes will be initially represented by a Global Note, which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Class of Notes. The Class Z Notes will be issued on the Closing Date in definitive registered form and deposited with the Citibank, N.A. (the **Custodian**).

Each Global Note will be deposited with, and registered in the name of a nominee of, a common depository for Euroclear and Clearstream, Luxembourg. Each Global Note will be numbered serially with an identifying number which will be recorded on the relevant Global Note and in the Register.

Global Notes will be exchanged for Notes in definitive registered form (such Notes, together with the Class Z Notes, the **Definitive Notes**) only under certain limited circumstances as described in the relevant Global Note. If Global Notes are exchanged for Definitive Notes, such Definitive Notes will be serially numbered and issued in an aggregate principal amount equal to the Principal Amount Outstanding of the relevant Global Note and in registered form only.

The Notes (in either global or definitive form) will be issued in minimum denominations (the **Minimum Denominations**) of (in the case of the Sterling Issuer Notes) £50,000 and in integral multiples of £1,000 in excess thereof and (in the case of the Euro Issuer Notes) €50,000 and in integral multiples of €1,000 in excess thereof.

## 1.2 Register

The Registrar will maintain the Register in respect of the Notes in accordance with the provisions of the Principal Paying Agent and Agent Bank Agreement. In these Conditions, the **Holder** of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A Note will be issued to each Noteholder in respect of its registered holding. Each Note will be numbered serially with an identifying number which will be recorded in the Register.

## 1.3 Title

The Holder of each Note shall (to the fullest extent permitted by applicable law) be treated by the Issuer, the Note Trustee, the Issuer Security Trustee, the Agent Bank and any other Agents as the absolute owner of such Note for all purposes (including the making of any payments) 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).

## 1.4 Transfers

Title to the Notes shall pass by and upon registration in the Register. Subject as provided otherwise in this **Condition 1.4**, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar, together with such evidence as the Registrar may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may only be transferred in the Minimum Denominations. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Notes will be issued to the transferor.

Within five Business Days of such surrender of a Note, the Registrar will register the transfer in question and deliver a new Note of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (at the request and risk of any such relevant Holder) by uninsured first class mail (and by airmail if the Holder is overseas) to the address specified for such purpose by such relevant Holder.

The transfer of a Note 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 or other governmental charges which may be imposed in relation to it.

Noteholders may not require transfers of the Notes to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Principal Paying Agent and Agent Bank Agreement. The regulations may be changed by the Issuer with the prior written approval of the Note Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

## 2. STATUS, PRIORITY AND SECURITY

### 2.1 Status

The Notes are direct, secured and unconditional obligations of the Issuer.

Subject to the provisions of **Conditions 4** (Interest) and **5** (Redemption and Mandatory Transfer) and subject to the other payment conditions set out in the Transaction Documents:

- (a) the Class A Notes will rank *pari passu* without any preference or priority among themselves but in priority to the Class B Notes and the Class Z Notes;

- (b) the Class B Notes will rank *pari passu* without any preference or priority among themselves but in priority to the Class Z Notes; and
- (c) the Class Z Notes will rank *pari passu* without any preference or priority among themselves.

## 2.2 Conflict between the classes of Notes

The Note Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class Z Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Note Trustee under these Conditions or any of the Transaction Documents (except where expressly provided otherwise), but requiring the Note Trustee to have regard (except as expressly provided otherwise):

- (a) for so long as there are any Class A Notes outstanding, only to the interests of the Class A Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of any Class of the Class A Noteholders and the interests of the Class B Noteholders and/or the interests of the Class Z Noteholders; and
- (b) subject to (a) above and for so long as there are any Class B Notes outstanding, only to the interests of the Class B Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class B Noteholders and the interests of the Class Z Noteholders.

If, in relation to any matter, in the opinion of the Note Trustee, there is or may be a conflict between the interests of one Class of Class A Noteholders on the one hand and another Class of Class A Noteholders on the other, the Note Trustee shall not be obliged to take any action in relation to such matter, unless and until directed to do so by the Class A Noteholders (which, for these purposes, means each Class of the Class A Noteholders for the time being outstanding) subject to and in accordance with the other provisions of these Conditions and the Note Trust Deed.

The Note Trust Deed also contains provisions:

- (i) limiting the powers of the Class B Noteholders and the Class Z Noteholders, *inter alia*, to request or direct the Note Trustee to take certain action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances described in **Condition 11** (Meetings of Noteholders, Modifications and Waiver), the Note Trust Deed contains no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders and the Class Z Noteholders respectively, irrespective of the effect thereof on their respective interests; and
- (ii) limiting the powers of the Class Z Noteholders, *inter alia*, to request or direct the Note Trustee to take certain action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class B Noteholders. Except in certain circumstances described above and in **Condition 11** (Meetings of Noteholders, Modifications and Waiver), the Note Trust Deed contains no such limitation on the powers of the Class B Noteholders, the exercise of which will be binding on the Class Z Noteholders irrespective of the effect thereof on their respective interests.

The Note Trustee and the Issuer Security Trustee shall be entitled to assume, without liability to any person, for the purpose of exercising any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, without further investigation or inquiry, that such exercise will not be materially prejudicial to the interests of the Noteholders, if (subject to Condition 15 (**Rating Agencies**)) each of the Rating Agencies has confirmed in writing that the then current ratings of each Class of Rated Notes would not be reduced, withdrawn or qualified by such exercise.

## 2.3 Security

As security for, *inter alia*, the payment of all monies payable in respect of the Notes, the Issuer has entered into the Issuer Deed of Charge creating the Issuer Security in favour of the Issuer Security Trustee for itself and on trust for, *inter alios*, the Note Trustee and the Noteholders.

## 3. COVENANTS

Save with the prior written consent of the Note Trustee or unless provided in or contemplated under these Conditions or any of the Transaction Documents to which the Issuer is a party, the Issuer shall not, so long as any Note remains outstanding.

### 3.1 Negative Pledge

Create or permit to subsist any mortgage, standard security, pledge, lien, charge or other security interest whatsoever (unless arising by operation of law), upon the whole or any part of its assets (including any uncalled capital) or its undertakings, present or future except where the same is given in connection with the issue of any Notes or the Issuer Start-up Loan.

### **3.2 Disposal of Assets**

Sell, assign, transfer, lend, lease or otherwise dispose of, or deal with, or grant any option or present or future right to acquire all or any of its properties, assets, or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do any of the foregoing, except where the same is given in connection with the issue of any Notes or the Issuer Start-up Loan.

### **3.3 Equitable Interest**

Permit any person other than itself and the Issuer Security Trustee (as to itself and on behalf of the Issuer Secured Creditors) to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein.

### **3.4 Bank Accounts**

Have an interest in any bank account, other than the Issuer Bank Accounts, except in connection with the issue of any Notes where such bank account is immediately charged in favour of the Issuer Security Trustee pursuant to the Issuer Deed of Charge.

### **3.5 Restrictions on Activities**

Carry on any business other than as described in the prospectus (as revised, supplemented and/or amended from time to time) relating to the issue of the Notes and the related activities described therein or as contemplated in the Transaction Documents relating to the issue of the Notes and the Issuer Start-up Loan.

### **3.6 Borrowings**

Incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness or obligation of any person, except where the same is incurred or given or the Issuer becomes so obligated in connection with the issue of any Notes.

### **3.7 Merger**

Consolidate or merge with any other person or convey or transfer substantially all of its properties or assets to any other person.

### **3.8 Waiver or Consent**

Permit the validity or effectiveness of any of the Note Trust Deed or the Issuer Deed of Charge or the priority of the security interests created thereby to be amended, terminated, postponed, waived or discharged, or permit any other person whose obligations form part of the Issuer Security to be released from such obligations.

### **3.9 Employees or premises**

Have any employees or premises or subsidiaries.

### **3.10 Dividends and Distributions**

Pay any dividend or make any other distribution to its shareholders (other than as provided in the Transaction Documents) or issue any further shares or alter any rights attaching to its shares as at the date of the Issuer Deed of Charge.

### **3.11 Purchase Notes**

Purchase or otherwise acquire any Note or Notes.

### **3.12 United States 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.

## 4. INTEREST

### 4.1 Accrual of interest on Notes

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

Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date and such interest will be payable quarterly in arrear on the 18th day of March, June, September and December of each year (or, if such day is not a Business Day, the next succeeding Business Day (each such day, an **Interest Payment Date**)). Such interest will be payable in respect of each Interest Period (as defined below).

As used in these Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Closing Date) to (but excluding) the next (or the first) Interest Payment Date.

#### (b) *Rate of Interest*

The rate of interest (the **Rate of Interest**) in respect of each Class of the Notes for each Interest Period will, subject as provided below, be determined (i) in the case of the Sterling Notes, on the relevant Interest Payment Date and (ii) in the case of the Euro Notes, two Business Days prior to the Interest Payment Date (each, a **Determination Date**) by either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time), in the case of the Sterling Notes, or 11.00 a.m. (Brussels time), in the case of the Euro Notes, in each case on the applicable Determination Date, plus or minus the Margin (if any), all as determined by the Agent Bank. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent Bank for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Principal Paying Agent and Agent Bank Agreement contains provisions for determining the Rate of Interest pursuant to this **Condition 4.1(b)** in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

#### (c) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent Bank will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent Bank will calculate the amount of interest payable on the Notes in respect of each Minimum Denomination or in respect of each Global Note (each an **Interest Amount**) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of each Global Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest penny, half of a penny being rounded upwards or otherwise in accordance with applicable market convention and then apportioning the resulting total between the Noteholders in respect of such Global Note, *pari passu* without preference or priority amongst themselves.

#### (d) *Notification of Rate of Interest and Interest Amounts*

The Agent Bank will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Note Trustee, the Issuer Security Trustee, the Issuer Cash Manager, the Principal Paying Agent, the Registrar and to any stock exchange or other relevant competent authority or quotation system on which the relevant Notes are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with **Condition 14** (Notice to Noteholders) as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified 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. Any such amendment or alternative arrangements will be promptly notified to the Note Trustee and each stock exchange or other relevant authority on which the relevant Notes are for the time being listed or by which they have been admitted to listing and to Noteholders in accordance with **Condition 14** (Notice to Noteholders).

**(e) Determination or Calculation by Note Trustee**

If for any reason at any relevant time, the Agent Bank defaults in its obligation to determine the Rate of Interest for a Note or the Agent Bank defaults in its obligation to calculate any Interest Amount for such Note in accordance with subparagraph (b) above and in accordance with paragraph (c) above, the Note Trustee (or an agent on its behalf) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this **Condition 4**), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Note Trustee (or an agent on its behalf) shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent Bank.

**(f) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this **Condition 4**, whether by the Agent Bank or the Note Trustee (or an agent on its behalf) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Issuer Cash Manager, the Principal Paying Agent, the Note Trustee and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer or the Noteholders shall attach to the Agent Bank or the Note Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**4.2 Accrual of interest**

Interest (if any) will cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused in which event, interest will continue to accrue until the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof that such payment will be made, provided that subsequently, payment is in fact made.

**4.3 Deferred Interest**

To the extent that, subject to and in accordance with the Issuer Priority of Payments, the funds available to the Issuer to pay interest on any Class of Notes (other than the most senior Class of Notes) on an Interest Payment Date (after discharging the Issuer's liabilities of a higher priority) are insufficient to pay the full amount of such interest, payment of the shortfall attributable to such Class of Notes (**Deferred Interest**) will not then fall due but will instead be deferred until the first Interest Payment Date for such Notes thereafter on which sufficient funds are available (after allowing for the Issuer's liabilities of a higher priority and subject to and in accordance with the relevant Issuer Priority of Payments) to fund the payment of such Deferred Interest to the extent of such available funds.

Such Deferred Interest will accrue interest (**Additional Interest**) at the rate of interest applicable from time to time to the applicable Class of Notes and payment of any Additional Interest will also be deferred until the first Interest Payment Date for such Notes thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority subject to and in accordance with the relevant Issuer Priority of Payments) to the Issuer to pay such Additional Interest to the extent of such available funds.

Amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date of the applicable Class of Notes, when such amounts will become due and payable.

Payments of interest due on an Interest Payment Date in respect of the most senior Class of Notes then outstanding will not be deferred. In the event of the delivery of a Note Acceleration Notice (as described in **Condition 9** (Events of Default)), the amount of interest in respect of such Notes that was due but not paid on such Interest Payment Date will itself bear interest at the applicable rate until both the unpaid interest and the interest on that interest are paid as provided in the Note Trust Deed.

**5. REDEMPTION AND MANDATORY TRANSFER**

**5.1 Final Redemption**

Unless previously redeemed in full as provided in this **Condition 5**, the Issuer shall redeem each Class of Notes at their Principal Amount Outstanding together with all accrued interest on their Final Maturity Date.

The Issuer may not redeem such Notes in whole or in part prior to their Final Maturity Date except as provided in **Conditions 5.2, 5.4 or 5.5** below, but without prejudice to **Condition 9** (Events of Default).

## 5.2 Mandatory Redemption

- (a) Subject to paragraph (b) below, prior to the service of a Note Acceleration Notice on the Issuer and unless the Class A Notes, the Class B Notes and the Class Z Notes have previously been redeemed in full or purchased and cancelled as provided for in this **Condition 5**, the Issuer will redeem:
- (i) the Class A1 Notes on each Interest Payment Date from and including the Interest Payment Date falling in March 2009 or any earlier Interest Payment Date following a Trigger Event in an amount equal to the amount repaid by Funding 1 to the Issuer on such date in respect of the AAA (Class A1) Loan Tranche, converted into euro at the relevant Euro Currency Exchange Rate;
  - (ii) the Class A2 Notes on each Interest Payment Date from and including the Interest Payment Date falling in March 2011 or any earlier Interest Payment Date following a Trigger Event in an amount equal to the amount repaid by Funding 1 to the Issuer on such date in respect of the AAA (Class A2) Loan Tranche, converted into euro at the relevant Currency Exchange Rate;
  - (iii) the Class B Notes on each Interest Payment Date from and including the Interest Payment Date falling in March 2011 or any earlier Interest Payment Date following a Trigger Event in an amount equal to the amount repaid by Funding 1 to the Issuer on such date in respect of the AA (Class B) Loan Tranche; and
  - (iv) the Class Z Notes on each Interest Payment Date from and including the Interest Payment Date falling in March 2011 or any earlier Interest Payment Date following a Trigger Event in an amount equal to the amount repaid by Funding 1 to the Issuer on such date in respect of the NR (Class Z) Loan Tranche or after the Interest Payment Date falling in March 2011, provided that the Class B Notes have been redeemed in full.
- (b) If, and to the extent that, the Issuer does not receive an amount applicable to the AAA (Class A1) Loan Tranche, the AAA (Class A2) Loan Tranche, the AA (Class B) Loan Tranche or the NR (Class Z) Loan Tranche, the Issuer is under no obligation to make a repayment of principal on the Class A1 Notes, the Class A2 Notes, the Class B Notes or the Class Z Notes, respectively, to the extent of the relevant shortfall on that Interest Payment Date. Any such shortfall will be payable on the next Interest Payment Date (to the extent that amounts are received to meet this shortfall).

## 5.3 Note Principal Payments and Principal Amount Outstanding

The principal amount redeemable (the **Note Principal Payment**) in respect of each Note of a particular Class on any Interest Payment Date under **Condition 5.2** above shall be a proportion of the amount required as at that Interest Payment Date to be applied in redemption of such Class of Notes on such date equal to the proportion that the Principal Amount Outstanding of the relevant Note bears to the aggregate Principal Amount Outstanding of such Class of Notes rounded down to the nearest penny, provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

On each Determination Date the Issuer shall determine (or cause the Agent Bank to determine) (a) the amount of any Note Principal Payment payable in respect of each Note of the relevant Class on the immediately following Interest Payment Date and (b) the Principal Amount Outstanding of each such Note which shall be the Minimum Denomination less the aggregate amount of all Note Principal Payments in respect of such Note that has been paid since the relevant Closing Date and on or prior to that Determination Date (the **Principal Amount Outstanding**) and (c) the fraction expressed as a decimal to the fifth decimal point (the **Pool Factor**), of which the numerator is the Principal Amount Outstanding of that Note (as referred to in (b) above) and the denominator is the Minimum Denomination. Each determination by or on behalf of the Issuer of any Note Principal Payment of a Note, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Issuer will cause each determination of the Note Principal Payment and the Principal Amount Outstanding and the Pool Factor in respect of a Class of Notes to be notified forthwith, and in any event not later than 1.00 p.m. (London time) on the Business Day immediately succeeding the Determination Date, to the Note Trustee, the Issuer Security Trustee, the Principal Paying Agent, the Registrar, the Agent Bank and (for so long as such Notes are listed on one or more stock exchanges) the relevant stock exchanges, and will cause notice of each determination of the Note Principal Payment and the Principal Amount Outstanding to be given to Noteholders in accordance with **Condition 14** (Notice to Noteholders) by no later than the Business Day after the relevant Interest Payment Date.

If the Issuer does not at any time for any reason determine (or cause the Agent Bank to determine) or if the Agent Bank does not at any time for any reason determine a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this **Condition 5.3**, such Note Principal Payment and/or Principal Amount Outstanding and/or Pool Factor may be determined by the Note Trustee (or an agent on its behalf) in accordance with this **Condition 5.3** in the manner the Note Trustee in its discretion considers fair and reasonable in the circumstances, having regard to this **Condition 5.3**, and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank and the Noteholders.

#### 5.4 Optional Redemption in Full

Provided a Note Acceleration Notice has not been served and subject to the provisos below, upon giving not more than 60 nor less than 30 days' prior notice (or, in the case of (a) and (b) below, not more than 30 days nor less than five days' prior notice) to the Note Trustee and the Noteholders in accordance with **Condition 14** (Notice to Noteholders), the Issuer may redeem all but not some only of any Class of Notes at the Principal Amount Outstanding of such Notes together with any accrued and unpaid interest in respect thereof:

- (a) on the Interest Payment Date falling in June 2008 and on any Interest Payment Date thereafter provided that:
  - (i) in the case of redemption of the Class B Notes, the Class A Notes have been redeemed in full; and
  - (ii) in the case of redemption of the Class Z Notes, the B Notes have been redeemed in full, or
- (b) on such Interest Payment Date on which the aggregate Principal Amount Outstanding of such Notes and all other Classes of Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of such Notes as at the Closing Date,

provided that (in either of the cases above), on or prior to giving any such notice the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem such Notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such Notes outstanding in accordance with the terms and conditions of the Issuer Deed of Charge and the Issuer Cash Management Agreement.

#### 5.5 Optional Redemption for Tax and other Reasons

Provided a Note Acceleration Notice has not been served, if the Issuer at any time satisfies the Note Trustee immediately prior to the giving of the notice referred to below that on the next Interest Payment Date either:

- (a) the Issuer would by virtue of a change in the law or regulations of the United Kingdom or any other jurisdiction (or the application or interpretation thereof) be required to deduct or withhold from any payment of principal or interest or any other amount under a Class of Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (other than where the relevant Holder or beneficial owner has some connection with the relevant jurisdiction other than the holding of the Notes); or
- (b) Funding 1 would by virtue of a change in the law or regulations of the United Kingdom or any other jurisdiction (or the application or interpretation thereof) be required to deduct or withhold from amounts due under the Intercompany Loan Agreement any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature; and
- (c) in relation to either the events described in (a) and (b) above, such obligation of the Issuer or Funding 1 (as the case may be) cannot be avoided by the Issuer or Funding 1 (as the case may be) taking reasonable measures available to the Issuer or Funding 1 (as the case may be),

then the Issuer shall use its reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the Note Trustee as principal debtor under such Notes and/or as lender under the Intercompany Loan Agreement upon the Note Trustee (1) being satisfied that such substitution will not be materially prejudicial to the interests of Noteholders, (2) receiving written confirmation from the Rating Agencies that the then current ratings of the Rated Notes will not be downgraded, withdrawn or qualified and any other confirmation which it considers, in its absolute discretion, is necessary and/or appropriate, and (3) receiving a certificate signed by two directors of the Issuer or Funding 1, as the case may be, certifying that such substitution would enable the Issuer or Funding 1, as the case may be, to make payments of principal and interest under the relevant Class of Notes or under the Intercompany Loan, as the case may be, without such deduction or withholding, and upon the Issuer Security Trustee being satisfied that the position of the Issuer Secured Creditors (other than the Noteholders) will not thereby be adversely affected as confirmed in writing by such Issuer Secured Creditors to the Issuer Security Trustee. Only if the Issuer is unable to arrange a substitution will the Issuer be entitled to redeem the Notes as described in this **Condition 5.5**. The Note Trustee may: (i) have regard to the written confirmations referred to in (2) above; and (ii) rely on the certificate referred to in (3) above which shall be binding on the Note Trustee and the Noteholders, without having to call for any further evidence and without liability to any Noteholder for so doing.

Subject to the proviso below, if the Issuer is unable to arrange a substitution as described above and, as a result, one or more of the events described in (a) or (b) above (as the case may be) and (c) is continuing, then the Issuer may, having given not more than 60 nor less than 30 days' notice to the Note Trustee and the Noteholders in accordance with **Condition 14** (Notice to Noteholders), redeem all (but not some only) of such Notes on the immediately succeeding Interest Payment Date for such Notes at their aggregate Principal Amount Outstanding together with any accrued and unpaid interest in respect thereof provided that (in either case), prior to giving any such notice, the Issuer shall have provided to the Note Trustee:

- (i) a certificate signed by two directors of the Issuer stating the circumstances referred to in (a) or (b) and (c) above prevail and setting out details of such circumstances; and



- (ii) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to deduct or withhold such 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 (a) or (b) and (c) above, in which event they shall be conclusive and binding on the Noteholders. The Issuer may only redeem such Notes as aforesaid, if on or prior to giving such notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem such Notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such Notes outstanding in accordance with the terms and conditions of the Issuer Deed of Charge and the Issuer Cash Management Agreement.

In addition to the foregoing, if at any time the Issuer delivers a certificate to Funding 1, the Note Trustee and the Issuer Security Trustee to the effect that it would be unlawful for the Issuer to make, fund or allow to remain outstanding a Loan Tranche under the Intercompany Loan Agreement, then the Issuer may require Funding 1 to prepay the relevant Loan Tranche on a Funding 1 Interest Payment Date subject to and in accordance with the provisions of the Intercompany Loan Agreement to the extent necessary to cure such illegality and the Issuer may redeem all (but not some only) of the relevant Notes at their Principal Amount Outstanding together with any accrued interest upon giving notice not more than 60 nor less than 30 days' (or such shorter period as may be required under any relevant law) prior written notice to the Issuer Security Trustee, the Funding 1 Security Trustee, the Note Trustee, the Issuer Swap Providers and the Noteholders in accordance with **Condition 14** (Notice to Noteholders), provided that, prior to giving any notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the relevant Notes as provided above and any amount to be paid in priority to or *pari passu* with the relevant Notes. Such monies received by the Issuer shall be used to redeem the relevant Notes in full, together with any accrued and unpaid interest, on the equivalent Interest Payment Date.

## 6. PAYMENTS

### 6.1 Payment of Interest and Principal

Payments of principal shall be made by cheque (in the case of the Sterling Issuer Notes) in sterling or (in the case of the Euro Issuer Notes) in euro, drawn on a Designated Bank, or upon application by a Holder of the relevant Note to the Specified Office of the Principal Paying Agent not later than the fifth Business Day before the Record Date (as defined in **Condition 6.7**), by transfer to a Designated Account maintained by the payee with a Designated Bank and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of any Paying Agent.

Payments of interest shall be made by cheque (in the case of the Sterling Issuer Notes) in sterling or (in the case of the Euro Issuer Notes) in euro drawn on a Designated Bank, or upon application by a Holder of the relevant Note to the Specified Office of the Principal Paying Agent not later than the fifth Business Day before the Record Date, by transfer to a Designated Account maintained by the payee with a Designated Bank and (in the case of interest payable on final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note 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 4** (Interest) will be paid in accordance with this **Condition 6**.

### 6.4 Change of Agents

The initial Principal Paying Agent and the Registrar are listed in these Conditions. 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 and the Registrar and to appoint an additional or other paying agents. The Issuer will at all times maintain the Principal Paying Agent with a Specified Office in London and a Registrar. Except where otherwise provided in the Note Trust Deed, the Issuer will cause at least 30 days' notice of any change in or addition to the Principal Paying Agent or the Registrar or their Specified Offices to be given in accordance with **Condition 14** (Notice to Noteholders) and will notify the Rating Agencies of such change or addition. For as long as any Note is outstanding, the Issuer will endeavour to maintain the Paying Agent in a member state of the European Union that will not be

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.

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

Where payment is to be made by transfer to a Designated Account, payment instructions (for value the due date or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (a) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the Paying Agent and (b) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for a payment not being a Business Day or (ii) a cheque mailed in accordance with this **Condition 6.5** arriving after the due date for payment or being lost in the mail.

### **6.6 Partial Payment**

If the Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure and the Registrar will ensure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and date of such payment is endorsed on the relevant Note.

### **6.7 Record Date**

Each payment in respect of a Note will be made to the persons shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the **Record Date**). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

### **6.8 Payment of Interest**

Subject as provided otherwise in these Conditions, if interest is not paid in respect of a Note of any Class on the date when due and payable (other than because the due date is not a Business Day) or by reason of non-compliance with **Condition 6.1**, 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 14** (Notice to Noteholders).

## **7. PRESCRIPTION**

Claims against the Issuer for payment of interest and principal on redemption shall be prescribed and become void if the relevant Notes are not surrendered for payment within a period of ten years from the relevant date in respect thereof. After the date on which a payment under a Note becomes void in its entirety, no claim may be made in respect thereof. In this **Condition 7**, the **relevant date**, in respect of a payment under a Note, is the date on which the payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of those payments under all the Notes due on or before that date has not been duly received by the Principal Paying Agent or the Note Trustee (as the case may be) on or prior to such date) the date on which the full amount of such monies having been so received or notice to that effect is duly given to Noteholders in accordance with **Condition 14** (Notice to Noteholders).

## **8. TAXATION**

- 8.1 All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any relevant Paying Agent is required by applicable law to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Issuer or such Paying Agent shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor any Paying Agent will be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.
- 8.2 The Class Z Noteholder or the person beneficially entitled to interest payable in respect of the Class Z Note shall no later than the Record Date (or, if such day is not a Business Day, the immediately preceding Business Day) (the **Relevant Date**) preceding the Interest Payment Date next following the date that the Class Z Noteholder or such person became beneficially entitled to interest payable in respect of the Class Z Note (by completing and delivering a certificate in the form set out in Schedule 3 to the Paying Agent and Agent Bank Agreement (a **Certificate**)) in respect of the Class Z Notes the subject thereof (the **Relevant Class Z Notes**):

- (a) represents and warrants to the Issuer and the Principal Paying Agent that the person beneficially entitled to interest payable in respect of the Relevant Class Z Notes is the person specified therein as such and will be a company within the charge to United Kingdom corporation tax as regards any payment of interest under the Relevant Class Z Notes unless and until such time as it notifies each of the Issuer and the Principal Paying Agent in writing that this is not the case or that such person has ceased to be the person beneficially entitled to interest payable in respect of the Relevant Class Z Notes;
- (b) authorises each of the Issuer and the Principal Paying Agent to confirm with it prior to each Interest Payment Date that the person beneficially entitled to interest payable in respect of the Class Z Notes remains the person specified therein as such;
- (c) agrees to indemnify the Issuer and the Principal Paying Agent for any loss or liability, costs and expenses (including stamp duties) which the Issuer or the Principal Paying Agent determines will be or has been suffered by the Issuer or the Principal Paying Agent (as the case may be) to the extent that it is in breach of the representation and warranty referred to in paragraph (a) above or any information provided to it in accordance with paragraph (b) above proves to be untrue or incorrect;
- (d) acknowledges that as at the Closing Date the Principal Paying Agent does not offer a refund service in respect of sums withheld or deducted in respect of the payments made by it on behalf of the Issuer in respect of the Class Z Notes including, without limitation, in the event that the obligations set out in paragraph (a) and (b) above or (e) below are not fully complied with by a Class Z Noteholder;
- (e) acknowledges that each of the representations, warranties, authorisations, agreements, acknowledgements and information given by it to the Issuer and the Principal Paying Agent is given in full knowledge that the Issuer and the Principal Paying Agent shall each rely on the same for the purposes of making determinations as to its obligation to make withholdings under applicable UK tax law and accordingly irrevocably confirms to the Issuer and the Principal Paying Agent that it has taken all necessary steps to give each such representation, warranty, authorisation, agreement, acknowledgement and information and intends that the Issuer and the Principal Paying Agent each rely on the same for such purpose.

8.3 In the case of either (a) the absence of both (i) a receipt from the Class Z Noteholder or the person beneficially entitled to interest payable in respect of a Class Z Note of a duly completed Certificate and (ii) confirmation from the Class Z Noteholder or the person beneficially entitled to interest payable in respect of a Class Z Note of a corresponding holding of the Class Z Notes on the Relevant Date preceding the Interest Payment Date or (b) (in the absence of a new Certificate and confirmation in satisfaction of paragraph (a) above in respect of a Class Z note) notification in writing that the person beneficially entitled to interest payable in respect of a Class Z Note is no longer the person specified in the Certificate delivered to the Issuer and the Principal Paying Agent in respect of a Class Z Note or a company within the charge to United Kingdom corporation tax as regards any payment of interest in respect of a Class Z Note, the Principal Paying Agent shall be entitled to assume that:

- (a) the Class Z Noteholder or the person beneficially entitled to interest payable in respect of a Class Z Note is not a company within the charge to United Kingdom corporation tax as regards such payment of interest under the Class Z Note; and
- (b) that a withholding or deduction for or on account of tax is required in respect of such payment by or on behalf of the Issuer in respect of the Class Z Note pursuant to **Condition 8.1**.

## 9. EVENTS OF DEFAULT

### 9.1 Class A Noteholders

The Note Trustee in its absolute discretion may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class A Notes for the time being outstanding (as defined in the Note Trust Deed) (which for this purpose means directions from the requisite percentage of holders of each Class of the Class A Notes for the time being outstanding or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting or meetings of the Class A Noteholders for the time being outstanding (as defined in the Trust Deed) (which for this purpose means an Extraordinary Resolution of the holders of each Class of the Class A Notes for the time being outstanding) shall, subject in each case to being indemnified and/or secured to its satisfaction, give notice (a **Class A Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) declaring (in writing) the Class A Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class A Notes when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class A Notes when and as the same ought to be paid in accordance with these Conditions; or
- (b) the Issuer failing duly to perform or observe any other obligation binding upon it under the Class A Notes, the Note Trust Deed, the Issuer Deed of Charge or any other Transaction Document and, in any such case (except

where the Note Trustee certifies that, in its opinion, such failure is incapable of remedy, in which case no notice will be required), such failure is continuing unremedied for a period of 20 days following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied and the Note Trustee has certified that the failure to perform or observe is materially prejudicial to the interests of the Class A Noteholders; or

- (c) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in subparagraph (d) below, ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent; or
- (d) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have previously been approved by the Note Trustee in writing or by an Extraordinary Resolution of the Class A Noteholders; or
- (e) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation 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 an administration or the service of a notice of intention to appoint an administrator) and (except in the case of presentation of a petition for an administration order) such proceedings are not, in the opinion of the Note Trustee, being disputed in good faith with a reasonable prospect of success, or an administration order being granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the Issuer initiating or consenting to the foregoing proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally or a composition or similar arrangement with the creditors or takes steps with a view to obtaining a moratorium in respect of its indebtedness, including without limitation, the filing of documents with the court; or
- (f) if an intercompany Loan Acceleration Notice is served under the Intercompany Loan Agreement while any Class A Notes are outstanding.

## 9.2 Class B Noteholders

This **Condition 9.2** shall have no effect if, and for as long as, any Class A Notes are outstanding. Subject thereto, for so long as any Class B Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class B Notes outstanding (as defined in the Note Trust Deed) (for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.2**, means the Class B Notes constituted by the Note Trust Deed) or, if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Class B Noteholders shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class B Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class B Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class B Notes when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class B Notes when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b)**, **(c)**, **(d)**, **(e)** or **(f)** above provided that the references in **Condition 9.1(b)**, **Condition 9.1(d)** and **Condition 9.1(f)** to Class A Notes shall be read as references to Class B Notes.

## 9.3 Class Z Noteholders

This **Condition 9.3** shall have no effect if, and for as long as, any Class A Notes or Class B Notes are outstanding. Subject thereto, for so long as any Class Z Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class Z Notes outstanding (as defined in the Note Trust Deed) (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.3**, means the Class Z Notes constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Class Z Noteholders of the Class Z Notes shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class Z Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security

Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class Z Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class Z Notes when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class Z Notes when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e) or (f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d) and Condition 9.1(f)** to Class A Notes shall be read as references to Class Z Notes.

#### **9.4 Following Service of a Note Acceleration Notice**

In these Conditions, a **Note Acceleration Notice** means any of the Class A Note Acceleration Notice, the Class B Note Acceleration Notice and the Class Z Note Acceleration Notice. For the avoidance of doubt, upon any Note Acceleration Notice being given by the Note Trustee in accordance with **Condition 9.1, 9.2 or 9.3** all Notes shall immediately become due, without further action, notice or formality at their Principal Amount Outstanding together with accrued interest.

### **10. ENFORCEMENT OF NOTES**

#### **10.1 Enforcement**

The Note Trustee may, at its discretion and without notice at any time and from time to time, take such steps and institute such proceedings against the Issuer or any other person as it may think fit to enforce the provisions of the Notes, the Note Trust Deed (including these Conditions) or any of the other Transaction Documents to which it is a party and the Note Trustee may, at its discretion at any time after the Issuer Security has become enforceable (including after the service of a Note Acceleration Notice in accordance with **Condition 9 (Events of Default)**), instruct the Issuer Security Trustee to take such steps as it may think fit to enforce the Issuer Security. The Note Trustee shall not be bound to take such steps or institute such proceedings or give such instructions unless:

- (a) (subject in all cases to restrictions contained in the Note Trust Deed to protect the interests of any higher ranking Class of Noteholders and paragraphs (i), (ii) and (iii) below) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders, the Class B Noteholders or the Class Z Noteholders for the time being outstanding (as defined in the Trust Deed) (which for this purpose means an Extraordinary Resolution of the holders of each Class of the Class A Notes, an Extraordinary Resolution of the holders of the Class B Notes or an Extraordinary Resolution of the holders of the Class Z Notes for the time being outstanding (as applicable)) or so requested in writing by the holders of at least one quarter in aggregate Principal Amount Outstanding of the Class A Notes, Class B Notes or Class Z Notes for the time being outstanding (as defined in the Note Trust Deed) (which, for this purpose, means directions from the requisite percentage of the holders of each Class of the Class A Notes, the holders of the Class B Notes or the holders of the Class Z Notes for the time being outstanding as applicable); and
- (b) it shall have been indemnified and/or secured to its satisfaction, provided that:
  - (i) the Note Trustee shall not be obliged to act at the direction or request of the Class B Noteholders as aforesaid unless none of the Class A Notes are outstanding, or, in all other circumstances, either the Note Trustee is of the opinion that to do so would not be materially prejudicial to the interests of the Class A Noteholders or such action is sanctioned by an Extraordinary Resolution of the Class A Noteholders;
  - (ii) the Note Trustee shall not be obliged to act at the direction or request of the Class Z Noteholders as aforesaid unless none of the Class A Notes and the Class B Notes are outstanding, or, in all other circumstances, (i) either the Note Trustee is of the opinion that to do so would not be materially prejudicial to the interests of the Class A Noteholders or such action is sanctioned by an Extraordinary Resolution of the Class A Noteholders and (ii) either the Note Trustee is of the opinion that to do so would not be materially prejudicial to the interests of the Class B Noteholders or such action is sanctioned by an Extraordinary Resolution of the Class B Noteholders; and
  - (iii) the Note Trustee shall only be obliged to give a Note Acceleration Notice at the direction or request of the most senior class of Noteholders as aforesaid.

The Issuer Security Trustee shall not be bound to and shall not take such steps or take any such other action unless it is so directed by the Note Trustee and indemnified and/or secured to its satisfaction.

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

No Noteholder may institute any proceedings against the Issuer to enforce its rights under or in respect of the Notes, the Note Trust Deed or the Issuer Deed of Charge unless (i) the Note Trustee or the Issuer Security Trustee, as applicable, has become bound to institute proceedings and has failed to do so within 30 days of becoming so bound and (ii) such failure is continuing; provided that, no Class B Noteholder or Class Z Noteholder will be entitled to commence proceedings for the winding up or administration of the Issuer unless there are no outstanding Notes of a Class with higher priority, or if Notes with higher priority are outstanding, there is consent of Noteholders of not less than one quarter of the aggregate principal amount of the Notes outstanding (as defined in the Note Trust Deed) of the Class or Classes of Notes with higher priority or pursuant to an Extraordinary Resolution of the holders of such Class or Classes of Notes.

## 10.2 Post-Enforcement Call Option

In the event that:

- (a) the Issuer Security is enforced and the Issuer Security Trustee determines that (i) the proceeds of such enforcement, after distribution of such proceeds to the persons entitled thereto ranking in priority to the Notes under the Issuer Deed of Charge and to the Noteholders (to the extent entitled thereto), are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Notes and all other claims ranking *pari passu* therewith (ii) such proceeds of enforcement have been so distributed in accordance with the terms of the Issuer Deed of Charge and (iii) there are no further assets available to pay principal and interest and other amounts whatsoever due in respect of the Notes; or
- (b) within 20 days following the Final Maturity Date of the latest maturing Note, the Issuer certifies that there is no further amount outstanding under the Intercompany Loan Agreement,

then the Note Trustee is required (without any liability on its part to any person or any warranty as to due authority), at the request of the Post-Enforcement Call Option Holder, for a nominal amount, to transfer or (as the case may be) procure transfer of all (but not some only) of the Notes to the Post-Enforcement Call Option Holder pursuant to the option granted to it by the Note Trustee (as agent for the Noteholders) under the terms of the Post-Enforcement Call Option Agreement. Immediately upon such transfer, no such former Noteholder shall have any further interest in the Notes. Each of the Noteholders acknowledges that the Note Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Agreement and each Noteholder, by subscribing for or purchasing Notes, agrees to be so bound. The Note Trustee shall give notice of the exercise of such option to the Noteholders in accordance with **Condition 14** (Notice to Noteholders).

## 11. MEETINGS OF NOTEHOLDERS, MODIFICATIONS AND WAIVERS

### 11.1 Meetings of Noteholders

The Note Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any provision of these Conditions or the provisions of any of the Transaction Documents.

#### (a) *Class A Notes*

In respect of the Class A Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class A Notes of that Class for the time being outstanding;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class A Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class A Notes for the time being outstanding; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class A Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class A Notes, it shall be passed at separate meetings of the Holders of each such Class of Class A Notes for the time being outstanding.

The Note Trust Deed contains similar provisions in relation to requests in writing or directions from Holders of a specified percentage of the Principal Amount Outstanding of each Class of Class A Notes for the time being outstanding.

**(b) Class B Notes**

In respect of the Class B Notes, the Note Trust Deed provides that, subject to **Condition 11.2**, a resolution which, in the opinion of the Note Trustee, affects the interests of the Class B Noteholders only shall be deemed to have been duly passed if passed at a meeting of the Class B Noteholders.

**(c) Class Z Notes**

In respect of the Class Z Notes, the Note Trust Deed provides that, subject to **Condition 11.2**, a resolution which, in the opinion of the Note Trustee, affects the interests of the Class Z Noteholders only shall be deemed to have been duly passed if passed at a meeting of the Class Z Noteholders.

The quorum for any meeting of the Holders of any Class or Classes of Notes convened to consider a resolution (except for the purpose of passing an Extraordinary Resolution) will be one or more persons holding or representing not less than one-twentieth of the aggregate Principal Amount Outstanding of such Class or Classes of Notes outstanding (as defined in the Note Trust Deed) or, at any adjourned meeting, one or more persons being or representing Noteholders of such Class or Classes of Notes, whatever the aggregate Principal Amount Outstanding of the relevant Notes for the time being outstanding so held or represented. A **resolution** means a resolution (excluding an Extraordinary Resolution) passed at a meeting of Noteholders duly convened and held in accordance with the provisions of the Note Trust Deed by a simple majority of the persons voting thereat upon a show of hands or if a poll is duly demanded by a simple majority of the votes cast on such poll.

Subject as provided in the following paragraph, the quorum at any meeting of the Holders of any Class or Classes of Notes convened to consider an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of such Class or Classes of Notes outstanding (as defined in the Note Trust Deed) or, at any adjourned meeting, one or more persons being or representing Noteholders of such Class or Classes of Notes, whatever the aggregate Principal Amount Outstanding of the relevant Notes outstanding (as defined in the Note Trust Deed) so held or represented.

The quorum at any meeting of the Noteholders for passing an Extraordinary Resolution which includes the sanctioning of a modification which would have the effect of altering the amount or timing of payments of principal on the Notes of such Class or of such Classes or the rate, the day or the timing of payments of interest thereon or of the currency of payment of the Notes of such Class or of such Classes or altering the priority of payments or altering the quorum or majority required in relation to any resolution (each a **Basic Terms Modification**, as more fully defined in the Note Trust Deed) shall be one or more persons holding or representing not less than 75 per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant Class or of the Classes of Notes outstanding (as defined in the Note Trust Deed) or, at any adjourned and reconvened meeting, not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant Class or of the Classes of Notes outstanding (as defined in the Note Trust Deed).

An Extraordinary Resolution passed at any meeting of Noteholders shall be binding on all of the Noteholders of the relevant Class or of the Classes of Notes whether or not they are present or represented at the meeting.

A resolution signed by or on behalf of all the Noteholders of the relevant Class or of the relevant Classes of Notes who for the time being are entitled to receive notice of a meeting under the Note Trust Deed shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of the relevant Class or of the relevant Classes of Notes.

## **11.2 Limitations on Noteholders**

Subject as provided in **Condition 11.3**:

- (a) an Extraordinary Resolution of the Class A Noteholders shall be binding on all Class B Noteholders and all Class Z Noteholders;
- (b) no Extraordinary Resolution of the Class B Noteholders shall take effect for any purpose while any Class A Notes remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the holders of the Class A Notes then for the time being outstanding (as defined in the Trust Deed) or the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders of all Classes (as applicable) and subject hereto and to **Condition 11.3**, an Extraordinary Resolution of the Class B Noteholders will be binding on the Class Z Noteholders of any Class irrespective of the effect upon them; and
- (c) no Extraordinary Resolution of the Class Z Noteholders shall take effect for any purpose while any Class A Notes, or Class B Notes remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution

of the Class A Noteholders and an Extraordinary Resolution of the Class B Noteholders or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders and the Class B Noteholders.

### 11.3 Approval of Modifications and Waivers by Noteholders

No Extraordinary Resolution of the Noteholders of the Class A Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or these Conditions shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class B Noteholders and an Extraordinary Resolution of the Class Z Noteholders, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class B Noteholders and the Class Z Noteholders.

No Extraordinary Resolution of the Noteholders of the Class B Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or these Conditions shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class Z Noteholders, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class Z Noteholders.

### 11.4 Modifications and Determinations by Note Trustee

The Note Trustee, may, without the consent of the Noteholders:

- (a) agree to any modification (other than a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Conditions of any Class of Notes or any of the Transaction Documents which is not in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders of any Class of Notes; or
- (b) determine that any Note Event of Default shall not be treated as such provided that it is not in the opinion of the Note Trustee materially prejudicial to the interests of the Holders of the most senior Class of Notes then outstanding; or
- (c) agree to any modification (including a Basic Terms Modification) of these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee, is of a formal, minor or technical nature or is to correct a manifest error established as such to the satisfaction of the Note Trustee or is to comply with the mandatory provisions of law; or
- (d) agree to any modification of any of these Conditions or any Transaction Documents as expressly provided for in the Transaction Documents.

For the avoidance of doubt, the Note Trustee shall be entitled to assume, without further investigation or inquiry, that such modification, waiver, determination or authorisation will not be materially prejudicial to the interests of the Noteholders or any Class thereof if each of the Rating Agencies has confirmed in writing that the then current ratings of each Class of Rated Notes would not be reduced, withdrawn or qualified by such modification, waiver, determination or authorisation provided that if Moody's indicates that it does not consider such confirmation is necessary in the circumstances or no such confirmation is forthcoming and each of S&P and Fitch gives such a confirmation based on the same facts, then the reference to each of the Rating Agencies in this Condition 11.4 shall in such circumstances be deemed to exclude Moody's.

The Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, shall be entitled to treat as conclusive a certificate by any director, officer or employee of the Issuer, Funding 1, the Seller, any independent investment bank or financial adviser acting in relation to the Notes as to any matter referred to above and, in the absence of manifest error, shall not be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be caused as a result.

Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee agrees otherwise, any such modification shall be notified to the Noteholders and the Rating Agencies in accordance with **Condition 14** (Notice to Noteholders) as soon as practicable thereafter.

### 11.5 Redenomination

The Note Trustee may agree, without the consent of the Holders of the Notes on or after the Specified Date (as defined below), to such modifications to the Notes and the Note Trust Deed in respect of redenomination of such Notes in euro and associated reconventioning, renominatisation and related matters in respect of the Notes as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Note Trustee to be in conformity with then applicable market conventions) and to provide for redemption at the euro equivalent of the Sterling principal amount of the Notes. For these purposes, **Specified Date** means the date on which the United Kingdom participates in the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community,



as amended by the Treaty on European Union, or otherwise participates in European economic and monetary union in a manner with an effect similar to such third stage.

Any such modification shall be binding on the Holders of the Notes and, unless the Note Trustee agrees otherwise, any such modification shall be notified to the Noteholders in accordance with **Condition 14** (Notice to Noteholders) as soon as practicable thereafter.

#### **11.6 Exercise of Note Trustee's Functions**

Where the Note Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions under these Conditions or any Transaction Document, to have regard to the interests of the Noteholders of any Class, it shall have regard to the interests of such Noteholders as a class and, in particular but without prejudice to the generality of the foregoing, the Note Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Note Trustee shall not be entitled to require, and no Noteholder shall be entitled to claim, from the Issuer or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

#### **12. INDEMNIFICATION OF THE NOTE TRUSTEE, THE ISSUER SECURITY TRUSTEE AND THE FUNDING 1 SECURITY TRUSTEE**

The Note Trust Deed, the Issuer Deed of Charge and the Funding 1 Deed of Charge set out certain provisions for the benefit of the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee. The following is a summary of such provisions and is subject to the more detailed provisions of the Note Trust Deed, the Issuer Deed of Charge and the Funding 1 Deed of Charge.

The Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee and providing for their indemnification in certain circumstances, including, among others, provisions relieving the Issuer Security Trustee, the Note Trustee and the Funding 1 Security Trustee from taking enforcement proceedings or enforcing the Issuer Security and/or the Funding 1 Security, as the case may be, unless indemnified and/or secured to its satisfaction.

The Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee and their related companies are entitled to enter into business transactions with the Issuer, any member of the Alliance & Leicester's group of companies, the Issuer Cash Manager and/or the related companies of any of them and to act as note trustee or security trustee for the holders of any New Notes and/or any other person who is a party to any Transaction Document or whose obligations are comprised in the Issuer Security or the Funding 1 Security and/or any of its subsidiary or associated companies without accounting for any profit resulting therefrom.

Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security or the Funding 1 Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Note Trustee or the Issuer Security Trustee or the Funding 1 Security Trustee, as applicable.

Furthermore, the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee will be relieved of liability for making searches or other inquiries in relation to the assets comprising the Issuer Security and Funding 1 Security. The Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee do not have any responsibility in relation to the legality and the enforceability of the trust arrangements and the related Issuer Security and Funding 1 Security. Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee will be obliged to take any action that might result in its incurring personal liabilities. Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee is obliged to monitor or investigate the performance of any other person under the Transaction Documents and is entitled to assume, until it has actual knowledge to the contrary, that all such persons are properly performing their duties, unless it receives express notice to the contrary.

Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee will be responsible for any deficiency that may arise because it is liable to tax in respect of the proceeds of any Issuer Security or any Funding 1 Security.

Each of the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee may refrain from taking any action or exercising any right, power, authority or discretion vested in it relating to the transactions contemplated in the Transaction Documents until it has been indemnified and/or secured to its satisfaction against any and all actions, charges, claims, costs, damages, demands, expenses, liabilities, losses and proceedings which might be sustained by it as a result and none of them will be required to do anything which may cause it to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights,

powers or discretions if it has reasonable grounds for believing that repayment of such funds or adequate indemnity or security against such risk or liability is not assured to it.

Citicorp Trustee Company Limited (the **Initial Trustee**) is acting as Note Trustee under the Note Trust Deed and as Issuer Security Trustee under the Issuer Deed of Charge and as Funding 1 Security Trustee under the Funding 1 Deed of Charge (and while doing so the Initial Trustee and any successor which acts in all such capacities are referred to in this Condition as the **Trustee**). No entity may act as a trustee in any such capacity unless it is also the Trustee or unless the Trustee agrees otherwise or unless the Trustee resigns its office as trustee in one or more of such capacities. In its capacity as Trustee, the Trustee will not be liable to any Noteholder for any loss which he may suffer by reason of any conflict which may arise between the interests of the Noteholders and any other person to whom the Trustee owes duties as a result of the Trustee acting in all such capacities.

Neither the Initial Trustee nor any of its successors has any responsibility to the Noteholders, the Issuer Secured Creditors or the Funding 1 Secured Creditors for the validity, sufficiency or enforceability of the Issuer Security and the Funding 1 Security (which the Initial Trustee has not investigated) and shall accept such title and interest as any chargor or mortgagor has without responsibility for investing the same or any defect there may be therein. Neither the Initial Trustee nor any of its successors are responsible for monitoring the performance by any person of its obligations to the Issuer, Funding 1, any New Issuer, any Further Funding Companies or any obligor and each may assume until it has actual knowledge to the contrary that such obligations are being duly performed.

### **13. REPLACEMENT OF NOTES**

If Definitive Notes are lost, stolen, mutilated, defaced or destroyed, the Noteholder can replace them at the Specified Office of any Paying Agent subject to all applicable laws and stock exchange requirements. The Noteholder will be required both to pay the expenses of producing a replacement and to comply with the Issuer's, the Registrar's and the Paying Agent's reasonable requests for evidence and indemnity.

If a Global Note is lost, stolen, mutilated, defaced or destroyed, the Issuer will deliver a replacement Global Note to the registered holder upon receipt of satisfactory evidence and surrender of any defaced or mutilated Global Note. A replacement will only be made upon payment of the expenses for a replacement and compliance with the Issuer's, Registrar's and Paying Agent's reasonable requests as to evidence and indemnity.

Defaced or mutilated Notes must be surrendered before replacements will be issued.

### **14. NOTICE TO NOTEHOLDERS**

#### **14.1 Publication of Notice**

Any notice to the Noteholders shall be validly given if such notice is:

- (a) sent to them by first class mail (or its equivalent) or (if posted to a non-UK address) by airmail at the respective addresses on the Register; and
- (b) published in *The Financial Times* or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in a leading English language daily newspaper having general circulation in the United Kingdom provided that if, at any time, the Issuer procures that the information concerned in such notice shall be published on the Relevant Screen, publication in the newspaper set out above or such other newspaper or newspapers shall not be required with respect to such information.

#### **14.2 Date of Publication**

Any notices so published shall be deemed to have been given on the fourth day after the date of posting, or as the case may be, on the date of such publication or, if published more than once 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 on which) publication is required.

#### **14.3 Global Notes**

While the Notes are represented by Global Notes, any notice to the Noteholders will be validly given if such notice is provided in accordance with **Condition 14.1** or (at the option of the Issuer) if delivered to Euroclear and/or Clearstream, Luxembourg. Any notice delivered to Euroclear and/or Clearstream, Luxembourg will be deemed to be given on the day of such delivery.

#### **14.4 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 any Class or Classes thereof if, in its opinion, such other method is reasonable having regard to market practice then

prevailing and to the requirements of the stock exchanges on which the Notes are then admitted for trading and provided that notice of such other method is given to Noteholders in such manner as the Note Trustee shall require.

## 15. RATING AGENCIES

If:

- (a) a confirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and
- (b) a written request for such confirmation or response is delivered to each Rating Agency by the Issuer (copied to the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable) and Moody's indicates that it does not consider such confirmation or response necessary in the circumstances or within 30 days of delivery of such request elicits no confirmation or response and/or such request elicits no statement by Moody's that such confirmation or response could not be given; and
- (c) S&P and Fitch each gives such a confirmation or response based on the same facts, then such condition shall be deemed to be modified with respect to the facts set out in the request referred to in (b) so that there shall be no requirement for the confirmation or response from Moody's.

The Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, shall be entitled to treat as conclusive a certificate by any director, officer or employee of the Issuer, Funding 1, the Seller, any independent investment bank or financial adviser acting in relation to the Notes as to any matter referred to in (b) and (c) in the absence of manifest error or the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, having facts contradicting such certificates specifically drawn to his attention and the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, shall not be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be caused as a result.

Each of the Issuer, the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee shall agree and acknowledge that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevant to the Noteholders. Further, that their reliance on a confirmation provided by any of the Rating Agencies does not impose or extend any actual or contingent liability for the Rating Agencies to any of them or any other person, or create any legal relations between the Rating Agencies and any of them or any other person (whether by way of contract or otherwise).

## 16. GOVERNING LAW AND JURISDICTION

The Transaction Documents and the Notes are governed by English law unless specifically stated to the contrary. Certain provisions in the Transaction Documents relating to property situated in Scotland are governed by Scots law. Certain provisions in the Transaction Documents relating to property situated in Northern Ireland are governed by Northern Irish law. Unless specifically stated to the contrary:

- (a) the courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and the Transaction Documents; and
- (b) the Issuer and the other parties to the Transaction Documents irrevocably submit to the non-exclusive jurisdiction of the courts of England.

## 17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy of a third party 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 or incorporated in the Note Trust Deed or the Issuer Master Definitions and Construction Schedule. The provisions of **Clause 3** (Interpretation and Construction) of the Issuer Master Definitions and Construction Schedule are incorporated into and shall apply to these Conditions.

**AA Loan Tranche** means the Loan Tranche made by the Issuer to Funding 1 under the Intercompany Loan Agreement from the proceeds of issue of the Class B Notes;

**AAA Loan Tranche** means any Loan Tranche made by the Issuer to Funding 1 under the Intercompany Loan Agreement from the proceeds of issue of the Class A1 Notes or the Class A2 Notes;

**Additional Interest** has the meaning set out in **Condition 4.3** (Deferred Interest);

**Agents** means the Principal Paying Agent, the Registrar and the Agent Bank;

**Agent Bank** means Citibank, N.A., in its capacity as agent bank at its Specified Office or such other person for the time being acting as agent bank under the Paying Agent and Agent Bank Agreement;

**Alliance & Leicester** means Alliance & Leicester plc (registered number 03263713), a public limited company incorporated under the laws of England and Wales, whose registered office is at Carlton Park, Narborough, Leicester LE19 0AL;

**Basic Terms Modification** has the meaning as set out in **Condition 11.1** (Meetings of Noteholders);

**Beneficiaries** means the Funding Companies and the Seller, as beneficiaries of the Mortgages Trust;

**Borrower** means, in relation to a Loan, the individual or individuals specified as such in the relevant Mortgage Terms together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it;

**Business Day** means a day that is a London Business Day, a New York Business Day and a TARGET Business Day;

**Cash Management Agreement** means the cash management agreement entered into on the Closing Date between the Cash Manager, the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (as the same may be amended and/or supplemented from time to time);

**Cash Manager** means Alliance & Leicester acting, pursuant to the Cash Management Agreement, as agent for the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (amongst others) to, *inter alia*, manage all cash transactions and maintain certain ledgers on behalf of the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (which expression shall include such other person as may be appointed from time to time as Cash Manager pursuant to the Cash Management Agreement);

**Class A Note Acceleration Notice** has the meaning as set out in **Condition 9.1** (Class A Noteholders);

**Class B Note Acceleration Notice** has the meaning as set out in **Condition 9.2** (Class B Noteholders);

**Class Z Note Acceleration Notice** has the meaning as set out in **Condition 9.3** (Class Z Noteholders);

**Clearstream, Luxembourg** means Clearstream Banking, société anonyme;

**Closing Date** means 25 January 2008;

**Controlling Beneficiary Deed** means the controlling beneficiary deed entered into on the Closing Date between the Mortgages Trustee, Funding 1, the Funding 1 Security Trustee and the Seller to which any Further Funding Company and any Further Funding Security Trustee will accede at the time that such Further Funding Company becomes a Beneficiary of the Mortgages Trust (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);

**Customer Files** means the file or files relating to each Loan containing, *inter alia*:

- (a) all material correspondence relating to that Loan; and
- (b) the completed mortgage documentation applicable to the Loan,

whether original documentation, electronic form or otherwise or information provided by such documentation stored on an electronic database;

**Day Count Fraction** means, in respect of the calculation of an amount of interest for a Note in accordance with **Condition 4.1(c)** (Determination of Rate of Interest and calculation of Interest Amounts) for any Interest Period, (in the case of the Sterling Issuer Notes) the actual number of days in the Interest Period divided by 365 and (in the case of the Euro Issuer Notes) the actual number of days in the Interest Period divided by 360.

**Deferred Interest** has the meaning set out in **Condition 4.3** (Deferred Interest);

**Definitive Notes** has the meaning set out in **Condition 1.1** (Form and Denomination);

**Designated Account** means the account maintained by a Holder with a Designated Bank and identified as such in the Register;

**Designated Bank** means (in the case of payments to be made in sterling) a bank in London and (in the case of payments to be made in euro) any bank which processes payments in euro;

**Determination Date** has the meaning, set out in **Condition 4.1(b)** (Rate of Interest);

**EURIBOR** means the Euro zone inter bank offered rate;

**Euro, euro or €** means the currency of the member states of the European Union that adopt the single currency in accordance with the Treaty of Rome of 25 March 1957, establishing the European Community, as amended from time to time;

**Euroclear** means Euroclear Bank S.A./N.V.;

**Euro Issuer Notes** means the Class A1 Notes and the Class A2 Notes;

**Extraordinary Resolution** means a resolution passed at a meeting of the Noteholders of a particular Class or Classes duly convened and held in accordance with the provisions of the Note Trust Deed by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes cast on such poll;

**Final Maturity Date** means:

- (a) in relation to the Class A1 Notes, the Interest Payment Date falling in December 2054;
- (b) in relation to the Class A2 Notes, the Interest Payment Date falling in December 2054;
- (c) in relation to the Class B Notes, the Interest Payment Date falling in December 2054; and
- (d) in relation to the Class Z Notes, the Interest Payment Date falling in December 2054;

**FSA** means the Financial Services Authority;

**Funding 1** means Langton Funding (No. 1) Limited;

**Funding 1 Account Bank** means the bank at which the Funding 1 Bank Accounts are maintained from time to time (being, as at the Closing Date, Alliance & Leicester acting through its offices at Carlton Park, Narborough, Leicester LE19 0AL and, thereafter, such other replacement account banks as Funding 1 may choose with the prior written approval of the Funding 1 Security Trustee in accordance with the Funding 1 Bank Account Agreement);

**Funding 1 Bank Account Agreement** means the agreement entered into on the Closing Date between (amongst others) the Funding 1 Account Bank and Funding 1, which governs the operation of the Funding 1 Bank Accounts (as the same may be amended and/or supplemented from time to time);

**Funding 1 Bank Accounts** means the Funding 1 GIC Account and the Funding 1 Transaction Account and such other bank account(s) held in the name of Funding 1 with the approval of the Funding 1 Security Trustee from time to time;

**Funding 1 Corporate Services Agreement** means the agreement entered into on or about the Closing Date and made between (amongst others) the Funding 1 Corporate Services Provider, the Issuer and Holdings for the provision by the Funding 1 Corporate Services Provider of certain corporate services and personnel to Funding 1 and Holdings (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);

**Funding 1 Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to Funding 1 and Holdings under the Funding 1 Corporate Services Agreement;

**Funding 1 Deed of Charge** means the deed of charge entered into on the Closing Date (as amended and restated from time to time), between, amongst others, Funding 1, the Funding 1 Security Trustee, the Mortgages Trustee, the Funding 1 Account Bank, the Seller, the Issuer and the Issuer Security Trustee and each deed of accession or supplement entered into in connection therewith;

**Funding 1 GIC Account** means the account in the name of Funding 1 held at the Funding 1 Account Bank and maintained subject to the terms of the Funding 1 Bank Account Agreement and the Funding 1 Deed of Charge or such additional or replacement account as may for the time being be in place;

**Funding 1 Interest Payment Date** means the 18<sup>th</sup> day of March, June, September and December in each calendar year (or, if such day is not a Business Day, the next succeeding Business Day);

**Funding 1 Secured Creditors** means the Funding 1 Security Trustee, the Funding 1 Swap Provider, the Cash Manager, the Funding 1 Account Bank, the Seller, the Corporate Services Provider, the Secretarial Service Provider, the Issuer and any other entity that accedes to the terms of the Funding 1 Deed of Charge from time to time;

**Funding 1 Security** means the security created under the Funding 1 Deed of Charge;

**Funding 1 Security Trustee** means Citicorp Trustee Company Limited and its successors or any other security trustee under the Funding 1 Deed of Charge;

**Funding 1 Start-Up Loan Agreement** means the start-up loan agreement entered into on or about the Closing Date between the Issuer (in its capacity as the Funding 1 Start-Up Loan Provider), Funding 1 and the Funding 1 Security Trustee (as the same may be amended and/or supplemented from time to time);

**Funding 1 Start-Up Loan Provider** means the Issuer;

**Funding 1 Swap Agreement** means the ISDA master agreement including the schedule and credit support annex thereto entered into on the Closing Date between Funding 1, the Funding 1 Swap Provider and the Funding 1 Security Trustee and any confirmation thereunder from time to time between Funding 1, the Funding 1 Swap Provider and the Funding 1 Security Trustee (as each of the same may be amended, restated, novated or supplemented from time to time);

**Funding 1 Swap Provider** means Alliance & Leicester acting in its capacity as the Funding 1 Swap Provider pursuant to the Funding 1 Swap Agreement;

**Funding 1 Transaction Account** means the account in the name of Funding 1 held with the Funding 1 Account Bank and maintained subject to the terms of the Funding 1 Bank Account Agreement and the Funding 1 Deed of Charge or such additional or replacement account as may for the time being be in place;

**Funding Companies** means Funding 1 and each Further Funding Company (if any);

**Further Advance** means an advance made following a request from an existing Borrower for a further amount to be lent to him or her under his or her Mortgage, where Alliance & Leicester has a discretion as to whether to accept that request;

**Further Funding Company** means any funding entity (other than Funding 1) established in the future by Holdings that accedes to the Mortgages Trust Deed as a beneficiary;

**Further Funding Company Deed of Charge** means any deed of charge (other than the Funding 1 Deed of Charge) entered into after the Closing Date between, inter alios, the Issuer, a Further Funding Company and a Further Funding Security Trustee pursuant to which such Further Funding Company creates security over all of its assets in favour of such Further Funding Security Trustee;

**Further Funding Security Trustees** means any security trustee (other than the Funding 1 Security Trustee) appointed under any Further Funding Company Deed of Charge;

**Global Notes** means any Notes in global form;

**Holder** has the meaning set out in **Condition 1.2** (Register);

**Holdings** means Langton Securities Holdings Limited (registered number 6432540), a limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP;

**Initial Trustee** has the meaning as set out in **Condition 12** (Indemnification of the Note Trustee and the Issuer Security Trustee);

**Intercompany Loan** means at any time, the aggregate of all Loan Tranches advanced under the Intercompany Loan Agreement;

**Intercompany Loan Agreement** means the Intercompany Loan Terms and Conditions and the Intercompany Loan Confirmation;

**Intercompany Loan Confirmation** means the agreement entered into on the Closing Date between, amongst others, Funding 1, the Issuer, the Funding 1 Security Trustee and the Issuer Security Trustee;

**Intercompany Loan Terms and Conditions** means the terms and conditions signed for identification on the Closing Date by Funding 1, the Funding 1 Security Trustee and the Agent Bank;

**Interest Amount** has the meaning as set out in **Condition 4.1(c)** (Determination of Rate of Interest and calculation of Interest Amounts);

**Interest Payment Date** has the meaning as set out in **Condition 4.1(a)** (Interest Payment Dates);

**Interest Period** has the meaning as set out in **Condition 4.1(a)** (Interest Payment Dates);

**Issuer** means Langton Securities (2008-1) plc (registered number 6432564), a public limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's London EC3A 6AP;

**Issuer AAA (Class A1) Loan Tranche** means the loan tranche made by the Issuer to Funding 1 under the Intercompany Loan Agreement from the proceeds of issue of the Class A1 Notes;

**Issuer AAA (Class A2) Loan Tranche** means the loan tranche made by the Issuer to Funding 1 under the Intercompany Loan Agreement from the proceeds of issue of the Class A2 Notes;

**Issuer AA (Class B) Loan Tranche** means the loan tranche made by the Issuer to Funding 1 under the Intercompany Loan Agreement from the proceeds of issue of the Class B Notes;

**Issuer Account Bank** means Alliance & Leicester or such other person for the time being acting as account bank to the Issuer under the Issuer Bank Account Agreement;

**Issuer Bank Accounts** means the Issuer Transaction Account (being the Issuer Sterling Account), the Issuer Euro Account, the Issuer GIC Account, the Issuer Share Capital Account (each as defined in the Issuer Master Definitions and Construction Schedule) and any other account opened and maintained by the Issuer with the Issuer Account Bank pursuant to the Transaction Documents;

**Issuer Bank Account Agreement** means the bank account agreement entered into on the Closing Date between the Issuer, the Issuer Cash Manager, the Issuer Account Bank and the Issuer Security Trustee;

**Issuer Cash Management Agreement** means the cash management agreement dated the Closing Date between, amongst others, the Issuer Cash Manager, the Issuer and the Issuer Security Trustee;

**Issuer Cash Manager** means Alliance & Leicester or such other person or persons for the time being acting, under the Issuer Cash Management Agreement, as agent, inter alia, for the Issuer;

**Issuer Corporate Services Agreement** means the agreement entered into on or about the Closing Date and made between (amongst others) the Issuer Corporate Services Provider, the Issuer and Holdings for the provision by the Issuer Corporate Services Provider of certain corporate services and personnel to the Issuer and Holdings (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);

**Issuer Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the Issuer and PECO under the Issuer Corporate Services Agreement;

**Issuer Deed of Charge** means the deed of charge entered into on the Closing Date, as amended and restated from time to time, between, among others, the Issuer, PECO and the Issuer Security Trustee and each deed of accession or supplement entered into in connection therewith;

**Issuer GIC Account** means the bank account in the name of the Issuer and maintained subject to the terms of the Issuer Bank Account Agreement held at the Issuer Account Bank;

**Issuer Master Definitions and Construction Schedule** means, in relation to the Issuer, the issuer master definitions and construction schedule signed on or about the Closing Date, as the same may be amended, restated and supplemented from time to time;

**Issuer NR (Class Z) Loan Tranche** means the loan tranche made by the Issuer to Funding 1 under the Intercompany Loan Agreement from the proceeds of issue of the Class Z Notes;

**Issuer Post-Enforcement Priority of Payments Following an Intercompany Loan Acceleration** means the post-enforcement priority of payments following the service of an Intercompany Loan Acceleration Notice as set out in clause 7.3 of the Issuer Deed of Charge;

**Issuer Post-Acceleration Principal Priority of Payments** means the post-acceleration principal priority of payments as set out in clause 7.2 of the Issuer Deed of Charge;

**Issuer Pre-Acceleration Principal Priority of Payments** means the pre-acceleration principal priority of payments as set out in paragraph 4 of Schedule 2 to the Issuer Cash Management Agreement;

**Issuer Pre-Acceleration Revenue Priority of Payments** means the pre-acceleration revenue priority of payments as set out in paragraph 3 of Schedule 2 to the Issuer Cash Management Agreement;

**Issuer Principal Receipts** means an amount equal to the sum of all principal amounts repaid by Funding 1 to the Issuer under the Intercompany Loan;

**Issuer Priority of Payments** means the Issuer Pre-Acceleration Revenue Priority of Payments, the Issuer Pre-Acceleration Principal Priority of Payments, the Issuer Post-Acceleration Principal Priority of Payments or the Issuer Post-Enforcement Priority of Payments, as the case may be, each as set out in the Issuer Cash Management Agreement or the Issuer Deed of Charge (as the case may be);

**Issuer Secured Creditors** means the Issuer Security Trustee, the Note Trustee, the Issuer, the Noteholders, the Issuer Corporate Services Provider, the Secretarial Services Provider, the Issuer Account Bank, the Issuer Cash Manager, each Issuer Swap Provider, the Paying Agent, the Agent Bank, the Registrar, the Issuer Start-up Loan Provider and any new Issuer Secured Creditor who accedes to the Issuer Deed of Charge from time to time under a deed of accession or a supplemental deed;

**Issuer Security** means the security created by the Issuer pursuant to the Issuer Deed of Charge;

**Issuer Security Trustee** means Citicorp Trustee Company Limited and its successors or any other security trustee under the Issuer Deed of Charge;

**Issuer Share Capital Account** means the account of the Issuer held with the Issuer Account Bank, maintained subject to the terms of the Issuer Bank Account Agreement and the Issuer Deed of Charge, or any additional or replacement account as may for the time being be in place with the prior consent of the Issuer Security Trustee;

**Issuer Start-Up Loan Agreement** means the start-up loan agreement entered into on or about the Closing Date between the Issuer, the Issuer Start-Up Loan Provider and the Issuer Security Trustee (as the same may be amended and/or supplemented from time to time) in connection with the issuance of the Notes;

**Issuer Start-Up Loan Provider** means Alliance & Leicester plc;

**Issuer (Class A1) Swap Agreement** means the ISDA master agreement, schedule, credit support annex and the confirmation thereunder (as amended, restated, supplemented, replaced and/or novated from time to time) relating to the issuer euro currency swap to be entered into on or prior to the Closing Date between the Issuer and the Issuer (Class A1) Swap Provider in relation to the Class A1 Notes;

**Issuer (Class A2) Swap Agreement** means the ISDA master agreement, schedule, credit support annex and the confirmation thereunder (as amended, restated, supplemented, replaced and/or novated from time to time) relating to the issuer euro currency swap to be entered into on or prior to the Closing Date between the Issuer and the Issuer (Class A2) Swap Provider in relation to the Class A2 Notes;

**Issuer Swap Agreements** means the Issuer (Class A1) Swap Agreement and the Issuer (Class A2) Swap Agreement;

**Issuer (Class A1) Swap Provider** means Alliance & Leicester plc or such other swap provider appointed from time to time in relation to the Class A1 Notes;

**Issuer (Class A2) Swap Provider** means Alliance & Leicester plc or such other swap provider appointed from time to time in relation to the Class A2 Notes;

**Issuer Swap Providers** means the Issuer (Class A1) Swap Provider and the Issuer (Class A2) Swap Provider;

**LIBOR** means the London inter-bank offered rate;

**Loan** means each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all Further Advances) due or owing with respect to that loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same;

**Loan Acceleration Notice** means a notice served by the Funding 1 Security Trustee on Funding 1 following the occurrence of an Intercompany Loan Event of Default, pursuant to the Intercompany Loan Agreement;

**Loan Tranches** means the AAA Loan Tranches, the AA Loan Tranche and the NR Loan Tranche, being the advances made by the Issuer to Funding 1 pursuant to the Intercompany Loan Agreement, each being funded from proceeds received by the Issuer from the issue of Notes;

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

**Margin** means:

- (a) in respect of the Class A1 Notes, 0.58 per cent. per annum for the period from (and including) the Closing Date up to (but excluding) the Interest Payment Date falling in March 2009 and thereafter 1.16 per cent. per annum;
- (b) in respect of the Class A2 Notes, 0.30 per cent. per annum for the period from (and including) the Closing Date up to (but excluding) the Interest Payment Date falling in March 2011 and thereafter 0.60 per cent. per annum;



- (c) in respect of the Class B Notes, 0.65 per cent. per annum for the period from (and including) the Closing Date up to (but excluding) the Interest Payment Date falling in March 2015 and thereafter 1.30 per cent. per annum; and
- (d) in respect of the Class Z Notes, 2.00 per cent. per annum for the period from (and including) the Closing Date up to (but excluding) the Interest Payment Date falling in March 2015 and thereafter 3.00 per cent. per annum;

**Minimum Denominations** has the meaning given to it in Condition 1.1;

**Mortgage** means a first fixed charge by way of legal mortgage (in relation to English Loans and Northern Irish Loans) or a first ranking standard security (in relation to Scottish Loans) sold by the Seller to the Mortgages Trustee pursuant to the Mortgage Sale Agreement, which secures the repayment of the relevant Loan or Loans;

**Mortgage Conditions** means the terms and conditions applicable to a Loan as contained in the Standard Documentation provided to Borrowers from time to time;

**Mortgage Sale Agreement** means the mortgage sale agreement entered into on the Closing Date and made between the Seller, Funding 1, the Mortgages Trustee and the Funding 1 Security Trustee in relation to the sale of Loans to the Mortgages Trustee from time to time, as amended and restated from time to time;

**Mortgage Terms** means all the terms and conditions applicable to a Loan, including, without limitation, the applicable Mortgage Conditions and Offer Conditions;

**Mortgages Trust** means the bare trust of the trust property as to both capital and income held by the Mortgages Trustee on trust absolutely for Funding 1, for each Further Funding Company and the Seller pursuant to the terms of the Mortgages Trust Deed as may be supplemented, amended, restated and/or novated from time to time;

**Mortgages Trust Deed** means the mortgages trust deed entered into between (amongst others) the Mortgages Trustee, Funding 1 and the Seller on or about the Closing Date, as amended and restated from time to time;

**Mortgages Trustee** means Langton Mortgages Trustee Limited (registered number 99388), a private company with limited liability incorporated in Jersey, Channel Islands, whose registered office is at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands;

**Mortgages Trustee Account Bank** means the bank at which the Mortgages Trustee GIC Account is maintained from time to time (being, as at the Closing Date, Alliance & Leicester acting through its offices at Carlton Park, Narborough, Leicester LE19 0AL and, thereafter, such other replacement account bank as the Mortgages Trustee may appoint in accordance with the Transaction Documents);

**Mortgages Trustee Bank Account Agreement** means the agreement entered into on or about the Closing Date between (amongst others) the Mortgages Trustee Account Bank and the Mortgages Trustee which governs the operation of the Mortgages Trustee GIC Account (as the same may be amended and/or supplemented from time to time);

**Mortgages Trustee Corporate Services Agreement** means the agreement entered into on or about the Closing Date between the Mortgages Trustee Corporate Services Provider, Alliance & Leicester and the Mortgages Trustee for the provision by the Mortgages Trustee Corporate Services Provider of certain corporate services to the Mortgages Trustee;

**Mortgages Trustee Corporate Services Provider** means Maurant & Co. Limited or such other person or persons for the time being acting as corporate services provider to the Mortgages Trustee under the Mortgages Trustee Corporate Services Agreement;

**Mortgages Trustee GIC Account** means the account in the name of the Mortgages Trustee maintained with the Mortgages Trustee Account Bank pursuant to the Mortgages Trustee Bank Account Agreement or such additional or replacement bank account of the Mortgages Trustee as may for the time being be in place;

**New Intercompany Loan** means an intercompany loan entered into between the any New Issuer and Funding 1;

**New Issuer** means any company other than the Issuer, which is established after the Closing Date to make a New Intercompany Loan to issue New Notes where all or part of the proceeds of the issue of New Notes will be on-lent to Funding 1 and/or a Further Funding Company;

**New Notes** means any notes (other than Notes) issued by the Issuer and any notes of any New Issuer (as applicable);

**New York Business Day** means a day (other than a Saturday or Sunday) on which banks are open for general business (including dealings in foreign currency) in the city of New York;

**Note Acceleration Notice** has the meaning set out in **Condition 9.4** (Following Service of a Note Acceleration Notice);

**Note Event of Default** means the occurrence of an event of default by the Issuer as specified in **Condition 9**;

**Note Principal Payment** has the meaning set out in **Condition 5.3** (Note Principal Payments and Principal Amount Owing);

**Note Purchase Agreement** means a purchase agreement in relation to the Notes dated the Closing Date between Alliance & Leicester and the Issuer;

**Note Purchaser** means Alliance & Leicester;

**NR Loan Tranche** means the Loan Tranche made by the Issuer under the Intercompany Loan Agreement from the proceeds of the Class Z Notes;

**Note Trustee** means Citicorp Trustee Company Limited and its successors or any further or other note trustee under the Note Trust Deed, as trustee for the Noteholders;

**Offer Conditions** means the terms and conditions applicable to a specific Loan as set out in the relevant offer of advance to the Borrower;

**Paying Agent** means any new or additional paying agent appointed by the Issuer from time to time;

**Paying Agent and Agent Bank Agreement** means the agreement entered into on the Closing Date between the Issuer, the Note Trustee and the Security Trustee;

**PECOH Corporate Services Agreement** means the agreement entered into between the Post Enforcement Call Option Holder and the PECOHO Corporate Services Provider pursuant to which the PECOHO Corporate Services Provider will agree to provide certain corporate services to the Post Enforcement Call Option Holder;

**PECOHO Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the Post Enforcement Call Option Holder under the PECOHO Corporate Services Agreement;

**Post Enforcement Call Option Holder** means Langton PECOHO Limited;

**Pool Factor** has the meaning set out in **Condition 5.3** (Note Principal Payments and Principal Amount Owing);

**Portfolio** means at any time the Loans and their Related Security sold to or held on trust for the Mortgages Trustee on trust for the Beneficiaries;

**Post-Enforcement Call Option Agreement** means the post-enforcement call option agreement entered into on the Closing Date between the Issuer, the Post-Enforcement Call Option Holder and the Note Trustee;

**Post-Enforcement Call Option Holder** or **PECOHO** means Langton PECOHO Limited;

**Post-Enforcement Call Option Holder Corporate Services Agreement** or **PECOHO Corporate Services Agreement** means the agreement entered into on the Closing Date between (amongst others) the PECOHO Corporate Services Provider, PECOHO and the Note Trustee for the provision by the PECOHO Corporate Services Provider of certain corporate services and personnel to PECOHO (as the same may be amended and/or supplemented from time to time);

**Principal Amount Outstanding** has the meaning set out in **Condition 5.3** (Note Principal Payments and Principal Amount Owing);

**Principal Paying Agent** means Citibank N.A. in its capacity as principal paying agent under the Paying Agent and Agent Bank Agreement;

**Property** means a freehold, heritable, leasehold or commonhold property (or in Scotland a property held under a long lease) which is subject to a Mortgage;

**Rated Notes** means the Class A Notes and the Class B Notes;

**Rate of Interest** has the meaning as set out in **Condition 4.1(b)** (Rate of Interest);

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

**Reasonably, Prudent Mortgage Lender** means a reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales, Scotland and Northern Ireland who generally satisfy the lending criteria of traditional sources of residential mortgage capital;

**Record Date** has the meaning set out in **Condition 6.7** (Record Date);

**Reference Banks** means the principal London office of each of four 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;

**Reference Rate** means:

- (a) in respect of the Sterling Issuer Notes, the rate for three month deposits in sterling which appears on the Reuters screen LIBOR01 (or such other page as may replace that page on that service) or, in the case of the first Interest Period, a linear interpolation of the rates for four and five month deposits in sterling which appear as aforesaid; and
- (b) in respect of the Euro Issuer Notes, the rate for three month deposits in euro which appears on the Reuters screen EURIBOR01 (or such other page as may replace that page on that service) or, in the case of the first Interest Period, a linear interpolation of the rates for four and five month deposits in euro which appear as aforesaid;

**Register** means the register of Noteholders kept by the Registrar and which records the identity of each Noteholder and the number of Notes that each Noteholder owns;

**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 or held on trust for the Mortgage Trustee, including (without limitation):

- (a) the benefit of all affidavits, consents, renunciations, guarantees, indemnities, waivers and postponements from occupiers and other persons having an interest in or rights in connection with the relevant Property;
- (b) each right of action of the Seller against any person (including, without limitation, any valuer, licensed or qualified conveyancer, solicitor and any registrar or registry) in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given or received in connection with all or part of any Loan and its Related Security or affecting the decision of the Seller to make or offer to make all or part of the relevant Loan; and
- (c) the benefit of (including, without limitation, the rights as the insured person under and as notations of interest on, returns of premium and proceeds of claims under) insurance policies (including the buildings policies) deposited, charged, obtained, or held in connection with the relevant Loan, Mortgage and/or Property and Customer Files;

**Relevant Date** has the meaning set out in **Condition 7** (Prescription);

**Relevant Screen** means a page of the Reuters service or Bloomberg service, or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and has been notified to Noteholders in the manner set out in **Condition 14** (Notice to Noteholders);

**Relevant Screen Page** means:

- (a) in respect of the Sterling Issuer Notes, the Reuters screen LIBOR01 (or such other page as may replace that page on that service); and
- (b) in respect of the Euro Issuer Notes, the Reuters screen EURIBOR01 (or such other page as may replace that page on that service);

**Resolution** has the meaning as set out in **Condition 11.1** (Meetings of Noteholders);

**Scottish Declaration of Trust** means each declaration of trust in relation to Scottish Loans and their Related Security granted by the Seller in favour of the Mortgages Trustee pursuant to the Mortgage Sale Agreement;

**Scottish Loan** means a Loan secured by a standard security over a Property located in Scotland;

**Secretarial Services Agreement** means the agreement entered into on or about the Closing Date and made between (amongst others) the Secretarial Services Provider, the Issuer, Funding 1, PECO and Holdings for the provision by the Secretarial Services Provider of certain corporate services and personnel to the Issuer, Funding 1, PECO and Holdings (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);

**Secretarial Services Provider** means Alliance & Leicester or such other person or persons for the time being acting as secretarial services provider to the Issuer, Funding 1, Holdings and/or PECO under the Secretarial Services Agreement;

**Seller** means Alliance & Leicester;

**Servicer** means Alliance & Leicester, or such other person as may from time to time be appointed as servicer of the Portfolio pursuant to the Servicing Agreement;

**Servicing Agreement** means the agreement entered into on the Closing Date between the Servicer, the Mortgages Trustee, the Funding 1 Security Trustee, Funding 1 and the Seller pursuant to which the Servicer agrees to administer the Loans and their Related Security comprised in the Portfolio (as the same may be amended, supplemented, replaced and/or novated from time to time);

**Specified Date** has the meaning as set out in **Condition 11.5** (Redenomination);

**Specified Office** means, as the context may require, in relation to any of the Agents, the office specified against the name of such Agent in the Paying Agent and Agent Bank Agreement or such other specified office as may be notified to the Issuer and the Note Trustee pursuant to the Paying Agent and Agent Bank Agreement;

**Standard Documentation** means the standard documentation or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonably, Prudent Mortgage Lender;

**Sterling, Pounds Sterling or £** means the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

**Sterling Issuer Notes** means the Class B Notes and the Class Z Notes;

**TARGET Business Day** means a day on which the Trans European Automated Real-time Gross settlement Express (TARGET) system is open;

**Transaction Documents** means the Cash Management Agreement, the Funding 1 Bank Account Agreement, the Funding 1 Corporate Services Agreement, the Controlling Beneficiary Deed, the Funding 1 Deed of Charge, the Funding 1 Swap Agreement, the Funding 1 Start-Up Loan Agreement, the Intercompany Loan Agreement, the Issuer Deed of Charge, each Issuer Deed of Charge Deed of Accession, the Master Definitions and Construction Schedule, the Issuer Bank Account Agreement, the Issuer Cash Management Agreement, the Issuer Corporate Services Agreement, the Secretarial Services Agreement, the Issuer Start-Up Loan Agreement, the Issuer Master Definitions and Construction Schedule, the Issuer Swap Agreements, the Mortgage Sale Agreement, the Mortgages Trust Deed, the Mortgages Trustee Bank Account Agreement, the Mortgages Trustee Corporate Services Agreement, the PECO Corporate Services Agreement, the Funding 1 Start-up Loan Agreement, the Paying Agent and Agent Bank Agreement, the Post-Enforcement Call Option Agreement, each Scottish Declaration of Trust, the Servicing Agreement, the Note Purchase Agreement, the Note Trust Deed, any other deeds of accession or supplemental deeds relating to any such documents and any other agreement or document from time to time designated as such by the Issuer and the Issuer Security Trustee and/or Funding 1 and the Funding 1 Security Trustee;

**Trustee** has the meaning as set out in **Condition 12** (Indemnification of the Note Trustee and the Issuer Security Trustee).

## **MATERIAL LEGAL ASPECTS OF THE LOANS AND THEIR RELATED SECURITY**

*The following discussion is a summary of the material legal aspects of English, Northern Irish and Scottish residential property loans and mortgages. It is not an exhaustive analysis of the relevant law.*

### **English Loans**

#### ***General***

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender (i.e. the seller). Each English loan will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller, though such other mortgage or interest will rank below the seller's mortgage in priority.

#### ***Nature of property as security***

There are two forms of title to land in England and Wales: registered and unregistered. Both systems of title can include both freehold and leasehold land.

#### ***Registered title***

Title to registered land is registered at the Land Registry. Each parcel of land is given a unique title number. Prior to 13 October 2003, title to the land was established by a land certificate or (in the case of land which is subject to a mortgage or charge) charge certificate containing official copies of the entries on the register relating to that land. However, pursuant to the Land Registration Act 2002, which came into force on 13 October 2003, the provision of land certificates and charge certificates has now been abolished. Title to land is now established by reference to entries on the registers held by the Land Registry.

There are four classes of registered title. The most common is title absolute. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act 2002 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

#### ***Unregistered title***

All land in England and Wales is now subject to compulsory registration on the occurrence of any of a number of trigger events, which includes the granting of a first legal mortgage. However, a small proportion of land in England and Wales (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights would have to be registered at the Central Land Charges Registry in order to be effective against a subsequent purchaser of the land.

#### ***Taking security over land***

Where land is registered, a mortgagee must register its mortgage at the Land Registry in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register his mortgage. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the mortgagee protects its interest by retaining possession of the title deeds to the property. Without the title deeds to the property, the borrower is unable to establish the necessary chain of

ownership, and is therefore effectively prevented from dealing with its land without the consent of the mortgagee. Priority of mortgages over unregistered land is governed first by the possession of title deeds, and, in relation to subsequent mortgages, by the registration of a land charge.

### *The seller as mortgagee*

The sale of the English mortgages by the seller to the mortgages trustee will take effect in equity only. The mortgages trustee will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the mortgages. The consequences of this are explained in **Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your issuer notes**” above.

### *Enforcement of mortgages*

If a borrower defaults under a loan, the English mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the English mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.
- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, because of procedural constraints, rarely used.
- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Law of Property Act 1925. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

A court order under Section 126 of the CCA is necessary to enforce a land mortgage in certain circumstances as described under **“Risk factors – Certain regulatory considerations”** above.

## **Scottish loans**

### *General*

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the **1970 Act**). There are two parties to a standard security. The first party is the grantor, who is the borrower and homeowner. The grantor grants the standard security over its property (and is generally the only party to execute the standard security). The second party is the grantee of the standard security, who is the lender (i.e. in relation to the Scottish loans, the seller) and is called the heritable creditor. Each Scottish loan will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent standard security over the relevant property without the consent of the seller. Upon intimation to the seller (in its capacity as trustee for the mortgages trustee pursuant to the relevant Scottish declaration of trust) of the creation of any subsequent standard security the prior ranking of the seller's standard security shall be restricted to security for advances made prior to such intimation and advances made subsequent to such intimation which the seller or the mortgages trustee is obliged to advance, and for interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of **“Standard Conditions”** into all standard securities, although the majority of these may be varied by agreement between the parties. The seller, along with most lenders in the residential mortgage market in Scotland, has elected to vary the Standard Conditions by means of its own set of Scottish mortgage conditions, the terms of which are imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by agreement relate to redemption and enforcement, and in particular to the notices and other procedures that are required to be carried out prior to the exercise of the heritable creditor's rights on a default by the borrower.

### *Nature of property as security*

While title to all land in Scotland is registered there are currently two possible forms of registration, namely the Land Register and the Sasine Register. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long lease land.

### *Land Register*

This system of registration was established by the Land Registration (Scotland) Act 1979 and now applies to the whole of Scotland. Any sale of land (including a long lease interest in land) the title to which has not been registered in the Land Register or the occurrence of certain other events in relation thereto (but not the granting of a standard security alone) trigger its registration in the Land Register, when it is given a unique title number. Title to the land and the existence of any standard security over it are established by the entries on the Land Register relating to that land. Prior to 22 January 2007 the holder of the title received a land certificate containing official copies of the relevant entries on the Land Register. Similarly, the holder of any standard security over the land in question received a charge certificate containing official copies of the entries relating to that security. However, in terms of the Automated Registration of Title to Land (Electronic Communications) (Scotland) Order 2006 and the Land Registration (Scotland) Rules 2006, with effect from 22 January 2007 such land and charge certificates are only issued to the relevant title or security holder if so requested at the time of the relevant registration and otherwise are available in electronic form only. A person registered in the Land Register owns the land free from all interests other than those entered on the Register, those classified as overriding interests and any other interests implied by law.

The relevant Land Register entries and land certificate (whether in paper or electronic form) will reveal the present owners of the land, together with any standard securities and other interests (other than certain overriding interests and any other interests implied by law) affecting the land. They will also contain a plan indicating the location and extent of the land. While this plan is not in all circumstances conclusive as to the extent of the land, it cannot be amended if this would be to the prejudice of a proprietor in possession of the land, unless the statutory indemnity in respect of such amendments has been expressly excluded in the relevant Land Register entries and land certificate.

### *Sasine Register*

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register is recorded in the General Register of Sasines. Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

### *Taking security over land*

A heritable creditor must register its standard security in the Land Register or the Sasine Register (as applicable) in order to perfect its security and to secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a subsequent purchaser or the heritable creditor under another standard security over the property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by their date of registration rather than their date of execution. There is no equivalent in Scotland to the priority period system which operates in relation to registered land in England and Wales.

### *The seller as heritable creditor*

The sale of the Scottish mortgages by the seller to the mortgages trustee on the first sale date will be given effect by a declaration of trust by the seller in favour of the mortgages trustee (and any further sale of Scottish mortgages in the future will be given effect by further declarations of trust), by which the beneficial interest in the Scottish mortgages will be transferred to the mortgages trustee. Such beneficial interest (as opposed to the legal title) cannot be registered in the Land Register or the Sasine Register. The consequences of this are explained in “**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your issuer notes**” above.

### *Enforcement of mortgages*

If a borrower defaults under a Scottish loan, the Scottish mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assignees may enforce its standard security in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

- The heritable creditor may enter into possession of the property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The heritable creditor may grant a lease of the property of up to seven years (or longer with the courts' permission) to third parties.
- The heritable creditor may sell the property, subject to various duties to ensure that the sale price is the best that can reasonably be obtained. The purchaser of a property sold pursuant to a heritable creditor's power of sale becomes the owner of the property.
- The heritable creditor may, in the event that a sale cannot be achieved, foreclose on the property. Under foreclosure procedures the borrower's title to the property is extinguished so that the heritable creditor becomes the owner of the property. However, this remedy is rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

A court order under Section 126 of the CCA is necessary to enforce a standard security in certain circumstances as described under “**Risk factors – Certain regulatory considerations**” above.

### **Borrower's right of redemption**

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security over residential property has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years, subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender, interest thereon and expenses incurred by the lender in relation to that standard security.

### **Northern Irish Loans**

#### ***General***

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property (and is generally the only party to execute the mortgage). The second party is the mortgagee, who is the lender. Each Northern Irish loan will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller, though such other mortgage or interest will rank below the seller's mortgage in priority but only to the extent of advances made by the seller prior to receipt of notice of the other mortgage together with interest and expenses in respect thereof.

#### ***Nature of property as security***

There are two forms of title to land in Northern Ireland: registered and unregistered. Both systems of title can include both freehold and leasehold land.

#### ***Registered title***

Title to registered land is registered at the Land Registry of Northern Ireland. Each parcel of land is given a unique title number. Title to the land is established by a land certificate containing official copies of the entries on the register relating to that land.

There are four classes of registered title namely Good Fee Farm Grant, Good Leasehold, Absolute (leasehold, freehold under a fee farm grant or fee simple) and a Qualified or Possessory class. The most common is title absolute although Good Fee Farm Grant and Good Leasehold titles are also common. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry of Northern Ireland will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act (Northern Ireland) 1970 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry of Northern Ireland such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.



### *Unregistered title*

From 1 May 2003 all land in Northern Ireland is now subject to compulsory registration on the occurrence of any of a number of trigger events, which does not include the granting of a first legal mortgage alone. A substantial proportion of land in Northern Ireland (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to all land in Northern Ireland where no event has occurred to trigger registration at the Land Registry of Northern Ireland is registered at the Registry of Deeds. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However other rights would have to be registered at the Registry of Deeds in order to be effective against a subsequent purchaser of the land.

### *Taking security over registered land*

The position in relation to further advances where the security is taken over registered land is governed by Section 43(1) of the Land Registration Act 1970. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the lender, though such other mortgage or interest will rank below the lender's mortgage in priority but only to the extent of further advances made by the lender prior to receipt of notice of the other mortgage (together with interest and expenses in respect thereof). Thus a mortgagee (e.g. a lender) must register its mortgage at the Land Registry of Northern Ireland in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than the date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register its mortgage. The priority period is 40 days and a priority search may only be lodged if the mortgagee is in contract to lend. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry of Northern Ireland during this priority period.

### *Taking security over unregistered land*

In the system of unregistered land, a mortgagee (e.g. a lender) must register its mortgage at the Registry of Deeds in order to secure priority over a subsequent mortgagee. Priority of mortgages over unregistered land is governed by the date of registration of the mortgage rather than the date of creation unless there is actual notice of a prior unregistered mortgage. There is no equivalent priority period system which operates in relation to registered land.

The position regarding priority of security for further advances where the security is taken over unregistered land is not governed by statute in Northern Ireland. Where unregistered land is involved, the equitable doctrine of tacking survives. A mortgagee's (e.g. a lender's) right to "tack" is a right, in certain circumstances, to add further advances to the original security (taken to secure earlier advances) so as to obtain priority over any intermediate security taken by a subsequent lender over the same property. The application of the doctrine of tacking means that the first lender is allowed to "tack" for further advances (so ensuring that such further advances are secured with priority over any intermediate charge) only in the following circumstances: (i) if an intervening lender has agreed to postpone its mortgage to further advances by the first lender, or (ii) if the first lender is under an obligation to make further advances. However, even in the event that the obligation to make further advances is contained in the relevant mortgage deed, if the first lender making the further advances has been notified of an intervening mortgage at the time of making the further advance, that further advance cannot be "tacked" to the original security. The effect of this is that if the first lender receives notice from an intervening lender of an intermediate charge over the relevant property, then the further advances made by the first lender will not be secured with priority over such intermediate charge.

By virtue of Article 51 of The Judgments Enforcement (Northern Ireland) Order 1981 an order charging land, i.e. a judgment mortgage, if founded on a judgment in respect of rates payable in respect of that land, shall have priority over all other charges and encumbrances whatever affecting that land except other debts owing to the crown.

### *The seller as mortgagee*

The sale of the Northern Irish loans by the seller to the mortgages trustee will take effect in equity only and any sale of Northern Irish loans in the future will take effect in equity only. The mortgages trustee will not apply to the Land Registry of Northern Ireland or the Registry of Deeds to register or record its equitable interest in the mortgages. The consequences of this are explained in the section "**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your issuer notes**" above.

### *Enforcement of mortgages*

If a borrower defaults under a Northern Irish loan, the Northern Irish mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the

Northern Irish mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.
- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, in theory, available, but in modern times it has not been granted by the courts.
- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Conveyancing and Law of Property Act 1881. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

A court order under Section 126 of the CCA is necessary to enforce a land mortgage in certain circumstances as described under "**Risk factors – certain regulatory considerations**" above.

### Expected Average Lives of the Issuer Notes

The average lives of each class of the issuer notes cannot be stated, as the actual rate of repayment of the loans and redemption of the mortgages and a number of other relevant factors are unknown. However, calculations of the possible average lives of each class of the issuer notes can be made based on certain assumptions. For example, based on the assumptions that:

- (1) neither the issuer security nor the Funding 1 security has been enforced;
- (2) each class of the issuer notes is repaid in full by its final maturity date;
- (3) the seller is not in breach of the terms of the mortgage sale agreement;
- (4) the seller sells to the mortgages trustee sufficient new loans and their related security, in the period up to but excluding the interest payment date in March 2010, such that the aggregate principal amount outstanding of the loans in the portfolio at any time is not less than £5.8 billion or such higher amount as may be required to be maintained as a result of the issuer advancing loan tranches to Funding 1 and/or any new issuer advancing new issuer loan tranches to Funding 1 or any further Funding company (as the case may be) which Funding 1 and/or any further Funding company (as the case may be) uses as consideration for an increase in its share of the trust property or for the sale of new loans to the mortgages trustee to ensure that the seller's share remains at least 4.76% of the trust property;
- (5) neither an asset trigger event nor a non-asset trigger event occurs;
- (6) the annualised CPR as at the closing date is the same as the various assumed rates in the table below;
- (7) the closing date is 25 January 2008;
- (8) the mortgage loans are not subject to any defaults or losses, and no mortgage loan falls into arrears;
- (9) no interest or fees are paid from principal receipts;
- (10) the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller continue to be rated at least "A-" by Fitch and "A3" by Moody's; and
- (11) the issuer redeems the class A1 issuer notes on the interest payment date falling in March 2009 and the class A2 issuer notes, the class B issuer notes and the class Z issuer notes on the interest payment date falling in March 2011.

the approximate average life in years of each class of the issuer notes, at various assumed rates of repayment of the loans (which, when specified to be a constant prepayment rate will assume both scheduled and unscheduled repayment of the loans), would be as follows:

#### Estimated average lives of each class of issuer notes (in years)

Constant prepayment rate (per annum)	class A1 notes	class A2 notes	class B notes	class Z notes
5 per cent.	1.145	3.145	3.145	3.145
10 per cent.	1.145	3.145	3.145	3.145
15 per cent.	1.145	3.145	3.145	3.145
20 per cent.	1.145	3.145	3.145	3.145
25 per cent.	1.145	3.145	3.145	3.145
30 per cent.	1.145	3.145	3.145	3.145

Assumptions (1), (3), (4), (5), (6), (7), (10), (11) and (12) relate to circumstances which are not predictable. Assumptions (2), (8) and (9) reflect the issuer's current expectations, although no assurance can be given that the issuer will be in a position to redeem the class B and/or class Z issuer notes on the step-up date. If the issuer does not so exercise its option to redeem, then the average lives of the then outstanding notes would be extended.

The average lives of the issuer notes are subject to factors largely outside the control of the issuer and consequently no assurance can be given that these assumptions and estimates will prove in any way to be realistic and they must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of these estimated average lives, see "**Risk factors – The yield to maturity of the issuer notes may be adversely affected by prepayments or redemptions on the loans**" above.

## UNITED KINGDOM TAXATION

*The following applies only to persons who are the beneficial owners of the issuer notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating only to United Kingdom withholding tax treatment of payments of principal and interest in respect of the issuer notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the issuer notes. Prospective noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.*

### **Payment of interest on the issuer notes**

Payments of interest on the issuer notes may be made without deduction of or withholding on account of United Kingdom income tax where the issuer notes are and continue to be listed on a "recognised stock exchange" within the meaning of Section 1005 of the Income Tax Act 2007 (**listed notes**). The London Stock Exchange is a recognised stock exchange. 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. Where, therefore, any of the issuer notes are listed notes, interest on those issuer notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the issuer notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the issuer 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 issuer 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 HM Revenue and Customs has not given a direction (in circumstances where it has reasonable grounds to believe 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.

Interest on the notes may also be paid without withholding or deduction for or on account of United Kingdom tax where the maturity of the notes is less than 365 days.

In other cases, an amount must generally be withheld from payments of interest on the issuer notes on account of United Kingdom income tax at the savings rate (currently 20 per cent.). 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 interest paid to a noteholder, HM Revenue and Customs 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, HM Revenue and Customs 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 or who either pays amounts payable on the redemption of issuer notes which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of another person, although HM Revenue and Customs' published practice indicates that HM Revenue and Customs will not exercise the power referred to above to require this information in respect of notes which are deeply discounted securities where such amounts are paid on or before 5 April 2008. Any information so obtained may, in certain circumstances, be exchanged by HM Revenue and Customs 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, a 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. 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).

## MATERIAL JERSEY (CHANNEL ISLANDS) TAX CONSIDERATIONS

### Tax status of the mortgages trustee and the mortgages trust

As part of an agreement reached in connection with the EU Savings Tax Directive, and in line with steps taken by other relevant third countries and territories, the States of Jersey introduced with effect from 1st July, 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey (the terms "beneficial owner" and "paying agent" are defined in the EU Savings Tax Directive). The retention tax system applies for a transitional period prior to the implementation of a system of automatic information exchange with EU Member States regarding such payments. During the transitional period, an individual beneficial owner resident in an EU Member State who does not wish interest payments to be subject to the retention tax system is entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The transitional period will end only after all EU Member States and other relevant third countries and territories have agreed to automatic exchange of information and the EU Member States unanimously agree that the United States of America has committed to exchange of information upon request as defined in the 2002 OECD Model Agreement on Exchange of Information on Tax Matters.

The retention tax system and the disclosure arrangements are implemented in Jersey by means of bilateral agreements with each of the EU Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy & Resources Committee of the States of Jersey.

It is the opinion of Mourant du Feu & Jeune, the Jersey (Channel Islands) tax counsel to the mortgages trustee, that the mortgages trustee is resident in Jersey for taxation purposes and is presently liable to income tax in Jersey at a rate of 20 per cent. in respect of the profits that it makes from acting as trustee of the mortgages trust. The mortgages trustee will not be liable for any income tax in Jersey in respect of any income that it receives in its capacity as mortgages trustee on behalf of the beneficiaries of the mortgages trust provided that certain conditions are satisfied, which are that (i) the beneficiaries of the mortgages trust are not resident in Jersey, (ii) the entitlement of the beneficiaries of the mortgages trust to the trust income is absolute and not discretionary in nature and (iii) none of the income that the mortgages trustee receives in its capacity as mortgages trustee will be Jersey source income. The income that the mortgages trustee receives in its capacity as mortgages trustee should not be Jersey source income as all of the trust property is situated outside Jersey.

Legislation has been adopted by the States of Jersey which will, on and from January 2009, introduce a standard rate of corporate tax of 0% applicable to all companies (other than any "financial services company" (as defined therein) and certain specified Jersey utility companies). As at the date hereof, the mortgages trustee is neither a "financial services company" nor such a specified utility company.

## PURCHASE AND SALE

Alliance & Leicester (in such capacity, the **note purchaser**) has agreed with the issuer (subject to certain conditions) to purchase: (a) the class A1 issuer notes at the issue price of 100% of the aggregate principal amount of the class A1 issuer notes; (b) the class A2 issuer notes at the issue price of 100% of the aggregate principal amount of the class A2 issuer notes; (c) the class B issuer notes at the issue price of 100% of the aggregate principal amount of the class B issuer notes, and (d) the class Z issuer notes at the issue price of 100% of the aggregate principal amount of the class Z issuer notes.

No action has been taken by the issuer or the note purchaser which would or is intended to permit a public offering of the issuer notes, or possession or distribution of this prospectus or other offering material relating to the issuer notes, in any country or jurisdiction where action for that purpose is required.

The note purchaser has undertaken not to offer or sell, directly or indirectly, issuer notes, or to distribute or publish this prospectus or any other material relating to the issuer 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 issuer notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

### United Kingdom

The note purchaser has represented, warranted and agreed 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 purchase of the issuer 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 issuer notes in, from or otherwise involving the United Kingdom.

### United States

The issuer 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 under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the issuer notes are being offered and sold outside the United States to persons other than U.S. persons (as defined in and pursuant to Regulation S under the Securities Act).

The note purchaser has agreed that, except as permitted by the note purchase agreement, it will not offer or sell the issuer notes (i) as part of its distribution at any time or (ii) until 40 days after the later of the commencement of the offering of the Reg S issuer notes and the closing date (the **distribution compliance period**), 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 note purchaser (if any) to which it sells issuer notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the issuer notes within the United States or to, or for the account or benefit of, U.S. persons.

### General

Reference should be made to the note purchase agreement for a complete description of the restrictions on offers and sales of the issuer notes and on distribution of documents. Attention is also drawn to the inside cover of this prospectus.

## LISTING AND GENERAL INFORMATION

### Authorisation

The issue of the issuer notes has been authorised by resolution of the board of directors of the issuer passed on 23 January 2008.

### Listing of notes

Application will be made to the UK listing authority for the rated issuer notes to be admitted to the official list maintained by the UK listing authority. Application will also be made to the London Stock Exchange for the rated issuer notes to be admitted to trading on the London Stock Exchange's regulated market for the purposes of the Markets in Financial Instruments Directive. Admission to the official list together with admission to the London Stock Exchange's regulated market constitute official listing on the London Stock Exchange.

It is expected that listing of the rated issuer notes will be on the official list maintained by the UK Listing Authority and that trading on the London Stock Exchange's regulated market will be granted on or about 29 January 2008 and that the rating agencies will assign the expected ratings to the rated issuer notes.

This prospectus has been prepared in compliance with the prospectus rules made under Part VI of the FSMA.

The issuer accepts responsibility for the information contained in this prospectus. To the best of the knowledge of the issuer (who has 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. The issuer accepts responsibility accordingly.

### Clearing and settlement

Transactions in respect of the issuer notes will be effected for settlement in sterling (in the case of the sterling issuer notes) and in euro (in the case of the euro issuer notes) and for delivery on the third working day after the date of the transaction. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.

The rated issuer notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear under the following common codes and ISINs:

<b>class of issuer notes</b>	<b>ISIN</b>	<b>Common Code</b>
class A1 issuer notes	XS0336390074	033639007
class A2 issuer notes	XS0336393177	033639317
class B issuer notes	XS0336393680	033639368
class Z issuer notes	N/A	N/A

### Litigation

Currently, none of the issuer, Funding 1, Holdings, the issuer post-enforcement call option holder, PECO share trustee, the UK share trustee, the Jersey share trustee or the mortgages trustee is or has been involved since its incorporation in any governmental, legal or arbitration proceedings or enforcement proceedings (including any such proceedings which are pending or threatened of which the issuer, Funding 1, Holdings, the issuer post-enforcement call option holder, PECO share trustee, the UK share trustee, the Jersey share trustee or the mortgages trustee is aware) which may have or have had in the recent past a significant effect upon the financial position or profitability of the issuer, Funding 1, Holdings, the post-enforcement call option holder, PECO share trustee, the UK share trustee, the Jersey share trustee or the mortgages trustee (as the case may be).

There are currently no legal or arbitration proceedings pending (or known by Alliance & Leicester to be contemplated by governmental authorities) against Alliance & Leicester or in which any property of Alliance & Leicester is the subject, that is material to the noteholders.

### Accounts

No statutory or non-statutory accounts within the meaning of the Companies Act 1985 (as amended) in respect of any financial year of the issuer nor Funding 1 have been prepared. So long as the rated issuer notes are listed on the

official list of the UK listing authority and are trading on the London Stock Exchange's regulated market, the most recently published audited annual accounts of the issuer and Funding 1 from time to time shall be available at the specified office of the principal paying agent in London. Neither the issuer nor Funding 1 publishes interim accounts.

Since the date of its incorporation, neither the issuer nor Funding 1 has entered into any contracts or arrangements not being in the ordinary course of business.

### **Significant or material change**

Since 20 November 2007, the date of incorporation of the issuer, Funding 1, Holdings and the issuer post-enforcement call option holder or 27 November 2007, the date of incorporation of the mortgages trustee, as appropriate, there has been (1) no material adverse change in the financial position or prospects of the issuer, Funding 1, Holdings, the issuer post-enforcement call option holder or the mortgages trustee and (2) no significant change in the financial or trading position of the issuer, Funding 1, Holdings, the issuer post-enforcement call option holder or the mortgages trustee.

### **Quarterly reports**

Quarterly reports prepared by the issuer cash manager in relation to the issuer will be provided to Bloomberg L.P. for publication on a page of the Bloomberg screen.

### **Documents available**

From the date of this prospectus and for so long as the rated issuer notes are listed on the London Stock Exchange's regulated market, copies of the following documents may, when published, be inspected at the registered office of the issuer and from the specified office of the paying agent during usual business hours, on any weekday (public holidays excepted):

1. the memorandum and articles of association of each of the issuer, Funding 1, Holdings, the mortgages trustee and the issuer post-enforcement call option holder;
2. a copy of the prospectus;
3. each of the following documents (the **transaction documents**):
  - the cash management agreement;
  - the controlling beneficiary deed;
  - the Funding 1 corporate services agreement;
  - the Funding 1 bank account agreement;
  - the Funding 1 deed of charge;
  - each Funding 1 deed of charge deed of accession;
  - the Funding 1 swap agreement;
  - the Funding 1 start-up loan agreement;
  - the intercompany loan terms and conditions;
  - the issuer bank account agreement;
  - the issuer cash management agreement;
  - the issuer corporate services agreement;
  - the issuer deed of charge;
  - the issuer intercompany loan agreement;
  - the issuer intercompany loan confirmation;
  - the issuer master definitions and construction schedule;
  - the issuer post-enforcement call option agreement;
  - the issuer start-up loan agreement;
  - the issuer (class A1) swap agreement;
  - the issuer (class A2) swap agreement;
  - the master definitions and construction schedule;



- the mortgage sale agreement;
- the mortgages trust deed;
- the mortgages trustee bank account agreement;
- the mortgages trustee corporate services agreement;
- the note purchase agreement;
- the note trust deed;
- the paying agent and agent bank agreement;
- the PECO corporate services agreement;
- each Scottish declaration of trust;
- the secretarial services agreement;
- the servicing agreement; and
- any other deeds of accession or supplemental deeds relating to any such documents and any other agreement or document from time to time designated as such by the issuer or Funding 1 and the note trustee and/or the issuer security trustee and/or the Funding 1 security trustee.

The issuer confirms that the loans backing the issuer intercompany loan and the issuer intercompany loan backing the issuer notes, taken together with the other arrangements to be entered into by the issuer and/or Funding 1 on the closing date pursuant to the transaction documents, have the characteristics that demonstrate capacity to produce funds to service any payments due and payable on the issuer notes. This confirmation is based on the information available to the issuer as at the date of this prospectus and may be affected by the future performance of such assets backing the issuer notes. Consequently you are advised to review carefully any disclosure in the prospectus together with any amendments or supplements thereto.

## GLOSSARY

<b>€, euro and Euro</b>	the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended from time to time
<b>£, pounds and sterling</b>	the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>1970 Act</b>	the Conveyancing and Feudal Reform (Scotland) Act 1970, as amended
<b>1999 Regulations</b>	the Unfair Terms in Consumer Contracts Regulations 1999, as amended
<b>AA loan tranches</b>	(in the case of the issuer loan tranches) the issuer AA (class B) loan tranche and (in the case of any new issuer loan tranches) the new AA loan tranches and any new AA loan tranche made by the issuer to Funding 1
<b>AAA loan tranches</b>	(in the case of the issuer loan tranches) the issuer AAA (class A1) loan tranche and the issuer AAA (class A2) loan tranche and (in the case of any new issuer loan tranches) the new AAA loan tranches
<b>accrued interest</b>	in respect of a mortgage account on a given date (the relevant date), the interest which has accrued but which is not yet due and payable from and including the last regular interest payment date up to (but excluding) the relevant date
<b>additional issuer account</b>	the account in the name of the issuer so named held at the issuer account bank and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge or such additional or replacement account as may for the time being be in place with the prior consent of the issuer security trustee
<b>agent bank</b>	Citibank, N.A., London branch
<b>Alliance &amp; Leicester</b>	Alliance & Leicester plc; see “ <b>Alliance &amp; Leicester</b> ”
<b>alternative insurance requirements</b>	requirements which vary the insurance provisions of the mortgage conditions
<b>annualised CPR</b>	the result of the calculation $1 - ((1 - M)^{12})$ where M is expressed as a percentage and determined as at the most recent trust calculation date as indicated in the definition of “anticipated cash accumulation period” (see “ <b>The mortgages trust – Cash management of trust property – Principal receipts</b> ” above)
<b>anticipated cash accumulation period</b>	the anticipated number of months required to accumulate sufficient principal receipts to pay the relevant accumulation amount, as described further in “ <b>The mortgages trust – Cash management of trust property – Principal receipts</b> ” above
<b>arrears of interest</b>	in respect of a given date, interest and expenses which are due and payable and remain unpaid on that date
<b>asset trigger event</b>	has the meaning given to it on page 13
<b>authorised investments</b>	means: <ul style="list-style-type: none"><li>• sterling gilt-edged securities; and</li><li>• sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a maturity date of 90 days or less and mature 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 equal to A-1+ by Standard &amp; Poor’s and P-1 by Moody’s or which are otherwise acceptable to the rating agencies (if they are notified in advance) and F1+ by Fitch (and AA- by Fitch (long term) if the issuing or guaranteeing entity has a long-term rating) to maintain the then current ratings of the rated issuer notes</li></ul>

<b>base rate</b>	the Bank of England base rate
<b>base rate-linked rate</b>	the rate of interest applicable to a base rate loan (before applying any cap or minimum rate), as described further in “ <b>The loans – Characteristics of the loans</b> ” above
<b>base rate loan</b>	a loan where interest is linked to a base rate other than the variable rates. The rate on base rate loans is currently set at a margin by reference to rates set by the Bank of England, as described further in “ <b>The loans – Characteristics of the loans</b> ” above
<b>Basel II Framework</b>	the regulatory capital framework described in the Basel Committee on Banking Supervision's publication, "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)"
<b>basic terms modification</b>	the modification of terms, including altering the amount, rate or timing of payments on the issuer notes, the currency of payment, the priority of payments or the quorum or majority required in relation to these terms
<b>beneficial owner</b>	an actual purchaser of rated issuer notes held within a clearing system, as described further in “ <b>Book-entry clearance procedures – Settlement and transfer of issuer notes</b> ” above
<b>beneficiaries</b>	Funding 1 and the seller (and any further Funding company) as beneficiaries of the mortgages trust
<b>booking fee</b>	a fee payable by the borrower in respect of applications for certain types of loans
<b>borrower</b>	in relation to a loan, the individual or individuals specified as such in the relevant mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such loan or any part of it
<b>bullet loan tranche</b>	any issuer loan tranche or new issuer loan tranche where the full amount of principal is scheduled to be repaid in full on one scheduled repayment date. The bullet loan tranches will be deemed to be pass-through loan tranches if the security granted by a new issuer which has made the bullet loan tranche is enforced or the Funding 1 security or the security granted by any further Funding company (as applicable) to which such loan tranche was made is enforced
<b>bullet notes</b>	any notes the proceeds of which have been used to make a bullet loan tranche
<b>business day</b>	a day that is a London business day, a New York business day and a TARGET business day
<b>calendar year</b>	a year from the beginning of 1 January to the end of 31 December
<b>capitalised</b>	means, in respect of a fee or other amount, added to the principal balance of a loan
<b>capitalised arrears</b>	the aggregate amount of any interest which is overdue in respect of the loans which the seller has agreed to capitalise and has been capitalised and added in the accounts of the seller to the outstanding principal balance of a loan, as described further in “ <b>The mortgages trust – Funding 1 share of trust property – Trust calculation date recalculation</b> ” above
<b>capitalised interest</b>	if a borrower takes a payment holiday (as permitted under the terms of the loan), then the outstanding principal balance of the loan will increase by the amount of interest that would have been paid on the relevant loan if not for such payment holiday
<b>cash accumulation ledger</b>	has the meaning given to it on page 96
<b>cash accumulation loan tranche</b>	a bullet loan tranche or a scheduled amortisation loan tranche which is within a cash accumulation period
<b>cash accumulation liability</b>	on any Funding 1 interest payment date prior to any payment under item (d) of the priority of payments described above in “ <b>Cashflows – Distribution of Funding 1 available principal receipts – Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes</b> ”, the sum of: <ul style="list-style-type: none"> <li>• the bullet accumulation liability at that time; and</li> </ul>

	<ul style="list-style-type: none"> <li>the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period</li> </ul>
<b>cash accumulation period</b>	has the meaning given to it on page 97
<b>cash accumulation requirement</b>	has the meaning given to it on page 97
<b>cash accumulation shortfall</b>	the cash accumulation ledger amount being less than the cash accumulation liability
<b>cash management agreement</b>	the cash management agreement entered into on the closing date, as amended from time to time, between the cash manager, the mortgages trustee, Funding 1 and the Funding 1 security trustee, as described further above in “ <b>Summary of the transaction documents – Cash management agreement</b> ”
<b>cash manager</b>	Alliance & Leicester acting, pursuant to the cash management agreement, as agent for the mortgages trustee, Funding 1 and the Funding 1 security trustee, among others, to manage all cash transactions and maintain certain ledgers on behalf of the mortgages trustee, Funding 1 and the Funding 1 security trustee
<b>cash withdrawal</b>	a cash withdrawal made by a borrower in an amount of all or part of the accrued overpayments, as described further above in “ <b>The loans – Characteristics of the loans – Flexible payments</b> ”
<b>CCA</b>	the Consumer Credit Act 1974, as amended
<b>CCA 2006</b>	the Consumer Credit Act 2006, as amended
<b>class</b>	any of the class A1 issuer notes, the class A2 issuer notes, the class B issuer notes and the class Z issuer notes
<b>class A issuer notes</b>	means the class A1 issuer notes and the class A2 issuer notes
<b>class A noteholders</b>	the holders of the class A1 issuer notes and the class A2 issuer notes
<b>class A1 issuer notes</b>	the €1,060,000,000 class A1 floating rate issuer notes due December 2054
<b>class A1 noteholders</b>	the holders of the class A1 issuer notes
<b>class A2 issuer notes</b>	the €1,200,000,000 class A2 floating rate issuer notes due December 2054
<b>class A2 noteholders</b>	the holders of the class A2 issuer notes
<b>class B issuer notes</b>	the £70,000,000 class B floating rate issuer notes due December 2054
<b>class B noteholders</b>	the holders of the class B issuer notes
<b>class Z issuer notes</b>	the £90,000,000 class Z floating rate issuer notes due December 2054
<b>class Z noteholders</b>	the holders of the class Z issuer notes
<b>clearing systems</b>	has the meaning given to it on page 158
<b>Clearstream, Luxembourg</b>	Clearstream Banking, société anonyme
<b>closing date</b>	the initial closing date and each subsequent date that new issuer notes are issued
<b>CML</b>	Council of Mortgage Lenders
<b>CML Code</b>	the Mortgage Code issued by the CML
<b>Code</b>	United States Internal Revenue Code of 1986, as amended
<b>collection accounts</b>	the collection accounts in the name of the seller which are from time to time used for the purpose of collecting, directly or indirectly, monies due in respect of the loans and/or the related security forming part of the trust property
<b>common depositary</b>	Citibank, N.A., London branch
<b>controlling beneficiary deed</b>	the controlling beneficiary deed entered into on the closing date, as amended from time to time, between Funding 1, the Funding 1 security trustee and the seller, to which any further Funding company and any further Funding

	security trustee will accede at the time that such further Funding company becomes a beneficiary of the mortgages trust
<b>core terms</b>	terms which define the main subject matter of a contract
<b>corporate services agreements</b>	the Funding 1 corporate services agreement, the issuer corporate services agreement, the mortgages trustee corporate services agreement and the PECO H corporate services agreement
<b>corporate services provider</b>	the Funding 1 corporate services provider, the issuer corporate services provider, the mortgages trustee corporate services provider and the PECO H corporate services provider
<b>crystallise</b>	when a floating charge becomes a fixed charge
<b>current balance</b>	in relation to a loan at any given date, the aggregate (without double counting) of the outstanding principal balance, accrued interest and other amounts in arrears relating to that loan as at that date
<b>custodian</b>	Citibank, N.A.
<b>DBERR</b>	the UK Department for Business, Enterprise and Regulatory Reform (formerly the Department of Trade and Industry)
<b>deferred contribution</b>	has the meaning given to it on page 88
<b>deferred purchase price</b>	the deferred purchase price paid to the seller in accordance with the provisions of the mortgage sale agreement from the proceeds of any deferred contributions
<b>definitive issuer note</b>	the class Z issuer notes in registered definitive form and any issuer global note exchanged for a definitive issuer note in registered definitive form pursuant to condition 1.1
<b>detached house</b>	a house not joined to another house
<b>determination date</b>	(in the case of the class A1 issuer notes and the class A2 issuer notes) two London business days prior to the relevant interest payment date and (in the case of the class B issuer notes and the class Z issuer notes) the interest payment date and (in the case of the issuer loan tranches) the Funding 1 interest payment date
<b>differential rate</b>	has the meaning given to it on page 137
<b>diligence</b>	the process (under Scots law) by which a creditor attaches the property of a debtor to implement or secure a court decree or judgment
<b>discount loan</b>	has the meaning given to it on page 136
<b>discount rate</b>	a specified discount to the variable rate of interest, as described further in “ <b>The loans – Characteristics of the loans</b> ” above
<b>discount rate period</b>	has the meaning given to it on page 136
<b>distribution compliance period</b>	has the meaning given to it on page 197
<b>distribution date</b>	the date which is four London business days after each trust calculation date, being the date that the mortgages trustee will distribute principal and revenue receipts to Funding 1, the seller and (if applicable) any further Funding company
<b>DPA</b>	Data Protection Act 1998
<b>early repayment charge</b>	any charge which a borrower is required to pay in the event that he or she is in default or his or her loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant loan before a specified date
<b>early termination date</b>	has the meaning given to it in the relevant swap agreement
<b>English loan</b>	a loan secured by an English mortgage
<b>English mortgage</b>	a mortgage secured over a property in England or Wales
<b>English mortgage conditions</b>	the mortgage conditions applicable to English loans
<b>EURIBOR</b>	the Euro zone inter bank offered rate
<b>Euroclear</b>	Euroclear Bank S.A./N.V.

<b>euro currency exchange rate</b>	the rate at which euro is converted to sterling or, as the case may be, sterling is converted to euro under an issuer euro currency swap or, if such issuer swap agreement is not in effect at such time, the "spot" rate at which euro is converted into sterling or, as the case may be, sterling is converted into euro on the foreign exchange markets
<b>euro issuer notes</b>	means the class A1 issuer notes and the class A2 issuer notes
<b>excess swap collateral</b>	means an amount equal to the value of the collateral (or the applicable part of any collateral) provided by the relevant issuer swap provider to the issuer in respect of the relevant issuer swap provider's obligations to transfer collateral to the issuer under the relevant issuer swap agreement which is in excess of the relevant issuer swap provider's liability under the relevant issuer swap agreement as at the date of termination of the relevant issuer swap agreement or which it is otherwise entitled to have returned to it under the terms of the relevant issuer swap agreement
<b>excluded further advances</b>	all loans subject of a further advance that are or are to be repurchased (including, for the avoidance of doubt, the relevant further advance) by the seller in accordance with the mortgage sale agreement
<b>final maturity date</b>	in respect of the class A1 issuer notes, means the interest payment date falling in December 2054;  in respect of the class A2 issuer notes, means the interest payment date falling in December 2054;  in respect of the class B issuer notes, means the interest payment date falling in December 2054; and  in respect of the class Z issuer notes, means the interest payment date falling in December 2054
<b>final repayment date</b>	in respect of the issuer AAA (class A1) loan tranche, means the Funding 1 interest payment date falling in December 2054;  in respect of the issuer AAA (class A2) loan tranche, means the Funding 1 interest payment date falling in December 2054;  in respect of the issuer AA (class B) loan tranche, means the Funding 1 interest payment date falling in December 2054; and  in respect of the issuer NR (class Z) loan tranche, means the interest payment date falling in December 2054
<b>first title</b>	First Title Insurance plc
<b>Fitch</b>	Fitch Ratings Ltd. and any successor to its ratings business
<b>fixed rate</b>	a fixed rate of interest
<b>fixed rate loan</b>	has the meaning given to it on page 136
<b>fixed rate period</b>	has the meaning given to it on page 136
<b>fixed security</b>	a form of security which means that the chargor is not allowed to deal with the assets subject to the charge without the consent of the chargee
<b>flexible draw capacity</b>	an amount equal to the maximum amount of cash withdrawal that borrowers may draw under flexible loans included in the trust property as determined as at the end of the previous trust calculation period
<b>flexible facility</b>	has the meaning given to it on page 138
<b>flexible features</b>	has the meaning given to it on page 137
<b>flexible loan</b>	a type of loan product that typically incorporates features that give the borrower options to, among other things, make further drawings on the loan account and/or to overpay or (only to the extent that the borrower has overpaid) underpay interest and principal in a given month
<b>floating charge</b>	a form of charge which is not attached to specific assets but which "floats" over a class of them and which allows the chargor to deal with those assets in the every day course of its business, up until the point that the floating security is enforced, at which point it crystallises into a fixed security

<b>FSA</b>	the Financial Services Authority
<b>FSMA</b>	the Financial Services and Markets Act 2000, as amended
<b>Funding companies</b>	Funding 1 and any further Funding company
<b>Funding company loan tranche</b>	any loan tranche made to a Funding company
<b>Funding company interest payment date</b>	has the meaning given to it on page 97
<b>Funding company interest period</b>	has the meaning given to it on page 97
<b>Funding 1</b>	Langton Funding (No. 1) Limited
<b>Funding 1 account bank</b>	Alliance & Leicester
<b>Funding 1 account bank ratings</b>	short-term, unsecured, unsubordinated and unguaranteed debt obligation ratings of at least A-1 by Standard & Poor's, P-1 by Moody's and F1 by Fitch
<b>Funding 1 anticipated cash accumulation period</b>	has the meaning given to it on page 97
<b>Funding 1 available principal receipts</b>	has the meaning set out above under " <b>Cashflows – Distribution of Funding 1 available principal receipts</b> "
<b>Funding 1 available revenue receipts</b>	has the meaning set out above under " <b>Cashflows – Definition of Funding 1 available revenue receipts</b> "
<b>Funding 1 bank account agreement</b>	means the agreement entered into on the closing date, as amended from time to time, between, among others, the Funding 1 account bank and Funding 1, which governs the operation of the Funding 1 transaction account and Funding 1 GIC account
<b>Funding 1 cash accumulation ledger</b>	a ledger maintained by the cash manager to record the amount accumulated by Funding 1 from time to time to pay the relevant accumulation amounts
<b>Funding 1 cash accumulation ledger amount</b>	at any time the amount standing to the credit of the Funding cash accumulation ledger at that time immediately prior to any drawing to be applied on that interest payment date and prior to any payment under item (h) of the priority of payments described above in " <b>Cashflows – Distribution of Funding 1 available principal receipts – Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes</b> "
<b>Funding 1 cash accumulation period</b>	has the meaning given to it on page 97
<b>Funding 1 charged property</b>	means all of the undertakings and all property and assets of Funding 1 charged or assigned under the Funding 1 deed of charge
<b>Funding 1 corporate services agreement</b>	an agreement to be entered into on the closing date between, among others, Holdings, Funding 1, Alliance & Leicester, the Funding 1 corporate services provider and the Funding 1 security trustee, which governs the provision of corporate services by the Funding 1 corporate services provider to Holdings and Funding 1 (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>Funding 1 corporate services provider</b>	in respect of Funding 1 and Holdings means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to Funding 1 and Holdings under the Funding 1 corporate services agreement
<b>Funding 1 deed of charge</b>	the deed of charge entered into on the closing date between (amongst others) Funding 1, the Funding 1 security trustee and the Funding 1 secured creditors on such date, as amended from time to time
<b>Funding 1 GIC account</b>	the account in the name of Funding 1 so named held at the Funding 1 account bank and maintained subject to the terms of the Funding 1 bank account agreement and the Funding 1 deed of charge or such additional or

replacement account as may for the time being be in place with the prior consent of the Funding 1 security trustee

<b>Funding 1 intercompany loan event of default</b>	has the meaning given to it on page 58
<b>Funding 1 interest payment date</b>	in respect of the issuer loan tranches, the 18th day of March, June, September and December (or, if such day is not a business day, the next succeeding business day)
<b>Funding 1 interest period</b>	has the meaning given to it in paragraph (b) of the definition of interest period
<b>Funding 1 issuer</b>	means the issuer and any new issuer established by Holdings from time to time which will make a new issuer intercompany loan to Funding 1
<b>Funding 1 issuer allocable revenue receipts</b>	has the meaning set out above under " <b>Cashflows – Definition of Funding 1 issuer allocable receipts</b> "
<b>Funding 1 issuer account bank</b>	the issuer account bank and the account bank for any new Funding 1 issuer
<b>Funding 1 issuer post-reserve payments</b>	has the meaning set out in paragraph (f) of the Funding 1 pre-acceleration revenue priority of payments, see above under " <b>Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration</b> "
<b>Funding 1 issuer pre-reserve payments</b>	has the meaning set out in paragraph (d) of the Funding 1 pre-acceleration revenue priority of payments, see above under " <b>Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration</b> "
<b>Funding 1 issuer principal deficiency ledger</b>	the issuer principal deficiency ledger or the principal deficiency ledger in the name of any new Funding 1 issuer
<b>Funding 1 issuer reserve fund</b>	the issuer reserve fund or the reserve fund in respect of any new Funding 1 issuer
<b>Funding 1 pre-acceleration principal priority of payments</b>	the order in which, prior to acceleration of the Funding 1 intercompany loans (including before or after a trigger event or service of a note acceleration notice on any Funding 1 issuer), the cash manager will apply the Funding 1 available principal receipts as set out above in " <b>Summary of the transaction documents – Funding 1 deed of charge – Funding 1 pre-acceleration priority of payments</b> " and " <b>Cashflows – Distribution of Funding 1 available principal receipts</b> "
<b>Funding 1 pre-acceleration revenue priority of payments</b>	the order in which, prior to acceleration of the Funding 1 intercompany loans (including before or after a trigger event or service of a note acceleration notice on any Funding 1 issuer), the cash manager will apply the Funding 1 available revenue receipts as set out in " <b>Summary of the transaction documents – Funding 1 deed of charge – Funding 1 pre-acceleration priority of payments</b> " and " <b>Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration</b> "
<b>Funding 1 post-acceleration priority of payments</b>	the order in which, following acceleration of the Funding 1 intercompany loans, the cash manager or the Funding 1 security trustee, as the case may be, will apply the amounts received including following enforcement of the Funding 1 security, as set out above in " <b>Security for Funding 1's obligations</b> " and " <b>Cashflows – Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration</b> "
<b>Funding 1 principal ledger</b>	a ledger maintained by the cash manager to record the amount of principal receipts received by Funding 1 from the mortgages trustee on each distribution date



<b>Funding 1 principal receipts</b>	the principal receipts paid by the mortgages trustee to Funding 1 on each distribution date
<b>Funding 1 priority of payments</b>	as the context requires, any of the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments or the Funding 1 post-acceleration priority of payments
<b>Funding 1 reserve fund</b>	at any time the amount standing to the credit of the Funding 1 reserve ledger at that time, which may be used in certain circumstances by Funding 1 to meet any deficit in revenue or to repay amounts of principal, as described further in “ <b>Credit structure – Funding 1 reserve fund</b> ” above
<b>Funding 1 reserve ledger</b>	a ledger maintained by the cash manager to record the amount credited to the Funding 1 reserve fund from the proceeds of a portion of the Funding 1 start-up loan and other withdrawals and deposits or credits in respect of the Funding 1 reserve fund
<b>Funding 1 reserve required amount</b>	£1,000,000 for so long as the rated notes are outstanding and, thereafter, is nil
<b>Funding 1 revenue ledger</b>	a ledger maintained by the cash manager to record all amounts received by Funding 1 from the mortgages trustee on each distribution date other than principal receipts, together with interest received by Funding 1 on its authorised investments or pursuant to the Funding 1 bank account agreement
<b>Funding 1 secured creditors</b>	the Funding 1 security trustee, the Funding 1 swap provider, the cash manager, the Funding 1 account bank, the seller, the Funding 1 corporate services provider, the Funding 1 start-up loan provider, the issuer, the secretarial services provider and any other entity that accedes to the terms of the Funding 1 deed of charge from time to time
<b>Funding 1 security</b>	the security created under the Funding 1 deed of charge
<b>Funding 1 security trustee</b>	Citicorp Trustee Company Limited
<b>Funding 1 share</b>	the Funding 1 share of the trust property from time to time, as calculated on each trust calculation date
<b>Funding 1 share percentage</b>	the Funding 1 share percentage of the trust property from time to time, as calculated on each trust calculation date
<b>Funding 1 start-up loan</b>	the loan made by the Funding 1 start-up loan provider to Funding 1 under the Funding 1 start-up loan agreement
<b>Funding 1 start-up loan agreement</b>	the agreement entered into on or about the closing date, as amended from time to time, between Funding 1, the Funding 1 start-up loan provider and the Funding 1 security trustee relating to the provision of the Funding 1 start-up loan to Funding 1
<b>Funding 1 start-up loan provider</b>	means the issuer, in its capacity as provider of the Funding 1 start-up loan
<b>Funding 1 start-up loan tranche A</b>	means tranche A provided by the Funding 1 start-up loan provider to Funding 1 pursuant to the Funding 1 start-up loan agreement
<b>Funding 1 start-up loan tranche B</b>	means tranche B provided by the Funding 1 start-up loan provider to Funding 1 pursuant to the Funding 1 start-up loan agreement
<b>Funding 1 start-up loan tranche C</b>	means tranche C provided by the Funding 1 start-up loan provider to Funding 1 pursuant to the Funding 1 start-up loan agreement
<b>Funding 1 start-up loan tranches</b>	means the Funding 1 start-up loan tranche A, the Funding 1 start-up loan tranche B and the Funding 1 start-up loan tranche C
<b>Funding 1 swap</b>	the swap documented under the Funding 1 swap agreement which enables Funding 1 to hedge against the possible variance between the mortgages trustee variable rate payable on the variable rate loans, the fixed rates of interest payable on the fixed rate loans and the rates of interest payable on the base rate loans and a LIBOR-based rate for three-month sterling deposits, as described further in “ <b>Summary of the transaction documents – Swap agreements – Funding 1 swap agreement</b> ” above
<b>Funding 1 swap agreement</b>	the ISDA master agreement including the schedule and credit support annex thereto entered into on the closing date between Funding 1, the Funding 1 swap provider and the Funding 1 security trustee and any confirmation thereunder from time to time between Funding 1, the Funding 1 swap

provider and the Funding 1 security trustee (as each of the same may be amended, restated, novated or supplemented from time to time)

**Funding 1 swap excluded termination amount**

in relation to the Funding 1 swap agreement an amount equal to:

- (a) the amount of any termination payment due and payable to the Funding 1 swap provider as a result of a Funding 1 swap provider default or following a Funding 1 swap provider downgrade termination event or a termination event where the Funding 1 swap provider is the sole affected party (as specified in the Funding 1 swap agreement);

less

- (b) the amount, if any, received by Funding 1 from a replacement swap provider upon entry by Funding 1 into an agreement with such replacement swap provider to replace the Funding 1 swap agreement which has terminated as a result of such Funding 1 swap provider default or following a Funding 1 swap provider downgrade termination event or a termination event where the Funding 1 swap provider is the sole affected party (as specified in the Funding 1 swap agreement)

**Funding 1 swap provider**

Alliance & Leicester, pursuant to the Funding 1 swap agreement

**Funding 1 swap provider default**

the occurrence of an event of default (as defined in the Funding 1 swap agreement) where the Funding 1 swap provider is the defaulting party (as defined in the Funding 1 swap agreement)

**Funding 1 swap provider downgrade termination event**

the occurrence of an additional termination event following the failure by the Funding 1 swap provider to comply with the requirements of the ratings downgrade provisions set out in the Funding 1 swap agreement

**Funding 1 transaction account**

the account of Funding 1 so named maintained with Alliance & Leicester pursuant to the Funding 1 bank account agreement and the Funding 1 deed of charge or such additional or replacement account as may for the time being be in place

**funds**

where the context requires, the Funding 1 reserve fund

**further advance**

an advance made following a request from an existing borrower for a further amount to be lent to him or her under his or her mortgage, where Alliance & Leicester has a discretion as to whether to accept that request

**further contribution**

the consideration in the form of cash payable by any beneficiary to the mortgages trustee to increase the Funding 1 share, the further Funding company share or the seller share of the trust property, as the case may be, pursuant to the terms of the mortgages trust deed, but excluding any initial contribution or deferred contribution paid by Funding 1 or (if applicable) any further Funding company)

**further contribution date**

the date that any of the beneficiaries makes a further contribution (other than a seller contribution) to the mortgages trust

**further Funding companies**

funding entities (other than Funding 1) established in the future by Holdings for the purpose of becoming beneficiaries of the mortgages trust

**further Funding company cash accumulation period**

has the meaning given to it on page 98

**further Funding company share**

the share of each further Funding company in the trust property, as described further in “**The mortgages trust – Further Funding company's share of trust property**” above

**further Funding company share percentage**

the percentage share of each further Funding company in the trust property, as described further in “**The mortgages trust – Further Funding company's share of trust property**” above

**further Funding security trustee**

any trustee in whose favour security is created pursuant to a deed of charge entered into by any further Funding company

<b>global issuer notes</b>	the issuer notes in global form (excluding, for the avoidance of doubt, the class Z issuer notes in registered definitive form)
<b>Holdings</b>	Langton Securities Holdings Limited
<b>housing indices</b>	the Nationwide House Price Index and the Halifax Price Index
<b>IFRS</b>	International Financial Reporting Standards
<b>in arrears</b>	in respect of a mortgage account, occurs when one or more monthly payments in respect of a mortgage account have become due and unpaid by a borrower
<b>industry CPR</b>	a constant repayment rate which is 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
<b>initial closing date</b>	25 January 2008
<b>initial contribution</b>	a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company in respect of any trust property sold to the mortgages trustee at the time of such sale for the purposes of enabling the mortgages trustee to fund the payment of the initial purchase price owed by the mortgages trustee to the seller, pursuant to the terms of the mortgage sale agreement, in respect of any loans and their related security sold by the seller to the mortgages trustee from time to time
<b>initial loans</b>	the loans sold by the seller to the mortgages trustee on the closing date pursuant to the terms of the mortgage sale agreement
<b>initial portfolio</b>	the portfolio of initial loans
<b>initial purchase price</b>	that portion of the purchase price paid by the mortgages trustee to the seller on the date loans are sold to the mortgages trustee in consideration for the sale to the mortgages trustee of loans pursuant to the terms of the mortgage sale agreement
<b>Insolvency Act</b>	the Insolvency Act 1986, as amended
<b>insolvency event</b>	in respect of the seller, the servicer, the cash manager or the issuer cash manager (each, for the purposes of this definition, a <b>relevant entity</b> ) means: <ul style="list-style-type: none"> <li>(a) an order is made or an effective resolution passed for the winding up of the relevant entity;</li> <li>(b) the relevant entity ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of Section 123 of the Insolvency Act or otherwise becomes insolvent; or</li> <li>(c) proceedings (including, but not limited to, presentation of an application 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) are initiated against the relevant entity under any applicable liquidation, administration, reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the relevant entity or the appointment of an administrator takes effect; or a distress, execution, diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the relevant entity and in any of the foregoing cases it is not discharged within 15 London business days; or if the relevant entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness</li> </ul>

<b>intercompany loans</b>	together, the issuer intercompany loan and any new issuer intercompany loans
<b>intercompany loan acceleration notice</b>	where the context so requires, an acceleration notice served: <ul style="list-style-type: none"> <li>(a) on Funding 1 following an intercompany loan event of default under the issuer intercompany loan agreement and/or following an event of default under a new issuer intercompany loan agreement with Funding 1 (where applicable); and/or</li> <li>(b) on a further Funding company following an event of default under a new issuer intercompany loan with such further Funding company</li> </ul>
<b>intercompany loan agreements</b>	the issuer intercompany loan agreement and any new issuer intercompany loan agreements
<b>intercompany loan confirmation</b>	in relation to an intercompany loan, the document between, amongst others, Funding 1 and the issuer (or any new issuer) recording the principal terms of the loan tranches made available to Funding 1 and/or a further Funding company
<b>intercompany loan event of default</b>	an event of default under the issuer intercompany loan agreement or any new issuer intercompany loan agreement
<b>intercompany loan ledger</b>	a ledger maintained by the cash manager to record payments of interest and repayments of principal made under the issuer intercompany loan or any new issuer intercompany loan
<b>intercompany loan terms and conditions</b>	the terms and conditions signed for identification on the closing date by Funding 1, the Funding 1 security trustee and the agent bank
<b>interest commencement date</b>	(in relation to the issuer notes) the closing date and (in relation to any new issuer notes) the closing date of such new issuer notes
<b>interest-only portion</b>	has the meaning given to it on page 135
<b>interest payment date</b>	in respect of the issuer notes, the 18th day of March, June, September and December in each year (or, if such day is not a business day, the next succeeding business day)
<b>interest period</b>	<ul style="list-style-type: none"> <li>(a) in relation to the issuer notes: <ul style="list-style-type: none"> <li>(i) with respect to the first interest payment date, the period from (and including) the applicable interest commencement date to (but excluding) such first interest payment date, and</li> <li>(ii) thereafter, with respect to each interest payment date, the period from (and including) the preceding interest payment date to (but excluding) that interest payment date; and</li> </ul> </li> <li>(b) in respect of the issuer loan tranches, (i) with respect to the first Funding 1 payment date, the period from (and including) the applicable interest commencement date to (but excluding) such first Funding 1 payment date, and (ii) thereafter, the period from (and including) the preceding Funding 1 payment date to (but excluding) that Funding 1 payment date</li> </ul>
<b>interim trust calculation period</b>	has the meaning given to it on page 88
<b>investment plan</b>	in respect of an interest-only loan, a repayment mechanism selected by the borrower and intended to provide sufficient funds to redeem the full principal of a loan at maturity
<b>issuer</b>	Langton Securities (2008-1) plc
<b>issuer AA loan tranche</b>	the issuer AA (class B) loan tranche
<b>issuer AA (class B) loan tranche</b>	the loan tranche made by the issuer to Funding 1 under the issuer intercompany loan agreement from the proceeds of issue of the class B issuer notes
<b>issuer AAA loan tranches</b>	the issuer AAA (class A1) loan tranche and the issuer AAA (class A2) loan tranche

<b>issuer AAA (class A1) loan tranche</b>	the loan tranche made by the issuer to Funding 1 under the issuer intercompany loan agreement from the proceeds of issue of the class A1 issuer notes
<b>issuer AAA (class A2) loan tranche</b>	the loan tranche made by the issuer to Funding 1 under the issuer intercompany loan agreement from the proceeds of issue of the class A2 issuer notes
<b>issuer accounts</b>	the issuer share capital account, the issuer transaction account (also known as the issuer sterling account), the issuer euro account, the issuer GIC account and any other account held by the issuer from time to time
<b>issuer account bank</b>	Alliance & Leicester
<b>issuer bank account agreement</b>	the agreement to be entered into on the closing date between the issuer account bank, the issuer, the issuer cash manager and the issuer security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) which governs the operation of issuer transaction account (also known as the issuer sterling account), the issuer euro account, the issuer GIC account and the issuer share capital account
<b>issuer cash management agreement</b>	the issuer cash management agreement to be entered into on the closing date between the issuer cash manager, the issuer and the issuer security trustee (as the same may be amended, restated, novated, replaced or supplemented from time to time), as described further above in “ <b>Summary of the transaction documents – Issuer cash management agreement</b> ”
<b>issuer cash manager</b>	Alliance & Leicester acting, pursuant to the issuer cash management agreement, as agent for the issuer and the issuer security trustee to manage all cash transactions and maintain certain ledgers on behalf of the issuer
<b>issuer (class A1) swap agreement</b>	the ISDA master agreement, schedule, credit support annex and the confirmation thereunder relating to the issuer (class A1) euro currency swap to be entered into on the closing date between the issuer and the issuer (class A1) swap provider in respect of the class A1 issuer notes
<b>issuer (class A2) swap agreement</b>	the ISDA master agreement, schedule, credit support annex and the confirmation thereunder relating to the issuer (class A2) euro currency swap to be entered into on the closing date between the issuer and the issuer (class A2) swap provider in respect of the class A2 issuer notes
<b>issuer (class A1) euro currency swap</b>	the sterling-euro issuer swap which enables the issuer to receive and pay amounts under the issuer intercompany loan in sterling and to receive and pay amounts under the class A1 issuer notes in euros, as described further above in “ <b>Summary of the transaction documents – Swap agreements – The issuer swap agreements</b> ”
<b>issuer (class A2) euro currency swap</b>	the sterling-euro issuer swap which enables the issuer to receive and pay amounts under the issuer intercompany loan in sterling and to receive and pay amounts under the class A2 issuer notes in euros, as described further above in “ <b>Summary of the transaction documents – Swap agreements – The issuer swap agreements</b> ”
<b>issuer (class A1) swap provider</b>	means Alliance & Leicester
<b>issuer (class A2) swap provider</b>	means Alliance & Leicester
<b>issuer corporate services agreement</b>	the agreement to be entered into on the closing date between, among others, the issuer, Alliance & Leicester, the issuer corporate services provider and the note trustee, which governs the provision of corporate services by the issuer corporate services provider to the issuer (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>issuer corporate services provider</b>	Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the issuer under the issuer corporate services agreement
<b>issuer deed of charge</b>	the deed of charge entered into on the closing date between, among others, the issuer and the issuer security trustee, under which the issuer creates the issuer security in favour of the issuer security trustee for the benefit of the

	issuer secured creditors, as described further above in “ <b>Summary of the transaction documents – Issuer deed of charge</b> ”
<b>issuer euro account</b>	the account of the issuer so named held with the issuer account bank, denominated in euro and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge and/or any additional or replacement account denominated in euro as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer GIC account</b>	the account of the issuer so named held with the issuer account bank, denominated in sterling and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge and/or any additional or replacement account denominated in sterling as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer intercompany loan</b>	the aggregate of all issuer loan tranches advanced under the issuer intercompany loan agreement
<b>issuer intercompany loan acceleration notice</b>	an acceleration notice served on Funding 1 following an issuer intercompany loan event of default under the issuer intercompany loan
<b>issuer intercompany loan agreement</b>	the intercompany loan terms and conditions and the issuer intercompany loan confirmation
<b>issuer intercompany loan confirmation</b>	in relation to the issuer intercompany loan, the document between Funding 1, the issuer, the Funding 1 security trustee, the issuer security trustee and the agent bank recording the principal terms of the issuer loan tranches made available to Funding 1
<b>issuer intercompany loan event of default</b>	an event of default under the issuer intercompany loan agreement
<b>issuer liquidity reserve fund</b>	a liquidity reserve fund established on the occurrence of certain ratings downgrades of the seller to meet interest and principal shortfalls (in limited circumstances) on the issuer loan tranches
<b>issuer liquidity reserve fund rating event</b>	where there are class A issuer notes and/or class B issuer notes then outstanding, the seller's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below A3 by Moody's or A- by Fitch (unless the rating agencies confirm that its then current ratings of the rated issuer notes will not be adversely affected as a consequence of such rating of the seller
<b>issuer liquidity reserve fund required amount</b>	on any interest payment date, an amount equal to the excess (if any) of 3 per cent. of the aggregate outstanding balance of the issuer notes on that date over the aggregate of amounts standing to the credit of the issuer reserve fund on that interest payment date
<b>issuer liquidity reserve ledger</b>	a ledger maintained by the issuer cash manager to record the amounts credited to the issuer liquidity reserve fund from issuer principal receipts and (in limited circumstances) issuer revenue receipts up to the issuer liquidity reserve required amount and withdrawals and deposits in respect of the liquidity reserve fund
<b>issuer liquidity reserve principal payment</b>	has the meaning given to it on page 120
<b>issuer loan tranche</b>	means the senior loan tranches and the subordinated loan tranches or any of them, as the context may require
<b>issuer note event of default</b>	an event of default under condition 9 of the issuer notes
<b>issuer notes</b>	includes all of the class A issuer notes, the class B issuer notes and the class Z issuer notes
<b>issuer NR (class Z) loan tranche</b>	the loan tranche made by the issuer to Funding 1 under the issuer intercompany loan agreement from the proceeds of issue of the class Z issuer notes
<b>issuer NR loan tranche</b>	the issuer NR (class Z) loan tranche

<b>issuer paying agent and agent bank agreement</b>	the agreement to be entered into on the closing date which sets out the appointment of the paying agent, the registrar and the agent bank for the issuer notes
<b>issuer post-acceleration principal priority of payments</b>	the order in which, following the service of a note acceleration notice on the issuer but prior to the service of an intercompany loan acceleration notice on Funding 1, the issuer cash manager or the issuer security trustee, as the case may be, will apply the issuer principal receipts on each interest payment date or following enforcement of the issuer security as set out above in <b>“Cashflows – Distribution of issuer principal receipts after note acceleration but before intercompany loan acceleration”</b>
<b>issuer post-asset trigger event principal priority of payments</b>	the order in which, prior to the service of a note acceleration notice on the issuer but following the occurrence of an asset trigger event, the issuer cash manager will apply the issuer principal receipts on each interest payment date as set out above in <b>“Cashflows – Distribution of issuer principal receipts after an asset trigger event and before note acceleration or intercompany loan acceleration”</b>
<b>issuer post-enforcement call option</b>	the call option granted to the issuer post-enforcement call option holder in respect of the issuer notes under the post-enforcement call option agreement
<b>issuer post-enforcement call option agreement</b>	the agreement to be entered into on the closing date under which the note trustee agrees on behalf of the holders of the issuer notes that, following enforcement of the issuer security, the issuer post-enforcement call option holder may call for the issuer notes (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>issuer post-enforcement call option holder or issuer PECO</b>	Langton PECO Limited
<b>issuer pre-acceleration principal priority of payments</b>	the order in which, prior to service of a note acceleration notice on the issuer, the issuer or the issuer cash manager will apply the issuer principal receipts on each interest payment date, as set out above in <b>“Cashflows – Distribution of issuer principal receipts before note acceleration”</b>
<b>issuer pre-acceleration revenue priority of payments</b>	the order in which, prior to service of a note acceleration notice on the issuer, the issuer cash manager will apply the issuer revenue receipts on each interest payment date, as set out above in <b>“Cashflows – Distribution of issuer revenue receipts before note acceleration”</b>
<b>issuer principal deficiency ledger</b>	the ledger maintained by the issuer cash manager in the name of the issuer which will be established on the closing date and will be sub-divided into sub-ledgers corresponding to the classes of issuer notes in order to record losses allocated by Funding 1 to the issuer intercompany loan, the application of issuer principal receipts to fund any issuer liquidity reserve fund (if required) and the application of issuer principal receipts to meet any deficiency in issuer available revenue receipts
<b>issuer principal receipts</b>	has the meaning given to that term on page 115
<b>issuer priority of payments</b>	the issuer pre-acceleration revenue priority of payments, the issuer pre-acceleration principal priority of payments, the issuer post-acceleration principal priority of payments or the issuer priority of payments following an intercompany loan acceleration notice, as the case may be
<b>issuer priority of payments following an issuer intercompany loan acceleration notice</b>	the order in which, following the service of an issuer intercompany loan acceleration notice, the issuer cash manager or the issuer security trustee, as the case may be, will apply the amounts received following service of an intercompany loan acceleration notice on Funding 1, as set out above in <b>“Summary of the transaction documents – Issuer deed of charge”</b> and

**“Cashflows – Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration”**

<b>issuer reserve fund</b>	at any time the amount standing to the credit of the issuer reserve ledger at that time, which may be used in certain circumstances by the issuer to meet any deficit in issuer revenue receipts or issuer principal receipts, as described further in “ <b>Credit structure – Issuer reserve fund</b> ” above
<b>issuer reserve fund required amount</b>	£21,000,000
<b>issuer reserve ledger</b>	a ledger maintained by the issuer cash manager to record the amount credited to the issuer reserve fund from: <ul style="list-style-type: none"><li>(i) a portion of the proceeds of the issuer start-up loan on the closing date;</li><li>(ii) other amounts standing to the credit of the issuer reserve fund (but not exceeding the issuer reserve required amount); and</li><li>(iii) subsequent withdrawals and deposits in respect of the issuer reserve fund</li></ul>
<b>issuer reserve principal payment</b>	has the meaning given to it on page 121
<b>issuer revenue ledger</b>	the ledger on which the issuer cash manager records issuer revenue receipts received and paid out of the issuer
<b>issuer revenue receipts</b>	has the meaning given to it on page 106
<b>issuer secured creditors</b>	the issuer security trustee, noteholders, the note trustee, the issuer account bank, the paying agent, the registrar, the agent bank, the issuer corporate services provider, the issuer cash manager and any new issuer secured creditor who accedes to the issuer deed of charge from time to time under a deed of accession or a supplemental deed
<b>issuer security</b>	security created by the issuer pursuant to the issuer deed of charge in favour of the issuer secured creditors
<b>issuer security trustee</b>	Citicorp Trustee Company Limited in whose favour security is created pursuant to the issuer deed of charge
<b>issuer security trustees</b>	the issuer security trustee and each security trustee in whose favour security is created pursuant to a deed of charge entered into by any new issuer which enters into a new loan agreement with Funding 1
<b>issuer share capital account</b>	the bank account of the issuer held with the issuer account bank pursuant to the terms of the issuer bank account agreement into which the share capital of the issuer is deposited
<b>issuer start-up loan</b>	the loan made by the issuer start-up loan provider to the issuer under the issuer start-up loan agreement
<b>issuer start-up loan agreement</b>	the agreement entered into on or about the closing date, as amended from time to time, between the issuer, the issuer start-up loan provider and the issuer security trustee relating to the provision of the issuer start-up loan to the issuer
<b>issuer start-up loan provider</b>	means Alliance & Leicester, in its capacity as provider of the issuer start-up loan
<b>issuer start-up loan tranche A</b>	means tranche A provided by the issuer start-up loan provider to the issuer pursuant to the issuer start-up loan agreement which will be on-lent by the issuer, in its capacity as the Funding 1 start-up loan provider, to Funding 1
<b>issuer start-up loan tranche B</b>	means tranche B provided by the issuer start-up loan provider to the issuer pursuant to the issuer start-up loan agreement which will be on-lent by the issuer, in its capacity as the Funding 1 start-up loan provider, to Funding 1
<b>issuer start-up loan tranche C</b>	means tranche C provided by the issuer start-up loan provider to the issuer pursuant to the issuer start-up loan agreement which will be on-lent by the issuer, in its capacity as the Funding 1 start-up loan provider, to Funding 1
<b>issuer start-up loan tranche D</b>	means the issuer start-up loan tranche D provided by the issuer start-up loan provider to the issuer pursuant to the issuer start-up loan agreement



<b>issuer sterling account</b>	the account of the issuer held with the issuer account bank, denominated in sterling and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge and/or any additional or replacement account denominated in sterling as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer swap agreements</b>	means the issuer (class A1) swap agreement and the issuer (class A2) swap agreement
<b>issuer swap collateral account</b>	the account in the name of the issuer so named held at the issuer account bank and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge or such additional or replacement account as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer swap excluded termination amount</b>	<p>in relation to a particular issuer swap agreement and the issuer swap provider party to that issuer swap agreement, an amount equal to:</p> <p>(a) the amount of any termination payment due and payable to the issuer swap provider as a result of an issuer swap provider default or following an issuer swap provider downgrade termination event or a termination event where issuer swap provider is the sole affected party (as specified in the particular issuer swap agreement);</p> <p>less</p> <p>(b) the amount, if any, received by the issuer from a replacement swap provider upon entry by the issuer into an agreement with such replacement swap provider to replace that particular issuer swap agreement which has terminated as a result of an issuer swap provider default or following the occurrence of such issuer swap provider downgrade termination event or a termination event where that issuer swap provider is the sole affected party (as specified in the particular issuer swap agreement);</p>
<b>issuer swap providers</b>	means the issuer (class A1) swap provider and the issuer (class A2) swap provider
<b>issuer transaction account</b>	means the issuer sterling account
<b>issuer transaction documents</b>	the transaction documents to which the issuer is a party
<b>issuers</b>	together, the issuer and any new issuer(s)
<b>Jersey share trustee</b>	Mourant & Co. Trustees Limited in its capacity as trustee of the discretionary trust for charitable purposes on the basis of which it holds the shares of the mortgages trustee
<b>lending criteria</b>	the criteria applicable to the granting of an offer of a mortgage to a borrower, as may be amended from time to time and as further described above in “ <b>The loans – Characteristics of the loans – Lending criteria</b> ”
<b>LIBOR</b>	the London inter-bank offered rate for deposits in sterling
<b>loan</b>	each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all further advances) due or owing with respect to that loan under the relevant mortgage conditions by a borrower on the security of a mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same
<b>loan tranches</b>	the AAA loan tranches, the AA loan tranches and the NR loan tranches outstanding from time to time
<b>London business day</b>	a day (other than a Saturday or Sunday) on which banks are generally open for business in London
<b>London Stock Exchange</b>	the London Stock Exchange plc
<b>losses</b>	the realised losses experienced on the loans in the portfolio

<b>losses ledger</b>	the ledger of such name created and maintained by the cash manager pursuant to the cash management agreement to record the losses on loans in the portfolio
<b>LTV ratio or loan-to-value ratio</b>	the ratio of the outstanding balance of a loan to the value of the mortgaged property securing that loan
<b>LTV test</b>	a test which assigns a credit enhancement value to each loan in the portfolio based on its current loan-to-value ratio and the amount of mortgage indemnity cover on that loan. The weighted average credit enhancement value for the portfolio is then determined
<b>master definitions and construction schedule</b>	the master definitions and construction schedule, as amended from time to time, containing definitions used in the transaction documents
<b>MCOB</b>	the FSA Mortgages and Home Finance: Conduct of Business Sourcebook
<b>minimum seller share</b>	an amount included in the current seller share which is calculated in accordance with the mortgages trust deed as further described under “ <b>The mortgages trust</b> ” above
<b>Moody's</b>	Moody's Investors Service Limited and any successor to its ratings business
<b>Moody's portfolio variation test</b>	the calculation methodology provided by Moody's to the servicer from time to time for the purpose of calculating the Moody's portfolio variation test value
<b>Moody's portfolio variation test value</b>	a certain percentage resulting from the application of the Moody's portfolio variation test
<b>mortgage</b>	the legal charge or standard security securing a loan
<b>mortgage account</b>	a loan secured on a property will be incorporated in a single mortgage account
<b>mortgage conditions</b>	the terms and conditions applicable to the loans as contained in the seller's Mortgage Conditions booklets for England and Wales, Scotland or Northern Ireland applicable from time to time
<b>mortgage sale agreement</b>	the mortgage sale agreement entered into on the closing date, as amended from time to time, among the seller, the mortgages trustee, Funding 1 and the Funding 1 security trustee in relation to the sale of loans to the mortgages trustee from time to time, as further described in “ <b>Summary of the transaction documents – The mortgage sale agreement</b> ” above
<b>mortgage terms</b>	all the terms and conditions applicable to a loan, including without limitation the applicable mortgage conditions and offer conditions
<b>mortgage transfer service</b>	a service offered by the seller which allows remortgages of properties to be completed under an expedited procedure, as described further in “ <b>The loans – Characteristics of the loans – Insurance policies</b> ” above
<b>mortgages trust</b>	the bare trust of the trust property held by the mortgages trustee as to both capital and income on trust absolutely for Funding 1 (as to the Funding 1 share), for each further Funding company (as to its respective further Funding company share) and the seller (as to the seller share), so that each has an undivided beneficial interest in the trust property
<b>mortgages trust available principal receipts</b>	the amount standing to the credit of the principal ledger on the relevant trust calculation date
<b>mortgages trust available revenue receipts</b>	an amount equal to: <ul style="list-style-type: none"> <li>(a) revenue receipts on the loans (but excluding principal receipts);</li> <li>(b) plus interest payable to the mortgages trustee on the mortgages trustee GIC account;</li> <li>(c) less third party amounts,</li> </ul> as described further above in “ <b>The mortgages trust</b> ”
<b>mortgages trust deed</b>	the mortgages trust deed entered into on the closing date, as amended from time to time, between (among others) the mortgages trustee, Funding 1 and the seller, as further described above in “ <b>The mortgages trust</b> ”

<b>mortgages trust principal priority of payments</b>	has the meaning given to it on page 99
<b>mortgages trust revenue priority of payments</b>	the order in which the cash manager applies mortgages trust available revenue receipts on each distribution date, as described further above in “ <b>The mortgages trust – Mortgages trust calculation of revenue receipts</b> ”
<b>mortgages trustee</b>	Langton Mortgages Trustee Limited
<b>mortgages trustee account bank</b>	Alliance & Leicester
<b>mortgages trustee bank account agreement</b>	the agreement entered into on the closing date, as amended from time to time, between, among others, the mortgages trustee account bank and the mortgages trustee, which governs the operations of the mortgages trustee GIC account
<b>mortgages trustee corporate services agreement</b>	the agreement entered into on or about the closing date between the mortgages trustee corporate services provider, the mortgages trustee and Alliance & Leicester, which governs the provision of corporate services by the mortgages trustee corporate services provider to the mortgages trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>mortgages trustee corporate services provider</b>	Mourant & Co. Limited or such other person or persons for the time being acting as corporate services provider to the mortgages trustee under the mortgages trustee corporate services agreement
<b>mortgages trustee GIC account</b>	the account in the name of the mortgages trustee maintained with Alliance & Leicester pursuant to the terms of the mortgages trustee bank account agreement or such additional or replacement account as may for the time being be in place
<b>mortgages trustee variable rate</b>	the variable rates which apply to the variable rate loans in the portfolio as set, other than in limited circumstances, by the servicer, as described further above in “ <b>Summary of the transaction documents – Servicing agreement</b> ”
<b>new AA loan tranches</b>	term advances to be advanced to Funding 1 or any further Funding company (where applicable) by new issuers under new issuer intercompany loan agreements from the proceeds of issues of new issuer notes with a rating of AA
<b>new AAA loan tranches</b>	term advances to be advanced to Funding 1 or any further Funding company (where applicable) by new issuers under new issuer intercompany loan agreements from the proceeds of issues of new issuer notes with a rating of AAA
<b>new Funding 1 issuer</b>	any company other than the issuer which issues new issuer notes where all or part of the proceeds of the issue of such new issuer notes will be on-lent to Funding 1
<b>new issuer intercompany loans</b>	loans made by any new issuer to Funding 1 or any further Funding company (where applicable) any further Funding company (where applicable) using proceeds of new issuer notes issued by that new issuer
<b>new issue</b>	the issue of new issuer notes to fund a new issuer intercompany loan
<b>new issuer loan tranches</b>	means any advances made by new issuers to Funding 1 and/or any further Funding company under a new issuer intercompany loan
<b>new issuer notes</b>	an issue of notes by a new issuer
<b>new issuers</b>	any company other than the issuer which issues new issuer notes where all or part of the proceeds of the issue of such new issuer notes will be on-lent to Funding 1 and/or any further Funding company
<b>new loan type</b>	on any date, a type of loan which is materially different from the types of loans comprised in the portfolio
<b>new loans</b>	loans, other than the initial loans, which the seller may assign, from time to time after the closing date, to the mortgages trustee pursuant to the mortgage sale agreement
<b>new noteholders</b>	holders of new issuer notes

<b>new NR loan tranches</b>	term advances to be advanced to Funding 1 or any further Funding company (where applicable) by new issuers under new issuer intercompany loan agreements from the proceeds of issues of new issuer notes that are unrated
<b>new rated issuer notes</b>	means any new issuer notes which are assigned a rating by a rating agency
<b>new related security</b>	the security for the new loans which the seller may assign to the mortgages trustee pursuant to the mortgage sale agreement
<b>new trust property</b>	has the meaning given to it on page 89
<b>non-asset trigger event</b>	on a trust calculation date: <ul style="list-style-type: none"> <li>(a) the occurrence of an insolvency event in relation to the seller on or before that trust calculation date,</li> <li>(b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days,</li> <li>(c) the current seller share of the trust property is less than the minimum seller share on two consecutive trust calculation dates (in each case by reference to the most recent trust calculation date) or</li> <li>(d) the aggregate current balance of loans comprised in the trust property on two consecutive trust calculation dates during the period from (and including) the closing date to (but excluding) the interest payment date in March 2010 is less than £5,800,000,000</li> </ul>
<b>Northern Irish loan</b>	a loan secured by a Northern Irish mortgage
<b>Northern Irish mortgage</b>	a mortgage secured over a property in Northern Ireland
<b>Northern Irish mortgage conditions</b>	the mortgage conditions applicable to Northern Irish loans
<b>note acceleration notice</b>	an acceleration notice served by the note trustee following a note event of default
<b>note event of default</b>	an event of default under the provisions of condition 9 of the notes
<b>note principal payment</b>	the amount of each principal payment payable on each note
<b>note trust deed</b>	the principal agreement to be entered into on the closing date governing the issuer notes
<b>note trustee</b>	Citicorp Trustee Company Limited in whose favour certain rights are vested pursuant to the note trust deed
<b>note trustees</b>	the note trustee and each trustee who has each entered into a note trust deed with any new issuer which enters into a new loan agreement with Funding 1
<b>note purchaser</b>	Alliance & Leicester
<b>note purchase agreement</b>	a purchase agreement in relation to the issuer notes dated 25 January 2008 between the note purchaser and the issuer
<b>noteholders</b>	the holders of the issuer notes, or any of them as the context requires
<b>notes</b>	the issuer notes and any new issuer notes issued by a new issuer
<b>notional amount of the Funding 1 swap</b>	in respect of a trust calculation period will be an amount in sterling equal to: <ul style="list-style-type: none"> <li>• the aggregate principal amount outstanding of the issuer intercompany loan and new intercompany loans made to Funding 1 as at the end of the relevant trust calculation period, less</li> <li>• the balance of the issuer principal deficiency ledger and the principal deficiency ledger of any new issuer as at the end of the relevant trust calculation period, less</li> <li>• the amount of the principal receipts in the Funding 1 GIC account attributable to the issuer intercompany loan and new intercompany loans made to Funding 1 during the relevant trust calculation period.</li> </ul>
<b>NR loan tranches</b>	the issuer NR loan tranche and any new NR loan tranches made by the issuer to Funding 1 that is unrated
<b>offshore transaction</b>	as defined in Reg S

<b>offer conditions</b>	the terms and conditions applicable to a specific loan as set out in the relevant offer letter to the borrower
<b>official list</b>	the official list maintained by the UK listing authority
<b>original bullet loan tranche</b>	has the meaning given to it on page 98
<b>original scheduled amortisation instalment</b>	has the meaning given to it on page 98
<b>outstanding principal amount</b>	in relation to any intercompany loan or new intercompany loan, the original principal amount thereof on the closing date that it is made to the relevant Funding company less any payments of principal in respect thereof
<b>outstanding principal balance</b>	<p>in relation to a loan at any date (in this definition, the <b>determination date</b>), means the aggregate principal balance of the loan at such date, including (but avoiding double counting):</p> <p>(a) the original principal amount advanced by the seller to the relevant borrower;</p> <p>(b) any increase in the principal amount due under that loan due to the borrower making cash withdrawals or a borrower taking payment holidays or making underpayments or a further advance being made available to a borrower,</p> <p>in each case relating to such loan less any prepayment (including any decrease in the principal amount due under that loan due to the borrower making overpayments), repayment or payment of the foregoing made on or prior to the determination date</p>
<b>overpayment</b>	a payment made by a borrower in an amount greater than the monthly payment then due on the loan
<b>participants</b>	in relation to Euroclear and Clearstream, Luxembourg, the direct and indirect participants as described further above in “ <b>Book-entry clearance procedures – Euroclear and Clearstream, Luxembourg</b> ”
<b>pass-through loan tranche</b>	a loan tranche which has no scheduled repayment date other than the final repayment date. On the occurrence of a trigger event or the enforcement of the security of the new issuer which has made such loan tranche or of the Funding 1 security or the security of any further Funding company (as applicable) to which such new issuer has made such loan tranche, each such loan tranche will be deemed to be a pass-through loan tranche
<b>pass-through notes</b>	any notes the proceeds of which have been used to make a pass-through loan tranche
<b>paying agent</b>	the principal paying agent
<b>payment holiday</b>	a period during which a borrower may suspend payments under a loan without penalty
<b>PECOH corporate services agreement</b>	the agreement entered into on or about the closing date between the PECOH corporate services provider, PECOH and Alliance & Leicester, which governs the provision of corporate services by the PECOH corporate services provider to PECOH (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>PECOH corporate services provider</b>	Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the issuer post-enforcement call option holder under the PECOH corporate services agreement
<b>PECOH share trustee</b>	Independent Share Trustees Limited
<b>permitted product switch</b>	<p>a product switch provided that:</p> <ul style="list-style-type: none"> <li>• the relevant borrower has made at least one monthly payment on its then current loan product;</li> <li>• the new loan for which the prior loan is to be exchanged is a permitted replacement loan;</li> </ul>

- each of the conditions for product switches as set forth under “**Summary of the transaction documents – The mortgage sale agreement – Conditions for product switches and further advances**” are satisfied as at the immediately following trust calculation date; and
- the interest-only mortgages level test is satisfied if, as calculated on the most recent trust calculation date:  

$$A/B \times 100 \leq C$$

where:

- A = the current balance of all interest-only loans (which, for the avoidance of doubt includes interest-only components of part-and-part loans) in the trust property as at the relevant trust calculation date;
- B = the current balance of all loans comprising the trust property as at the relevant trust calculation date; and
- C = 40 per cent.

**permitted replacement loan**

a loan:

- that is subject to either a fixed rate, a variable rate or to a base rate-linked rate of interest; and
- that has a maturity date prior to 1 October 2052

**portable loan**

a loan (other than a variable rate loan) that incorporates a portability facility, which allows the borrower to transfer the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period

**portfolio**

at any time the loans and their related security sold to the mortgages trustee and held by the mortgages trustee on trust for the beneficiaries

**premium rate period**

has the meaning given to it on page 136

**principal deficiency ledger**

means (in respect of the issuer) the issuer principal deficiency ledger and (in respect of any new issuer or any further Funding company) any such ledger established to record any principal losses on the loans allocated to such new issuer or further Funding company (as the case may be), for recording the application of principal receipts to fund any liquidity reserve ledger if required of such new issuer or further Funding company (as the case may be) and/or the application of principal receipts to meet any deficiency in revenue receipts by such new issuer or further Funding company (as the case may be)

**principal ledger**

the ledger maintained by the cash manager on behalf of the mortgages trustee to record principal receipts on the loans and distributions of such principal receipts to the beneficiaries

**principal paying agent**

Citibank, N.A., London branch

**principal receipts**

all principal amounts received from borrowers in respect of the loans or otherwise paid or recovered in respect of the loans and their related security representing monthly repayments of principal, prepayments of principal, redemption proceeds and amounts recovered on enforcement representing principal and prepayments on the loans made by borrowers (but excluding principal received or treated as received in respect of a loan subsequent to the completion of enforcement procedures)

**principal transaction documents**

the mortgage sale agreement, the servicing agreement, the cash management agreement, the Funding 1 deed of charge, the Funding 1 swap agreement, the intercompany loan agreement, the bank account agreement and the master definitions and construction schedule

**product switch**

a variation to the financial terms and conditions of a loan other than:

- any variation agreed with a borrower to control or manage arrears on the loan;

- any variation on the maturity date of the loan unless, while the intercompany loan is outstanding, it is extended beyond 1 October 2052;
- any variation imposed by statute;
- any variation of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by current balance of loans in the trust property in any Funding 1 interest period; or
- any variation in the frequency with which the interest payable in respect of the loan is charged

<b>prospectus directive</b>	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
<b>purpose-built</b>	in respect of a residential dwelling, built or made for such a residential purpose (as opposed to converted)
<b>quarterly CPR</b>	on any date means the average of the three most recent CPRs, where CPR is, on any trust calculation date, the annualised principal repayment rate of all the loans comprised in the trust property during the previous trust calculation period calculated as follows: $1 - ((1 - R) ^ 12)$ where R equals the result (expressed as a percentage) of the total principal receipts received during the period of one month ending on that trust calculation date divided by the aggregate outstanding principal balance of the loans comprised in the trust property as at the first day of that period
<b>rated issuer notes</b>	the class A issuer notes and the class B issuer notes
<b>rated notes</b>	the rated issuer notes and any new rated issuer notes
<b>rating</b>	rating assigned by the rating agencies to the issuer notes or any new issuer notes
<b>rating agencies</b>	each of Fitch, Standard & Poor's and Moody's and any further or replacement rating agency appointed by the issuer with the approval of the note trustee
<b>reasonable, prudent mortgage lender</b>	a reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales, Northern Ireland and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital
<b>receiver</b>	a receiver appointed by the relevant security trustee pursuant to the issuer deed of charge and/or the Funding 1 deed of charge
<b>record date</b>	has the meaning given to it in Condition 6.7 of the notes, on page 169
<b>reference banks</b>	at the closing date, the London office of each of the following banks: ABN AMRO Bank N.V., Barclays Bank PLC, Citibank, N.A. and The Royal Bank of Scotland plc
<b>refinancing contribution</b>	has the meaning given to it in on page 87
<b>refinancing distribution</b>	has the meaning given to it on page 103
<b>Reg S</b>	Regulation S under the United States Securities Act of 1933, as amended
<b>Reg S global issuer notes</b>	the note certificates representing the Reg S issuer notes while in global form
<b>Reg S issuer notes</b>	the issuer notes that are sold outside the United States to non-U.S. persons in reliance on Reg S
<b>Registers of Scotland</b>	the Land Register of Scotland and/or the General Register of Sasines
<b>registrar</b>	Citibank, N.A., London branch
<b>regulated mortgage contract</b>	as defined in “ <b>Risk factors – Failure by the seller or any servicer to hold relevant authorisations and permissions under FSMA in relation to regulated mortgage contracts may have an adverse effect on enforceability of mortgage contracts</b> ” above
<b>reinstatement</b>	in relation to a property that has been damaged, repairing or rebuilding that property to the condition that it was in prior to the occurrence of the damage

<b>related security</b>	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 trust property sold to the mortgages trustee
<b>relevant accumulation amount</b>	has the meaning given to it on page 98
<b>repayment requirement</b>	has the meaning given to it on page 98
<b>repayment tests</b>	Rules 1 to 5 under “ <b>Cashflows – Distribution of Funding 1 available principal receipts</b> ”
<b>revenue ledger</b>	the ledger(s) of such name created and maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record revenue receipts on the loans and interest from the mortgages trustee GIC account and payments of revenue receipts from the mortgages trustee GIC account to Funding 1, any further Funding company (if applicable) and the seller on each distribution date. The revenue ledger and the principal ledger together reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account
<b>revenue receipts</b>	amounts received by the mortgages trustee in the mortgages trustee GIC account in respect of the loans other than principal receipts and third party amounts
<b>sale date</b>	the date on which any new loans are sold to the mortgages trustee in accordance with the mortgage sale agreement
<b>scheduled amortisation instalment</b>	in respect of each scheduled amortisation loan tranche, each part of such scheduled amortisation loan tranche which is payable on each of the scheduled repayment dates of such scheduled amortisation loan tranche
<b>scheduled amortisation loan tranche</b>	the issuer loan tranche or any new issuer loan tranche that is scheduled to be repaid on more than one scheduled repayment date. The scheduled amortisation loan tranches will be deemed to be pass-through loan tranches if a trigger event occurs or if the security granted by a new issuer which has made the scheduled amortisation loan tranche is enforced or the Funding 1 security or the security granted by any further Funding company (as applicable) to which such loan tranche was made is enforced
<b>scheduled amortisation notes</b>	any notes the proceeds of which have been used to make a scheduled amortisation loan tranche
<b>scheduled repayment date</b>	has the meaning given to it on page 99
<b>Scottish declaration of trust</b>	each declaration of trust to be granted by the seller in favour of the mortgages trustee pursuant to the mortgage sale agreement transferring the beneficial interest in Scottish loans and their related security to the mortgages trustee
<b>Scottish loan</b>	a loan secured by a Scottish mortgage
<b>Scottish mortgage</b>	a mortgage secured over a property in Scotland
<b>Scottish mortgage conditions</b>	the mortgage conditions applicable to Scottish loans
<b>secretarial services agreement</b>	the agreement to be entered into on the closing date pursuant to which Alliance & Leicester will agree to provide secretarial services to each of the issuer, Funding 1, Holdings and PECO
<b>Securities Act</b>	United States Securities Act of 1933, as amended
<b>seller</b>	Alliance & Leicester
<b>seller accrued interest amounts</b>	amounts of accrued interest on the loans up to and excluding their sale into the mortgages trust
<b>seller contribution</b>	has the meaning given to it on page 88
<b>seller's policy</b>	the originating, underwriting, administration, arrears and enforcement policy applied by the seller from time to time to loans and their related security owned solely by the seller
<b>seller share</b>	the seller share of the trust property from time to time, as calculated on each trust calculation date



<b>seller share percentage</b>	the seller share percentage of the trust property from time to time, as calculated on each trust calculation date
<b>semi-detached</b>	a house joined to another house on one side only
<b>senior loan tranches</b>	means the issuer AAA (class A1) loan tranche, the issuer AAA (class A2) loan tranche and the issuer AA (class B) loan tranche
<b>servicer</b>	Alliance & Leicester or such other person as may from time to time be appointed as servicer of the portfolio pursuant to the servicing agreement
<b>servicer termination event</b>	has the meaning given to it on page 62
<b>servicing agreement</b>	the agreement entered into on the closing date (as amended, restated, supplemented, replaced and/or novated from time to time) between the servicer, the mortgages trustee, the seller, the Funding 1 security trustee and Funding 1 under which the servicer agrees to administer the loans and their related security comprised in the portfolio, as described further above in <b>“Summary of the transaction documents – Servicing agreement”</b>
<b>shortfall</b>	(in respect of Funding 1) the deficiency of Funding 1 available revenue receipts on a Funding 1 interest payment date over the amounts due by Funding 1 under the Funding 1 pre-acceleration revenue priority of payments and (in respect of the issuer) the deficiency in issuer revenue receipts on an interest payment date over the amounts due by the issuer under the issuer pre-acceleration revenue priority of payments
<b>special distribution</b>	has the meaning given to it on page 103
<b>specified minimum rate</b>	the rate specified in the offer conditions
<b>sponsor</b>	Alliance & Leicester
<b>Standard &amp; Poor's or S&amp;P</b>	Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., and any successor to its ratings business
<b>start-up loans</b>	the issuer start-up loan and the Funding 1 start-up loan
<b>step-up date</b>	means: <ul style="list-style-type: none"> <li>(i) in respect of the issuer AAA (class A1) loan tranche, the Funding 1 interest payment date falling in March 2009</li> <li>in respect of the issuer AAA (class A2) loan tranche, the Funding 1 interest payment date falling in March 2011</li> <li>in respect of the issuer AA (class B) loan tranche and the issuer NR (class Z) loan tranche, the Funding 1 interest payment date falling in March 2015; and</li> <li>(ii) in respect of the class A1 issuer notes, the interest payment date falling in March 2009</li> <li>in respect of the class A2 issuer notes, the interest payment date falling in March 2011</li> <li>in respect of the class B issuer notes and the class Z issuer notes, the interest payment date falling in March 2015</li> </ul>
<b>sterling issuer notes</b>	means the class B issuer notes and the class Z issuer notes
<b>subordinated loan tranches</b>	(in the case of the issuer loan tranches the issuer NR (class Z) loan tranche and (in the case of any new issuer loan tranches) any loan tranches corresponding to notes issued by such new issuer that are not rated
<b>swap early termination event</b>	a circumstance in which a swap agreement can be terminated prior to its scheduled termination date
<b>swap agreements</b>	the Funding 1 swap agreement and the issuer swap agreements
<b>swap providers</b>	the Funding 1 swap provider and the issuer swap providers
<b>TARGET business day</b>	a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) System is open
<b>terraced</b>	a house in a row of houses built in one block in a uniform style
<b>third party amounts</b>	includes:

- (a) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer's account;
- (b) payments by borrowers of any fees and other charges which are due to the seller; or
- (c) recoveries in respect of amounts deducted from loans as described above in paragraphs (a) to (d) in "**The mortgages trust – Adjustments to trust property**", which shall belong to and be paid to the seller as described therein

**third party creditors**

means third parties that are not issuer secured creditors to whom certain expenses incurred by the issuer in the ordinary course of its business are due to be paid on each interest payment date

**transaction documents**

the documents listed in item 3 in "**Listing and General Information – Documents available**"

**transactions**

the present transaction described in this prospectus and all future transactions related to such transaction

**transfer date**

the date that a portable loan is transferred to a new property

**trigger event**

an asset trigger event and/or a non-asset trigger event

**trust calculation date**

the closing date, the London business day following the last day of each month and the day on which the mortgages trust is terminated

**trust calculation period**

the period from (and including) the first day of each calendar month (or, as applicable, the closing date) to (and including) the last day of that calendar month or, as applicable, the date of termination of the mortgages trust

**trust calculation period Funding 1 amount**

has the meaning given to it on page 81

**trust calculation period swap provider amount**

has the meaning given to it on page 80

**trust property**

includes:

- (a) the portfolio of loans and their related security sold to the mortgages trustee by the seller on the closing date;
- (b) any new loans and their related security sold to the mortgages trustee by the seller after the closing date;
- (c) any increase in the outstanding principal balance of a loan due to a borrower taking payment holidays or making underpayments under a loan or making cash withdrawals under any flexible loan or the seller making a further advance under a loan (for the avoidance of doubt, in the case of excluded further advances or further advances otherwise repurchased pursuant to the terms of the mortgage sale agreement, until so repurchased) or the capitalisation of arrears or accrued interest or other amounts in arrears in respect of any loan;
- (d) any revenue receipts and principal receipts on the loans in the portfolio;
- (e) any contribution paid by Funding 1, any further Funding company or the seller to the mortgages trustee, for application in accordance with the terms of the mortgages trust deed;
- (f) any other amounts received under or in respect of the loans and their related security on or after the relevant sale date (excluding third party amounts), the proceeds of any sale of loans and their related security and any other proceeds of sale of any other trust property;
- (g) any authorised investments made by or on behalf of the mortgages trustee (and any income earned on those investments);
- (h) rights under the insurance policies that are assigned to the mortgages trustee or which the mortgages trustee has the benefit of;
- (i) amounts on deposit (and interest earned on those amounts) in the mortgages trustee GIC account; and

- (j) any other property representing (a) to (i) above;
- less
- (j) any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described above in paragraph (a) in “**The mortgages trust – Adjustments to trust property**” above;
  - (k) distributions of revenue receipts and principal receipts made from time to time to the beneficiaries of the mortgages trust;
  - (l) refinancing distributions and/or special distributions made from time to time to the beneficiaries of the mortgages trust; and
  - (m) the initial purchase price paid by the mortgages trustee to the seller on the closing date and each subsequent sale date for the sale to the mortgages trustee of the relevant loans and their related security

<b>UK listing authority</b>	the FSA in its capacity as competent authority under part VI of the FSMA
<b>UK share trustee</b>	SFM Corporate Services Limited
<b>underpayment</b>	has the meaning given to it in “ <b>The loans – Characteristics of the loans – Flexible payments</b> ” above
<b>Unfair Practices Directive</b>	Directive (2005/29/EC) on unfair business-to-consumer commercial practices adopted by the European Parliament and the Council on 11 May 2005
<b>UTCCR</b>	the Unfair Terms in Consumer Contracts Regulations 1994 and 1999, as amended
<b>valuation</b>	a methodology for determining the value of a property which would meet the standards of a reasonable, prudent mortgage lender (as referred to under “ <b>Summary of the transaction documents – Servicing agreement – Undertakings by the servicer</b> ” above)
<b>valuation fee</b>	a fee incurred by borrowers as a result of the seller or servicer obtaining a valuation of the property
<b>variable mortgage rate</b>	the rate of interest which determines the amount of interest payable each month on a variable rate loan
<b>variable rate loan</b>	a loan where the interest rate payable by the borrower varies in accordance with a specified variable mortgage rate
<b>variable rates</b>	the seller's variable rate or the mortgages trustee's variable rate, as applicable
<b>VAT</b>	value added tax
<b>WAFF</b>	weighted average foreclosure frequency
<b>WALS</b>	weighted average loss severity
<b>weighted average Funding 1 share percentage</b>	has the meaning given to it on page 91
<b>weighted average Funding 1 share (losses) percentage</b>	has the meaning given to it on page 92
<b>weighted average Funding 1 share (principal) percentage</b>	has the meaning given to it on page 92
<b>weighted average Funding 1 share (revenue) percentage</b>	has the meaning given to it on page 91
<b>weighted average further Funding company share percentage</b>	has the meaning given to it on page 92
<b>weighted average further Funding company share (losses) percentage</b>	has the meaning given to it on page 92
<b>weighted average further Funding company share (principal) percentage</b>	has the meaning given to it on page 92
<b>weighted average further Funding company share (revenue) percentage</b>	has the meaning given to it on page 92
<b>weighted average seller share percentage</b>	has the meaning given to it on page 93

<b>weighted average seller share (losses) percentage</b>	has the meaning given to it on page 93
<b>weighted average seller share (principal) percentage</b>	has the meaning given to it on page 93
<b>weighted average seller share (revenue) percentage</b>	has the meaning given to it on page 93
<b>withholding tax</b>	a tax levied under UK law, as further described above in “ <b>United Kingdom taxation</b> ”

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