

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF GREENOCK FUNDING NO. 4 PLC (THE **ISSUER**) IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS ELECTRONIC TRANSMISSION OR THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF APPLICABLE LAWS.

The Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the United States Securities Act of 1933, as amended) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia and (d) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither of the Issuer or The Royal Bank of Scotland plc (nor any person who controls either of them nor any director, officer, employee nor agent of either of them nor affiliate of either of them) accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from The Royal Bank of Scotland plc.

GREENOCK FUNDING NO. 4 PLC

(Incorporated in England and Wales with limited liability, registered number 6755570)

Sub-class of Notes	Principal Amount	Issue Price	Interest rate	Ratings (Moody's/S&P/Fitch)	Final Maturity Date
Class A1 Notes	£120,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A2 Notes	£1,000,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A3 Notes	£1,000,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A4 Notes	£1,000,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A5 Notes	£1,000,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A6 Notes	£1,000,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A7 Notes	£30,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A8 Notes	£250,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A9 Notes	£250,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A10 Notes	£250,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A11 Notes	£250,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class A12 Notes	£250,000,000	100%	0.10% margin above BBR Linked Rate	Aaa/AAA/AAA	October 2068
Class Z Notes	£478,000,000	100%	1.00% margin above BBR Linked Rate	Unrated	October 2068

On 27 January 2009 (the **Closing Date**), the Issuer will issue its asset backed floating rate notes (the Notes) in the classes set out above.

The principal asset from which the Issuer will make payments on the Notes is a pool of residential mortgage loans and buy-to-let residential mortgage loans originated by The Royal Bank of Scotland plc (**RBS**) and secured over properties located in England, Wales and Scotland.

Interest will be payable quarterly in arrear on the 24th day of January, April, July and October in each year (subject to following business day convention) for all classes of Notes. See further the definition of Interest Payment Date.

Subject to the detailed description and limitations set out in the section herein entitled "*Credit Structure*", the Notes will have the benefit of credit enhancement or support comprising the availability of excess portions of revenue receipts and (in the case of the Class A Notes only) a general reserve fund, a liquidity reserve fund (if established) and subordination of the Class Z Notes (in respect of payments of interest and, following the service of a Note Acceleration Notice on the Issuer, payments of both interest and principal). The Notes will also have the benefit of the Interest Rate Swap which is provided by RBS.

The Notes will be issued pursuant to a trust deed (the **Trust Deed**) and secured pursuant to a deed of charge (the **Deed of Charge**) dated the Closing Date.

The Notes will be obligations of the Issuer only. The Notes will not be obligations of RBS or any of its affiliates.

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

The Class A Notes will be assigned the ratings set out above on or about the Closing Date. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes are highly structured. Before you purchase any Notes, be sure that you understand the structure and the risks (see, in particular, the section herein entitled "*Risk Factors*"). The risk characteristics of the Class Z Notes differ from those of the Class A Notes generally.

Lead Manager

The Royal Bank of Scotland

The date of this Prospectus is 27 January 2009

IMPORTANT NOTICE

THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, THE SELLER, THE INTEREST RATE SWAP PROVIDER, THE LEAD MANAGER, THE SUBSCRIBER, THE ADMINISTRATOR, THE CASH MANAGER, THE ACCOUNT BANK, THE SELLER COLLECTION ACCOUNT BANK, THE NOTE TRUSTEE, THE SECURITY TRUSTEE (EACH AS DEFINED HEREIN), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY SUCH ENTITIES OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS. NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY THE SELLER, THE INTEREST RATE SWAP PROVIDER, THE LEAD MANAGER, THE SUBSCRIBER, THE ADMINISTRATOR, THE CASH MANAGER, THE ACCOUNT BANK, THE SELLER COLLECTION ACCOUNT BANK, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR BY ANY PERSON OTHER THAN THE ISSUER.

Each sub-class of the Class A Notes will be represented on issue by a global note in registered form (together, the **Global Notes**). The Class Z Notes will be issued in definitive registered form (the **Class Z Definitive Notes**) and, together with any Class A Notes in definitive form, the **Definitive Notes**) and deposited with The Bank of New York Mellon, acting through its London branch, as custodian (the **Custodian**).

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

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE LEAD MANAGER OR THE SUBSCRIBER THAT THIS PROSPECTUS MAY BE LAWFULLY DISTRIBUTED, OR THAT THE NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, AND NONE OF THEM ASSUMES ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, SAVE FOR OBTAINING THE APPROVAL OF THIS PROSPECTUS AS A PROSPECTUS FOR THE PURPOSES OF THE PROSPECTUS DIRECTIVE BY THE UK LISTING AUTHORITY, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE LEAD MANAGER OR THE SUBSCRIBER WHICH WOULD PERMIT A PUBLIC OFFERING OF THE NOTES OR DISTRIBUTION OF THIS PROSPECTUS IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS PROSPECTUS NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED, IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH

ANY APPLICABLE LAWS AND REGULATIONS AND THE LEAD MANAGER AND THE SUBSCRIBER HAS EACH REPRESENTED THAT ALL OFFERS AND SALES BY IT WILL BE MADE ON SUCH TERMS. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER AND THE LEAD MANAGER TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR ANY STATE SECURITIES LAWS AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT (**REGULATION S**)) (**U.S. PERSONS**) EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES OR TRANSFERS, SEE "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*".

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

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

THE ISSUER ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS. TO THE BEST OF ITS KNOWLEDGE (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THIS PROSPECTUS IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OR SALE OF THE NOTES OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE LEAD MANAGER, THE SUBSCRIBER OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE SELLER OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF. THE INFORMATION CONTAINED IN THIS PROSPECTUS WAS OBTAINED FROM THE ISSUER AND THE OTHER SOURCES IDENTIFIED HEREIN, BUT NO ASSURANCE CAN BE GIVEN BY THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE LEAD MANAGER OR THE SUBSCRIBER AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE LEAD MANAGER OR THE SUBSCRIBER MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS PROSPECTUS. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR

OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE CONTENTS OF THIS PROSPECTUS SHOULD NOT BE CONSTRUED AS PROVIDING LEGAL, BUSINESS, ACCOUNTING OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL, BUSINESS, ACCOUNTING AND TAX ADVISERS PRIOR TO MAKING A DECISION TO INVEST IN THE NOTES.

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

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

IN THIS PROSPECTUS ALL REFERENCES TO **POUNDS, STERLING, GBP** AND **£** ARE REFERENCES TO THE LAWFUL CURRENCY FOR THE TIME BEING OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (THE **UNITED KINGDOM** or **UK**). REFERENCES IN THIS PROSPECTUS TO **EURO** AND **€** ARE REFERENCES TO THE SINGLE CURRENCY INTRODUCED AT THE START OF THE THIRD STAGE OF EUROPEAN ECONOMIC AND MONETARY UNION ON 1 JANUARY 1999 PURSUANT TO THE TREATY ESTABLISHING THE EUROPEAN COMMUNITIES, AS AMENDED FROM TIME TO TIME.

Forward-Looking Statements

Certain matters contained herein are forward-looking statements. Such statements appear in a number of places in this Prospectus, including with respect to assumptions on prepayment and certain other characteristics of the Loans, and reflect significant assumptions and subjective judgments by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans" or similar terms. Consequently, future results may differ from the Issuer's expectations due to a variety of factors, including (but not limited to) the economic environment and regulatory changes in the residential mortgage industry in the United Kingdom. Moreover, past financial performance should not be considered a reliable indicator of future performance and prospective purchasers of the Notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer. Neither the Lead Manager or the Subscriber has attempted to verify any such statements, nor does it make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements. None of the Issuer, the Lead Manager nor the Subscriber assumes any obligation to update these forward-looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements.

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PARTIES AND PRINCIPAL FEATURES OF TRANSACTION

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

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

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

The Parties

Issuer:

Greenock Funding No. 4 plc is a public limited company incorporated under the laws of England and Wales with registered number 6755570 (the **Issuer**). The Issuer is a wholly owned subsidiary of Holdings. The Issuer was established as a special purpose entity for the purpose of, *inter alia*, issuing the Notes and using the gross proceeds of (a) the Class A Notes towards the consideration payable to acquire the Initial Portfolio from the Seller and (b) the Class Z Notes to fund the General Reserve Fund.

Holdings:

Greenock Holding No. 4 Limited is a private limited company incorporated under the laws of England and Wales with registered number 6755495 (**Holdings**). The issued share capital of Holdings is held by SFM Corporate Services Limited as trustee (the **Share Trustee**) under the terms of a discretionary trust for the benefit of one or more discretionary objects. Neither the Seller, nor any company connected with the Seller, can direct the Share Trustee and no such companies have any control, direct or indirect, over Holdings or the Issuer.

Seller:

The Royal Bank of Scotland plc, incorporated under the laws of Scotland with registered number SC90312 (**RBS**, in such capacity, the **Seller**) will enter into a mortgage sale agreement with the Issuer, the Administrator and the Security Trustee on or about the Closing Date (the **Mortgage Sale Agreement**). On the Closing Date, the Seller will sell the loans (the **Loans**) and their related security (the **Related Security**) comprising the Initial Portfolio to the Issuer pursuant to the terms of the Mortgage Sale Agreement

Administrator:

RBS (in such capacity, the **Administrator**) will enter into an administration agreement with, *inter alios*, the Issuer, the Seller and the Security Trustee on or about the Closing Date (the **Administration Agreement**).

Pursuant to the terms of the Administration Agreement RBS will administer the Loans and their Related Security that comprise the Portfolio on behalf of the Issuer.

Cash Manager:

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

Note Trustee:

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

Security Trustee:

BNY Corporate Trustee Services Limited (in such capacity, the **Security Trustee**), will hold the security granted by the Issuer under the deed of charge to be entered into on or about the Closing Date between, *inter alios*, the Issuer and the Security Trustee (the **Deed of Charge**) for the benefit of, *inter alios*, the Noteholders and will be entitled to enforce such security.

Interest Rate Swap Provider:

On or about the Closing Date, RBS (in such capacity, the **Interest Rate Swap Provider**) will enter into an ISDA Master Agreement (including a schedule, a credit support annex and one or more confirmations) with the Issuer and the Security Trustee (the **Interest Rate Swap Agreement**) to swap and hedge various fixed interest rates payable on the Loans in the Portfolio into rates calculated by reference to the Bank of England base rate as displayed on Bank of England website or such other reliable source as may be agreed between the Issuer and the Note Trustee from time to time (the **BBR Linked Rate**).

Account Bank:

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

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

If at any time the short term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of P-1 by Moody's, F1 by Fitch or A-1 by S&P (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency), the Issuer will be required (within 30 days) to arrange for the transfer (at its own cost) of the Bank Accounts to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement in order to maintain the ratings of the Notes at their then current ratings (provided that, in case of S&P only, the Bank Accounts (other than the GIC Account) shall only be transferred if the Account Bank is downgraded below A-2 by S&P).

The Account Bank has agreed to pay a guaranteed rate of interest in relation to the GIC Account.

Seller Collection Account Bank:

As at the date of this Prospectus, the Seller maintains three Seller Collection Accounts with RBS (in such capacity, the **Seller Collection Account Bank**).

The Seller Collection Account Bank receives all collections from the respective Borrowers or cheques deposited by the Seller into its Seller Collection Accounts.

Subordinated Loan Provider:

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

Corporate Services Provider:

Structured Finance Management Limited (in such capacity, the **Corporate Services Provider**) will be appointed to provide certain corporate services to the Issuer, Holdings and PECO H pursuant to a corporate services agreement (the **Corporate Services Agreement**) which will be entered into on or about the Closing Date by, *inter alios*, the Issuer, Holdings, PECO H and the Corporate Services Provider.

Post-Enforcement Call Option Holder:

Greenock Option No. 4 Limited (the **Post-Enforcement Call Option Holder** or **PECO H**) is a private limited company incorporated under the laws of England and Wales with registered number 6755550. The issued share capital of the Post-Enforcement Call Option Holder is wholly held by Holdings. The Post-Enforcement Call Option Holder will enter into a post-enforcement call option agreement on or about the Closing Date with, *inter alios*, the Issuer and the Note Trustee (the **Post-Enforcement Call Option Agreement**).

Principal Paying Agent, Agent Bank and Registrar:

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

Custodian

The Bank of New York Mellon, acting through its London branch, will be appointed by the Subscriber to act as custodian (the **Custodian**) in relation to the Class Z Definitive Notes.

Figure 1 – Ownership Structure

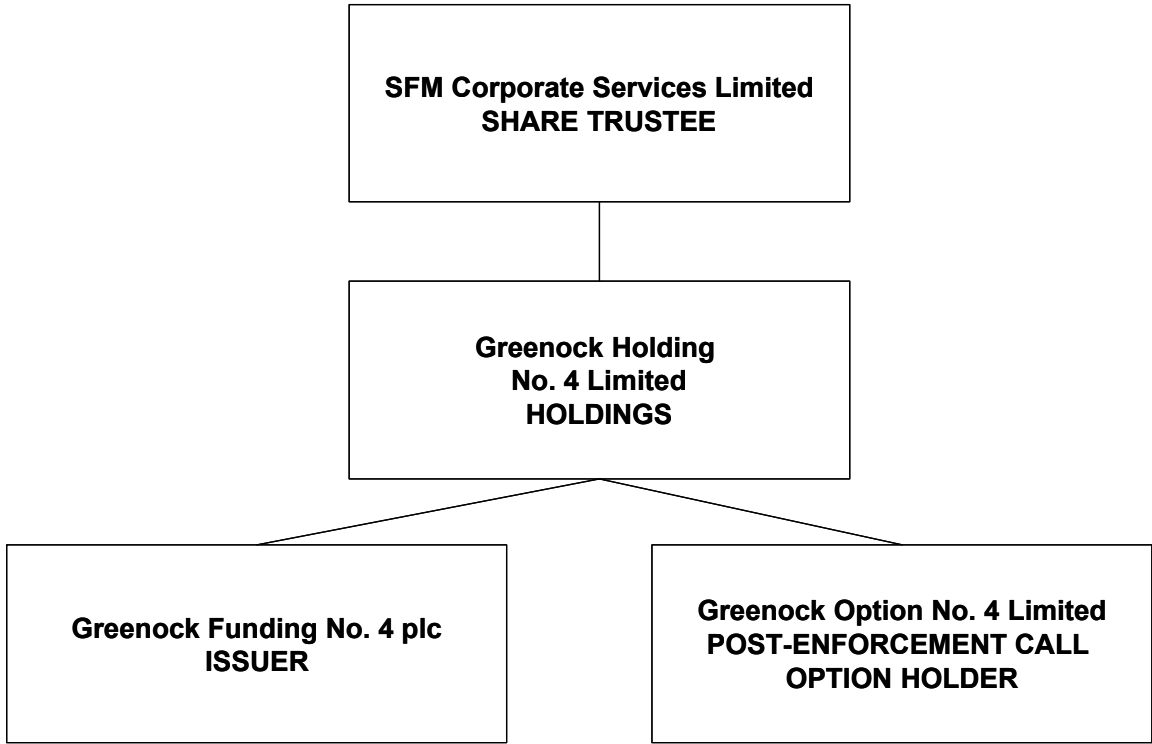


Figure 1 illustrates the ownership structure of the special purpose companies that will be parties to the transaction, as follows:

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

Figure 2 – Transaction Structure

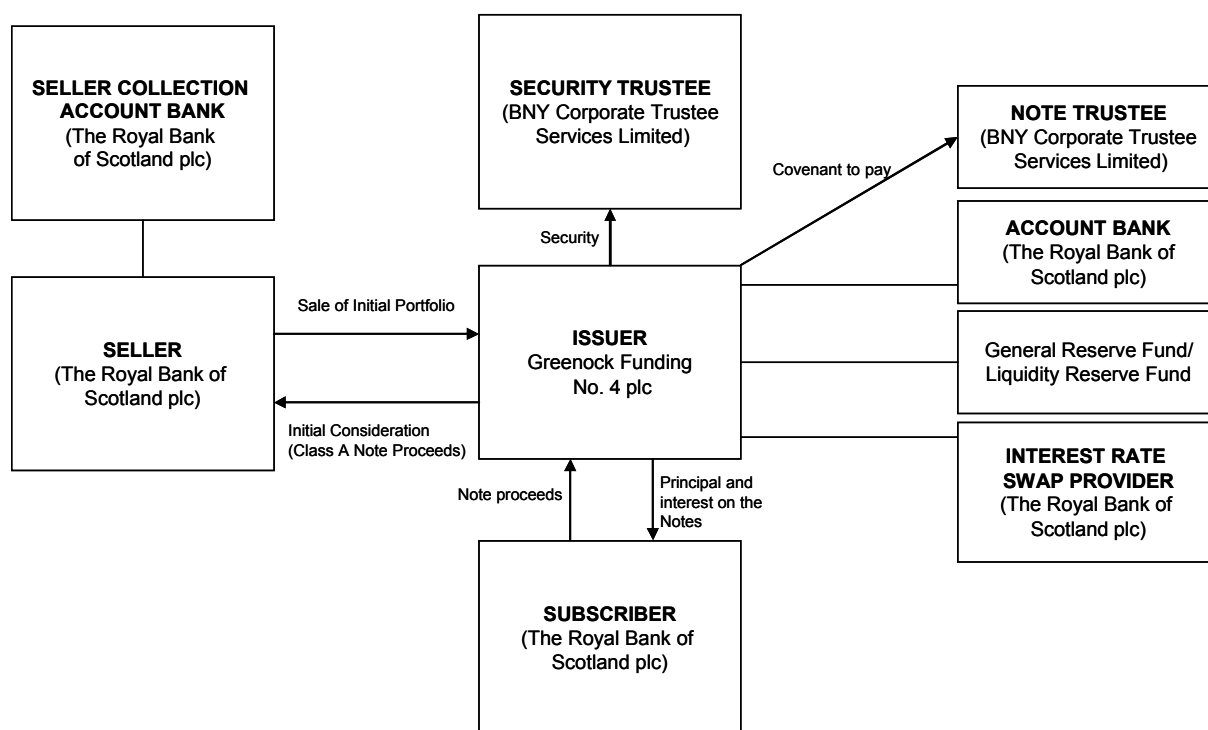


Figure 2 illustrates a brief overview of the transaction, as follows:

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

The Issuer will use the proceeds of the issue of the Class A Notes principally to pay the Initial Consideration of £ 6,388,768,760.62 to the Seller on the Closing Date. The remaining proceeds of the issue of the Class A Notes will be deposited into the GIC Account on the Closing Date to form part of the Available Principal Receipts in respect of the first Interest Payment Date. At later dates, the Issuer will pay Deferred Consideration to the Seller from excess Available Revenue Receipts.

The Issuer will use the proceeds of the issue of the Class Z Notes to establish the General Reserve Fund on the Closing Date and from time to time will use the proceeds of any Further Class Z Notes and any Further Subordinated Loan Advances by way of Yield Shortfall Advance to increase the General Reserve Fund. Moneys standing to the credit of the General Reserve Fund will be applied on each Interest Payment Date towards payment of senior expenses and interest amounts on the Class A Notes and, to the extent of any General Reserve Fund Excess, shall be used to repay the Class Z Notes and, if the Class A Notes will be redeemed in full on such Interest Payment Date, such part of the General Reserve Fund not exceeding the Principal Amount Outstanding of the Class Z Notes on such Interest Payment Date shall be used to repay the Class Z Notes.

The Issuer will use amounts received in respect of the Portfolio which are Revenue Receipts and Principal Receipts to meet its obligations to pay, among other items, interest amounts and principal amounts to the Noteholders on each Interest Payment Date.

Pursuant to the terms of the Deed of Charge to be entered into on or about the Closing Date, the Issuer will grant security over all of its assets in favour of the Security Trustee, to secure its obligations to its various creditors, including the Noteholders.

The terms of the Notes will be governed by the Trust Deed to be entered into on or about the Closing Date.

The Issuer will open the GIC Account and the Transaction Account with the Account Bank, which will be governed by the Bank Account Agreement to be entered into on or about the Closing Date.

The Issuer will enter into the Interest Rate Swap Agreement with the Interest Rate Swap Provider on the Closing Date to swap various fixed interest rates payable on certain of the Loans in the Portfolio into a rate calculated by reference to the BBR Linked Rate.

The proceeds of the Initial Subordinated Loan Advance to be made by the Subordinated Loan Provider to the Issuer on or about the Closing Date will also be deposited into the Transaction Account on the Closing Date and applied towards payment of (a) certain of the Issuer's initial fees and expenses incurred in connection with the issue of the Notes and (b) the up front payments to the Interest Rate Swap Provider under the Interest Rate Swap Agreement. Any Further Subordinated Loan Advances made by the Subordinated Loan Provider to the Issuer after the Closing Date will be deposited into the GIC Account and used to fund any Further Subordinated Loan Advance by way of a Yield Shortfall Advance, in an amount equal to the lesser of (i) the Minimum Yield Amount and (ii) the Maximum Yield Shortfall Advance Amount. In addition, the Subordinated Loan Provider shall at the request of the Issuer (which the Issuer will covenant to make) make a loan to the Issuer in an amount equal to the undrawn portion of the Commitment under the Subordinated Loan Agreement to be placed on deposit in a standby account within 30 days of the short-term ratings of the Subordinated Loan Provider ceasing to be rated at least "F2" by Fitch, "P-1" by Moody's and "A-2" by S&P (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency).

In limited circumstances, the Issuer will establish a Liquidity Reserve Fund. If established, moneys standing to the credit of the Liquidity Reserve Fund will be applied towards payment of senior expenses and interest on the Class A Notes on each Interest Payment Date.

KEY CHARACTERISTICS OF THE NOTES

	Class A1	Class A2	Class A3	Class A4	Class A5
Principal Amount:	£120,000,000	£1,000,000,000	£1,000,000,000	£1,000,000,000	£1,000,000,000
Credit enhancement:	The Reserve Funds.	The Reserve Funds.	The Reserve Funds.	The Reserve Funds.	The Reserve Funds.
Issue Price:	100%	100%	100%	100%	100%
Interest Rate:	BBR Linked Rate + margin	BBR Linked Rate + margin	BBR Linked Rate + margin	BBR Linked Rate + margin	BBR Linked Rate + margin
Margin:	0.10% p.a.	0.10% p.a.	0.10% p.a.	0.10% p.a.	0.10% p.a.
Interest Accrual Method:	Actual/Actual	Actual/Actual	Actual/Actual	Actual/Actual	Actual/Actual
Interest Payment Dates:	For all Notes, quarterly in arrear on the Interest Payment Dates falling on 24 January, 24 April, 24 July and 24 October of each year (subject to following business day convention).				
First Interest Payment Date:	24 April 2009	24 April 2009	24 April 2009	24 April 2009	24 April 2009
Final Maturity Date:	24 October 2068	24 October 2068	24 October 2068	24 October 2068	24 October 2068
Application for Exchange Listing:	London	London	London	London	London
ISIN:	XS0409963203	XS0409965323	XS0409974408	XS0409975983	XS0409977765
Common Code:	040996320	040996532	040997440	040997598	040997776
Ratings (Moody's/S&P/Fitch):	Aaa/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA
	Class A6	Class A7	Class A8	Class A9	Class A10
Principal Amount:	£1,000,000,000	£30,000,000	£250,000,000	£250,000,000	£250,000,000
Credit enhancement:	The Reserve Funds.	The Reserve Funds.	The Reserve Funds.	The Reserve Funds.	The Reserve Funds.
Issue Price:	100%	100%	100%	100%	100%
Interest Rate:	BBR Linked Rate + Margin	BBR Linked Rate + Margin	BBR Linked Rate + Margin	BBR Linked Rate + Margin	BBR Linked Rate + Margin
Margin:	0.10% p.a.	0.10% p.a.	0.10% p.a.	0.10% p.a.	0.10% p.a.

	Class A6	Class A7	Class A8	Class A9	Class A10
Interest Accrual Method:	Actual/Actual	Actual/Actual	Actual/Actual	Actual/Actual	Actual/Actual
Interest Payment Dates:	For all Notes, quarterly in arrear on the Interest Payment Dates falling on 24 January, 24 April, 24 July and 24 October of each year (subject to following business day convention).				
First Interest Payment Date:	24 April 2009	24 April 2009	24 April 2009	24 April 2009	24 April 2009
Final Maturity Date:	24 October 2068	24 October 2068	24 October 2068	24 October 2068	24 October 2068
Application for Exchange Listing:	London	London	London	London	London
ISIN:	XS0409979118	XS0409980124	XS0409981445	XS0409982849	XS0409983490
Common Code:	040997911	040998012	040998144	040998284	040998439
Ratings (Moody's/S&P/Fitch):	Aaa/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA	Aaa/AAA/AAA

	Class A11	Class A12
Principal Amount:	£250,000,000	£250,000,000
Credit enhancement:	The Reserve Funds.	The Reserve Funds.
Issue Price:	100%	100%
Interest Rate:	BBR Linked Rate + Margin	BBR Linked Rate + Margin
Margin:	0.10% p.a.	0.10% p.a.
Interest Accrual Method:	Actual/Actual	Actual/Actual
Interest Payment Dates:	For all Notes, quarterly in arrear on the Interest Payment Dates falling on 24 January, 24 April, 24 July and 24 October of each year (subject to following business day convention).	
First Interest Payment Date:	24 April 2009	24 April 2009
Final Maturity Date:	24 October 2068	24 October 2068
Application for Exchange Listing:	London	London

	Class A11	Class A12
ISIN:	XS0409985271	XS0409985438
Common Code:	040998527	040998543
Ratings (Moody's/S&P/Fitch):	Aaa/AAA/AAA	Aaa/AAA/AAA
Class Z		
Principal Amount:		£478,000,000
Credit enhancement:		-
Issue Price:		100%
Interest Rate:		BBR Linked Rate + Margin
Margin:		1.00% p.a.
Interest Accrual Method:		Actual/Actual
Interest Payment Dates:	For all Notes, quarterly in arrear on the Interest Payment Dates falling on 24 January, 24 April, 24 July and 24 October of each year (subject to following business day convention).	
First Interest Payment Date:		24 April 2009
Final Maturity Date:		24 October 2068
Application for Exchange Listing:		London
ISIN:		N/A
Common Code:		N/A
Ratings (Moody's/S&P/Fitch):		Unrated

TRANSACTION OVERVIEW

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

Status and Form of the Notes:

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

- £120,000,000 Class A1 Asset Backed Floating Rate Notes due October 2068 (the **Class A1 Notes**);
- £1,000,000,000 Class A2 Asset Backed Floating Rate Notes due October 2068 (the **Class A2 Notes**);
- £1,000,000,000 Class A3 Asset Backed Floating Rate Notes due October 2068 (the **Class A3 Notes**);
- £1,000,000,000 Class A4 Asset Backed Floating Rate Notes due October 2068 (the **Class A4 Notes**);
- £1,000,000,000 Class A5 Asset Backed Floating Rate Notes due October 2068 (the **Class A5 Notes**);
- £1,000,000,000 Class A6 Asset Backed Floating Rate Notes due October 2068 (the **Class A6 Notes**);
- £30,000,000 Class A7 Asset Backed Floating Rate Notes due October 2068 (the **Class A7 Notes**);
- £250,000,000 Class A8 Asset Backed Floating Rate Notes due October 2068 (the **Class A8 Notes**);
- £250,000,000 Class A9 Asset Backed Floating Rate Notes due October 2068 (the **Class A9 Notes**);
- £250,000,000 Class A10 Asset Backed Floating Rate Notes due October 2068 (the **Class A10 Notes**);
- £250,000,000 Class A11 Asset Backed Floating Rate Notes due October 2068 (the **Class A11 Notes**);
- £250,000,000 Class A12 Asset Backed Floating Rate Notes due October 2068 (the **Class A12 Notes** and, together with the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class A4 Notes, the Class A5 Notes, the Class A6 Notes, the Class A7 Notes, the Class A8 Notes, the Class A9 Notes, the Class A10 Notes and the Class A11 Notes, the **Class A Notes**); and
- £478,000,000 Class Z Asset Backed Floating Rate Notes due October 2068 (the **Class Z Notes** and, together with the Class A Notes, the **Notes**).

The Notes of each sub-class will rank *pari passu* and rateably without any preference or priority among themselves as to payments of interest and principal. Pre-acceleration payments of interest on the Class A Notes will rank ahead of payments of interest on the Class Z Notes. Post-acceleration payments of both interest and principal on the Class A Notes will rank ahead of payments of interest

and principal on the Class Z Notes. Payments of principal on the Class Z Notes will be met from Available Revenue Receipts after payment of higher ranking liabilities and from any General Reserve Fund Excess (if applicable) and, if the Class A Notes are redeemed in full on any Interest Payment Date, such part of the General Reserve Fund not exceeding the Principal Amount Outstanding of the Class Z Notes on such Interest Payment Date shall be used to repay the Class Z Notes.

Pursuant to the Deed of Charge, the Notes will share the same security. Certain other amounts, being the amounts owing to the other Secured Creditors, are also secured by the Security under the Deed of Charge. In the event of the security under the Deed of Charge being enforced the Class A Notes will rank in priority to the Class Z Notes. Certain amounts due by the Issuer to its other Secured Creditors also rank in priority to the Class A Notes and the Class Z Notes.

The Notes will be obligations of the Issuer only. The Notes will not be obligations of, or the responsibility of, any person other than the Issuer or guaranteed by any person. In particular, the Notes will not be obligations of, or the responsibility of, or guaranteed by any of the Seller, the Interest Rate Swap Provider, the Lead Manager, the Subscriber, the Administrator, the Cash Manager, the Account Bank, the Seller Collection Account Bank, the Note Trustee, the Security Trustee, the Corporate Services Provider, any company in the same group of companies as such entities or any other party to the Transaction Documents. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of the Seller, the Interest Rate Swap Provider, the Lead Manager, the Subscriber, the Administrator, the Cash Manager, the Account Bank, the Seller Collection Account Bank, the Note Trustee, the Security Trustee, the Corporate Services Provider or by any other person other than the Issuer.

Interest on the Notes:

The interest rates applicable to the Notes from time to time will be determined by reference to the BBR Linked Rate for the relevant period plus a margin which will differ for the Class A Notes and the Class Z Notes. The BBR Linked Rate will be determined on the Interest Determination Date immediately preceding the relevant Interest Period for which the relevant interest rate will apply, by applying an average of the BBR Linked Rate for the Collection Period ending in such Interest Period.

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

Interest payments on the Class Z Notes will be subordinated to interest payments on the Class A Notes (see "*Cashflows — Application of Available Revenue Receipts prior to service of a Note Acceleration Notice on the Issuer*" and "*Cashflows – Distribution of Available Principal Receipts and Available Revenue Receipts following the service of a Note Acceleration Notice on the Issuer*" below). This means that holders of the Class Z Notes (the **Class Z Noteholders**) will not be entitled to receive any payment of interest unless and until all amounts of interest then due to holders of the Class A Notes (the **Class A Noteholders**) have been paid in full.

Subject to the provisions of the next paragraph, if on any Interest Payment Date prior to service of a Note Acceleration Notice on the Issuer, after having paid or provided for items of higher priority in the Pre-Acceleration Revenue Priority of Payments, the Issuer has insufficient funds to make payment in full of all amounts of interest (including deferred interest thereon) payable in respect of the Class Z Notes, any shortfall in the amount of interest due will not then be paid on such Interest Payment Date but will be deferred and will only be paid, in accordance with the Pre-Acceleration Revenue Priority of Payments (as described in "*Cashflows*" below), on subsequent Interest Payment Dates if and when permitted by any subsequent cashflow which is available after the Issuer's higher ranking liabilities have been discharged in full. Any interest not paid on the Class Z Notes when due will accrue interest and will be paid only to the extent there are funds available on a subsequent Interest Payment Date in accordance with the relevant Priority of Payments (as described in "*Cashflows*" below). All

deferred amounts (including interest thereon) will become immediately due and payable on the Final Maturity Date of the Class Z Notes or on any earlier date that the Class Z Notes are redeemed in full.

Interest will not be deferred on the Class A Notes (or the Class Z Notes where the Class A Notes have been redeemed in full).

Failure to pay interest on the Class A Notes (or the Class Z Notes where the Class A Notes have been redeemed in full) shall constitute an Event of Default under the Notes which may result in the Note Trustee giving a Note Acceleration Notice and the Security Trustee enforcing the Security. Failure to pay interest when due on Class Z Notes where the Class A Notes remain outstanding will not constitute an Event of Default.

Interest is payable on the Notes in Sterling. In respect of each class of Notes, interest is payable quarterly in arrear on the 24th day of January, April, July and October, in each year, or, if such day is not a Business Day, on the immediately succeeding Business Day (each such date being an **Interest Payment Date**).

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

Mandatory Redemption:

Subject to the terms of the Deed of Charge, on each Interest Payment Date, Available Principal Receipts will be applied to repay the Class A1 Notes and the Class A7 Notes *pro rata* and *pari passu*, then the Class A2 Notes and the Class A8 Notes *pro rata* and *pari passu*, then the Class A3 Notes and the Class A9 Notes *pro rata* and *pari passu*, then the Class A4 Notes and the Class A10 Notes *pro rata* and *pari passu*, then the Class A5 Notes and the Class A11 Notes *pro rata* and *pari passu*, then the Class A6 Notes and the Class A12 Notes *pro rata* and *pari passu* on a sequential basis until repaid in full and, on each Interest Payment Date, Available Revenue Receipts will be applied, after payment of higher ranking liabilities, to repay the Class Z Notes until repaid in full. On each Interest Payment Date, any General Reserve Fund Excess (as described in "*Credit Structure – General Reserve Fund*" below), will also be applied to repay the Class Z Noteholders and, if the Class A Notes will be redeemed in full on such Interest Payment Date, such part of the General Reserve Fund not exceeding the Principal Amount Outstanding of the Class Z Notes on such Interest Payment Date, shall be used to repay the Class Z Notes.

Optional Redemption in Full or in Part:

Upon giving not more than 60 nor less than 14 days' notice to the Noteholders in accordance with Condition 16 of the terms and conditions of the Notes (the **Conditions**), the Note Trustee and the Interest Rate Swap Provider and provided that (a) on or prior to the Interest Payment Date on which such notice expires, no Note Acceleration Notice has been served and (b) the Issuer has, immediately prior to giving such notice, provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that the Issuer will have the necessary funds to pay all principal and interest due in respect of the Notes to be redeemed on the relevant Interest Payment Date and to discharge all other amounts required to be paid in priority or *pari passu* with the Notes on such Interest Payment Date, the Issuer may at its option redeem all or part of any sub-class of the Class A Notes (but if in part, only in a minimum amount of £50,000 and integral multiples thereof) provided that the Issuer shall always redeem (in full or in part) the Class A1 Notes together with the Class A7 Notes *pro rata* and *pari passu*, the Class A2 Notes together with the Class A8 Notes *pro rata* and *pari passu*, the Class A3 Notes together with the Class A9 Notes *pro rata* and *pari passu*, the Class A4 Notes together with the Class A10 Notes *pro rata* and *pari passu* and the Class A5 Notes together with the Class A11 Notes *pro rata* and *pari passu* and the Class A6 Notes together with the Class A12 Notes *pro rata* and

pari passu or the Class Z Notes (in the case of a redemption pursuant to paragraph (a) below) or all (but not some only) of the Class A Notes only (in the case of a redemption pursuant to paragraph (b) below) on the following dates:

- (a) the first Interest Payment Date falling in April 2009 or any Interest Payment Date thereafter, provided that in the case of redemption of the Class Z Notes, the Class A Notes have been redeemed in full (See *Condition 7.3(a)(ii)(A) of the Notes*); or
- (b) any Interest Payment Date following receipt by the Issuer of a notice from the Seller under the Administration Agreement that it intends to exercise its option under the Administration Agreement to repurchase all the relevant Loans and their Related Security from the Issuer on any Interest Payment Date following a date on which the aggregate Principal Amount Outstanding of the Class A Notes will be less than 10% of the aggregate Principal Amount Outstanding of the Class A Notes on the Closing Date (see *Condition 7.3(a)(ii)(B) of the Notes*).

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

Optional Redemption for Tax or Other Reasons:

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

If the Issuer satisfies the Note Trustee that taking the actions as described above would not avoid the effect of the relevant events in (a) or (b) or that, having used its reasonable endeavours, the Issuer is unable to effect such appointment or arrange such a substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 14 days' notice in accordance with Condition 7.4 of the Notes redeem all (but not some only) of the Notes at their respective Principal Amount Outstanding together with any interest accrued (and unpaid) thereon (See *Condition 7.4 of the Notes*).

Credit Enhancement:

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

- availability of excess portions of revenue receipts (See "*Credit Structure — Credit Support for the Notes provided by Available Revenue Receipts and Credit Structure — Income Deficiency*");
- (in the case of the Class A Notes only) the General Reserve Fund (see "*Credit Structure — General Reserve Fund*");
- (in the case of the Class A Notes only) the Liquidity Reserve Fund, if established (a) following an RBS rating downgrade or (b) if The Royal Bank of Scotland Group plc (registered number

SC45551) (**RBSG**) ceases to be the ultimate parent company of the Seller (see "*Credit Structure — Liquidity Reserve Fund*"); and

- (in the case of pre-acceleration payments of interest on the Class A Notes and post-acceleration payments of both interest and principal on the Class A Notes) subordination of the Class Z Notes.

Interest Rate Swap Agreement:

The Notes will also have the benefit of derivatives instruments, namely the Interest Rate Swap provided by the Interest Rate Swap Provider. See "*Credit Structure — Interest Rate Risk for the Notes*".

Purchase of Notes:

Unless it is provided for in or permitted by the terms of the Transaction Documents, the Issuer shall not purchase any Notes.

Further Class Z Notes:

The Issuer will be entitled (but not obliged) to issue further Class Z Notes (the **Further Class Z Notes**) carrying the same terms and conditions in all respects (except for the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the existing Class Z Notes.

The issue of any Further Class Z Notes will be subject to satisfaction of the conditions set out in Condition 15 including that the ratings of each sub-class of Class A Notes at that time outstanding are not downgraded, withdrawn or qualified by any Rating Agency as a result of such issue of Further Class Z Notes.

Final Maturity:

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

Post-Enforcement Call Option:

The Note Trustee, on the Closing Date, will grant to the Post-Enforcement Call Option Holder pursuant to the Post-Enforcement Call Option Agreement, an option (the **Post-Enforcement Call Option**) to require the transfer to the Post-Enforcement Call Option Holder, for a nominal amount, of all (but not some only) of the Class A Notes then outstanding (together with accrued interest thereon) and/or the Class Z Notes then outstanding (together with accrued interest thereon), in the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class A Notes and/or the Class Z Notes (as the case may be) under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal, interest and other amounts due in respect of the Class A Notes and/or the Class Z Notes (as the case may be) and all other claims ranking *pari passu* therewith. The Class A Noteholders and the Class Z Noteholders are bound by the terms and conditions of the Trust Deed and the Conditions in respect of the Post-Enforcement Call Option and the Note Trustee will be irrevocably authorised to enter into the Post-Enforcement Call Option Agreement as agent for the Class A Noteholders and the Class Z Noteholders.

Withholding Tax:

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

Expected Average Lives of the Notes:

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

Ratings:

The ratings to be assigned to each sub-class of the Class A Notes on or about the Closing Date by 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**, and, together with S&P and Moody's, the **Rating Agencies**, which term includes any further or replacement rating agency appointed by the Issuer with the approval of the Note Trustee to give a credit rating to the Notes (or any class thereof)), are set out in "*Key Characteristics of the Notes*" above.

The issuance of the Class A Notes will be conditional on the assignment on the Closing Date of the expected ratings by S&P, Moody's and Fitch set out above in the table titled "*Key Characteristics of the Notes*" above.

The Class Z 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.

Listing:

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

Sale of the Initial Portfolio:

The primary source of funds available to the Issuer to pay interest and principal on the Notes will be the Revenue Receipts and (in the case of the Class A Notes only) Principal Receipts generated by the Loans in the Portfolio. Pursuant to the Mortgage Sale Agreement, the Seller will sell the Loans comprising the Initial Portfolio to the Issuer on the Closing Date. The sale by the Seller to the Issuer on the Closing Date of each relevant Loan in the Initial Portfolio which is secured by a mortgage over a property located in England, Wales or Scotland will be given effect by (a) as regards Loans that are secured by a Mortgage over a property located in England and Wales, an equitable assignment and (b) as regards Loans that are secured by a Mortgage over a property located in Scotland, a Scottish declaration of trust pursuant to which the Issuer is vested in the beneficial interest in and to such Loans and their Related Security. The terms **sale**, **sell** and **sold** when used in the Prospectus in connection with the Loans and their Related Security shall be construed to mean each such equitable assignment and each such Scottish declaration of trust.

The term **Loans** when used in this Prospectus means the residential mortgage loans (including buy-to-let residential mortgage loans) in the Initial Portfolio (each a **Loan** and together, the **Loans**) and their Related Security (the **Related Security**) sold to the Issuer on the Closing Date together with, where the context so requires, any new Loans following a Product Switch but excluding (for the avoidance of doubt) (i) each Loan and its Related Security redeemed or repurchased by the Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer in accordance with the terms of the Transaction Documents and no longer beneficially owned by it and (ii) any Associated Debt (as defined below), where applicable.

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

Prior to the occurrence of a Seller Insolvency Event (as defined below) or an RBS Downgrade Event (as defined below), notice of the sale of the Initial Portfolio will not be given to the relevant borrowers (the **Borrowers**) under those Loans transferred and the Issuer will not apply to the Land Registry, the Central Land Charges Registry or the Registers of Scotland (as applicable) to register or record its equitable or beneficial interest in the Mortgages.

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

The Loans in the Initial Portfolio will include residential mortgage loans (including buy-to-let residential mortgage loans) as of the Closing Date, which Loans have been made to Borrowers who wish to purchase or remortgage a residential property for owner occupancy or for the purpose of letting to third parties, in the case of English Mortgages, by way of assured shorthold tenancy or, where the level of rent under the tenancy takes it above the maximum prescribed for assured shorthold tenancies, a tenancy with the equivalent security of tenure as confirmed by the Borrower's solicitor or, in respect of Scottish Mortgages, a short assured tenancy, and in all cases on terms that the occupier will have no statutory security of tenure. However, in the case of buy-to-let residential mortgage loans, if the occupier's tenancy has been approved by the Seller, the Seller will not be able to sell with vacant possession if it wishes to enforce its security until such time as the tenancy comes to an end. See "*Risk Factors – Risks Relating to Buy-To-Let Loans*" and "*Risk Factors – Certain Regulatory Considerations – Office of Fair Trading, Financial Services Authority and Other Regulatory Authorities*" for some particular investment considerations relating to the Loans.

When used in this Prospectus, **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 to be sold to the Issuer pursuant to the Mortgage Sale Agreement.

The Actual Provisional Portfolio consists of 55,982 Loans with an aggregate outstanding principal balance of £6,388,768,760.62.

As at the Closing Date, the Loans in the Initial Portfolio will comprise Fixed Rate Loans, Stepped Rate Loans, Discounted Rate Loans and Tracker Rate Loans on the long term rate, being a tracker rate which tracks the rate advised by the Monetary Policy Committee of the Bank of England from time to time (the **BoE Base Rate**) plus a margin which is set at the outset of the Loan and which varies from customer to customer (the **Long Term Rate**). Loans on an introductory rate revert to the Long Term Rate at the end of the introductory rate period.

See "*The Loans — Characteristics of the Loans — Mortgage Loan Products*" for a full description of the Loans.

Product Switches: If a Borrower requests, or the Seller or the Administrator (on behalf of the Seller) offers, a Product Switch under a Loan, the Seller or the Administrator (on behalf of the Seller) will be solely responsible for offering and documenting that Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio unless the Seller has given notice to the Issuer no later than one Business Day prior to the Switch Date that any of the Product Switch Conditions are not satisfied (a **Notice of Non-Satisfaction of Product Switch Conditions**) and such notice has not been revoked prior to such date. If a Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the Issuer by such date and such notice has not been revoked by such date, the Seller must then, on the relevant Switch Date, repurchase the relevant Loan and its Related Security from the Issuer and must pay the Issuer the consideration for such repurchase no later than the fifth Business Day following the relevant Switch Date.

If it is subsequently determined that any warranty made by the Seller in respect of a Loan which is the subject of a Product Switch and which remains in the Portfolio was materially untrue as at the Switch Date or any Product Switch Condition was in fact not satisfied on the Switch Date (a) despite no Notice of Non-Satisfaction of Product Switch Conditions having been given by the Seller to the Issuer at least one Business Day prior to the Switch Date or (b) where a Notice of Non-Satisfaction of Product Switch Conditions was given but was revoked prior to such date, and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer, then the relevant Loan and its Related Security must be repurchased by the Seller on the next Business Day following receipt by the Seller of a notice from the Issuer requiring repurchase thereof. In addition, the Seller must repurchase a Loan in relation to which a Product Switch was made if it has caused the Portfolio to breach the Minimum Yield Test because the Maximum Yield Shortfall Advance Amount that is available to be drawn under the Subordinated Loan Agreement is less than the relevant Minimum Yield Amount.

See "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Product Switches*" below.

Any reference to the **outstanding principal balance** of the Loans includes capitalised expenses, capitalised arrears and capitalised interest.

As at the Closing Date, the Loans to be included in the Initial Portfolio each have an original repayment term of up to 49 years. No Loan in the Portfolio will have a final repayment date beyond two years prior to the latest Final Maturity Date for the Notes.

All the Loans to be included in the Portfolio are secured by:

- (a) first ranking legal charges over freehold or leasehold properties located in England or Wales (an **English Mortgage**); or
- (b) first priority standard securities over heritable properties or properties held under long leases located in Scotland (a **Scottish Mortgage** and together with the English Mortgages, the **Mortgages** and each, a **Mortgage** and each property the subject of a Mortgage, a **Mortgaged Property** and together, the **Mortgaged Properties**).

The Mortgages for the Loans to be included in the Initial Portfolio constitute "all moneys charges" in that they stand as security for other indebtedness a Borrower owes or may owe to RBS from time to time which is not assigned to the Issuer (such as business loans) (**Associated Debt**) as well as for a Loan (each, an **All Moneys Mortgage** and together, the **All Moneys Mortgages**). An All Moneys Mortgage will be enforceable on the occurrence of a default by a Borrower either under a Loan or any Associated Debt secured by the relevant All Moneys Mortgage.

On the Closing Date, pursuant to the terms of the Mortgage Sale Agreement, the Seller will transfer to the Issuer all its rights under each of the All Moneys Mortgages by way of equitable assignment (in respect of the All Moneys Mortgages relating to English Loans) or by a Scottish declaration of trust (in respect of the All Moneys Mortgages relating to Scottish Loans) and will procure that the proceeds of enforcement of each of the All Moneys Mortgages are paid to the Issuer by payment into a non-interest bearing account to be specified by the Issuer. The Issuer, pursuant to the declaration of trusts (the **Issuer Declaration of Trusts**), will declare a separate trust over its right, title, interest and benefit under each All Moneys Mortgage and the proceeds of enforcement of that All Moneys Mortgage (each trust and the property subject thereof, a **Trust** and the **Trust Property** respectively) in favour of itself and the Seller absolutely as to both capital and income. The Issuer's share of Trust Property in respect of each All Moneys Mortgage will be an amount equal to the outstanding principal balance of the relevant Loan plus accrued interest and any other amounts due in respect thereof. The Seller's share of Trust Property in respect of each All Moneys Mortgage will be an amount equal to the outstanding balance of any Associated Debt of the relevant Borrower plus any accrued interest thereon and other amounts due in respect thereof. The Seller's share of Trust Property in respect of each All Moneys Mortgage will be subordinated to the Issuer's share of Trust Property in respect of each All Moneys Mortgage.

The Issuer will have the benefit of warranties (the **Loan Warranties**) to be given by the Seller as at the Closing Date in relation to the Loans and their Related Security comprising the Initial Portfolio, including warranties in relation to the Lending Criteria applied in advancing the Loans.

It should be noted that any representations and warranties to be given by the Seller in relation to any Product Switch may be amended from time to time and such changes will be notified to the Rating Agencies. The consent of the Noteholders in relation to such amendments will not be obtained if the Security Trustee has received written confirmation that the Rating Agencies will not downgrade, withdraw or qualify the ratings of the Notes as a result of those amendments.

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

In relation to the Loans comprising the Initial Provisional Portfolio, (a) the weighted average current loan-to-value of those Loans was 64.55%, (b) the weighted average seasoning of those Loans was 1.9 years and (c) the Loans are secured by Mortgages over properties situated in England, Wales and Scotland.

Principal Deficiency Ledger:

A Principal Deficiency Ledger will be established to record any Losses affecting the Loans in the Portfolio and the application of any Principal Receipts and/or the application of amounts standing to the credit of the Liquidity Reserve Fund (if established) to cover any Income Deficit as described in "*Credit Structure — Principal Deficiency Ledger*" below.

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

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

Administration Agreement:

Pursuant to the Administration Agreement, the Administrator will agree to service the Loans which are to be sold to the Issuer and their Related Security on behalf of the Issuer (such services, *inter alia*, the **Administration Services**).

The Administration Services include collecting payments on the Loans and paying and/or procuring payment of an amount equal to the same to the GIC Account on a daily basis, enforcing Mortgages that are in arrears and notifying the relevant Borrowers of the interest rates on the Discounted Rate Loans, the Stepped Rate Loans and the Tracker Rate Loans after the fixed tracker period (where applicable) and the margins on the Tracker Rate Loans (including the Stepped Rate Loans) and the Discounted Rate Loans.

The Issuer will, on each Interest Payment Date, pay to the Administrator an administration fee (inclusive of VAT) (the **Administration Fee**) totalling 0.10% per annum on the aggregate outstanding principal balance of the Loans which the Seller has sold to the Issuer comprising the Portfolio as at the opening of business on the preceding Collection Period. The Administration Fee will rank ahead of all payments on the Notes.

Interest Rate Swap Agreement:

Payments received by the Issuer under the Loans will be subject to tracker, stepped and fixed rates of interest. To hedge the potential variance between the fixed rates on certain of the Loans and the BBR Linked Rate, the Issuer will enter into an Interest Rate Swap with the Interest Rate Swap Provider and the Security Trustee under the Interest Rate Swap Agreement.

Subordinated Loan Agreement:

The Issuer will enter into the Subordinated Loan Agreement on or about the Closing Date with the Subordinated Loan Provider, pursuant to which the Subordinated Loan Provider will make the Initial Subordinated Loan Advance to the Issuer on the Closing Date in the amount of approximately £4,400,000 which will be used to meet (a) certain of the Issuer's initial fees and expenses incurred in connection with the issue of the Notes and (b) the up front payments to the Interest Rate Swap Provider under the Interest Rate Swap Agreement. From time to time after the Closing Date, the Subordinated Loan Provider may make Further Subordinated Loan Advances to the Issuer by way of Yield Shortfall Advances to fund the Minimum Yield Amount. In addition, the Subordinated Loan Provider shall at the request of the Issuer (which the Issuer will covenant to make) make a loan to the Issuer in an amount equal to the undrawn portion of the Commitment under the Subordinated Loan Agreement to be placed on deposit in a standby account within 30 days of the short-term ratings of the Subordinated Loan Provider ceasing to be rated at least "P-1" by Moody's, "F2" by Fitch and "A-2" by S&P (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency) (a **Standby Loan**).

Bank Account Agreement:

The Issuer will enter into the Bank Account Agreement with the Account Bank on or about the Closing Date in respect of the GIC Account, the Transaction Account and any additional accounts to be established pursuant to the Bank Account Agreement (collectively, the **Bank Accounts**). The Account Bank will agree to pay interest on the GIC Account at a specified rate. On each Interest Payment Date, the Cash Manager will transfer moneys from the GIC Account to the Transaction Account. Moneys will be applied from the Transaction Account in accordance with the relevant Priority of Payments.

Seller Collection Accounts Declarations of Trust:

Payments by Borrowers in respect of amounts due under the Loans will be made into the Seller Collection Accounts (as defined in "*Loan Administration — Collections*"), which will be subject of the Seller Collection Account Declaration of Trust (as defined in "*Loan Administration — Collections*") in favour of, amongst others, the Seller and the Issuer. See "*Loan Administration — Collections*".

RISK FACTORS

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

Liabilities Under the Notes

The Notes are not obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by the Seller, the Interest Rate Swap Provider, the Lead Manager, the Subscriber, the Administrator, the Cash Manager, the Account Bank, the Seller Collection Account Bank, the Note Trustee, the Security Trustee, any company in the same group of companies as such entities, any other party to the Transaction Documents or by any person other than the Issuer.

Limited Source of Funds

The ability of the Issuer to meet its obligations to pay principal and interest on the Notes and its operating and administrative expenses will be dependent primarily on Revenue Receipts and Principal Receipts in respect of the Loans in the Portfolio, interest earned on the Bank Accounts, and the receipts under the Interest Rate Swap and, in the case of the Class A Notes, amounts standing to the credit of the General Reserve Fund and the Liquidity Reserve Fund (if established) (the **Reserve Funds**).

Considerations Relating to Yield, Prepayments and Mandatory Redemptions

The yield to maturity of the Notes of each sub-class will depend on, *inter alia*, the amount and timing of payment of principal and interest on the Loans and the price paid by the holders of the Notes of each sub-class. Prepayments on the Loans may result from refinancings, sales of properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgages, as well as the receipt of proceeds under the insurance policies. In addition, repurchases of Loans required to be made under the Mortgage Sale Agreement will have the same effect as a prepayment of such Loans. The yield to maturity of the Notes may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Loans.

The rate of prepayment of Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. Generally, when market interest rates increase, borrowers are less likely to prepay their mortgage loans, while conversely, when market interest rates decrease, borrowers are generally more likely to prepay their mortgage loans. For instance, borrowers may prepay mortgage loans when they refinance their loans or sell their properties (either voluntarily or as a result of enforcement action taken). In addition, if the Seller is required to repurchase a Loan or Loans under a mortgage account and their Related Security because, for example, one of the Loans does not comply with the Loan Warranties, then the payment received by the Issuer will have the same effect as a prepayment of all the Loans under that mortgage account. Because these and other relevant factors are not within the control of the Issuer, no assurance can be given as to the level of prepayments that the Portfolio will experience.

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

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

Notwithstanding the order of payment in the Pre-Acceleration Priority of Payments, you should note that Condition 7.3 allows the Issuer to redeem any sub-class of the Class A Notes on any Interest Payment Date. This means that certain sub-classes of the Class A Notes may be redeemed earlier than other sub-classes of Class A Notes.

Risks Relating to Buy-To-Let Loans

The Loans in the Portfolio include buy-to-let loans where the relevant Mortgaged Properties are not owner-occupied and may be let by the relevant Borrower to tenants. The Borrower's ability to service payment obligations in respect of such Loan is likely to depend on the Borrower's ability to lease the relevant Mortgaged Properties on appropriate terms. However, there can be no guarantee that each such Mortgaged Property will be the subject of an existing tenancy when the relevant Loan is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Loan and/or that the rental income achievable from such tenancy will be sufficient (or that there will not be any default of payment in rent) to provide the Borrower with sufficient income to meet the Borrower's interest obligations in respect of the Loan. This apparent dependency on leasing income may increase the likelihood during difficult market conditions that the rate of delinquencies and losses on buy-to-let mortgages will be higher than for owner-occupied mortgages.

Upon enforcement of a Mortgage in respect of a Mortgaged Property which is the subject of an existing tenancy, the Administrator may not be able to obtain vacant possession of the Mortgaged Property in which case the Administrator will only be able to sell the Mortgaged Property as an investment property with one or more sitting tenants. This may affect the amount which the Administrator could realise upon enforcement of the Mortgage and a sale of the Mortgaged Property.

However, enforcement procedures in relation to such Mortgages (excluding any Scottish Mortgage) include appointing a receiver of rent in which case such a receiver must collect any rents payable in respect of the Mortgaged Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage. Under Scots law, a receiver cannot be appointed under a land charge (which is recognised by the wording) and the only enforcement which may be carried out under a standard security (the Scottish land charge) is a full enforcement of the charge (i.e. it cannot be enforced selectively by, for instance, attaching to rentals). The conclusion is that in Scotland, any attempt to secure the rental flows will depend upon the enforcement of the standard security.

Declining Property Values

The security for the Notes consists primarily of the Issuer's interest in the Loans and Related Security. The value of the Related Security may be affected by, among other things, a decline in the residential property values in the United Kingdom. No assurance can be given that the value of any Related Security has remained or will remain at the level at which it was on the date of origination of the related Loan. If the residential property market in the United Kingdom should experience an overall decline in property values, or a decline in the rental income used by a Borrower to service the Loans, such a decline could in certain circumstances result in the value of the Related Security being significantly reduced and, in the event that the Related Security is required to be enforced, may result in losses on the Notes.

From late 2007 to date, house prices have fallen under different monthly measurements as a result of a combination of subdued earnings growth, greater pressure on household finances and the effect of the continuing global market volatility that began in the summer of 2007. Should house prices continue to decline, Borrowers may have insufficient equity to refinance their mortgage loans with

lenders or to repay their mortgages on disposal of the property. This could lead to higher delinquency rates and losses.

Geographic Concentration Risks

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

Subordination of Class Z Notes

The Class Z Notes are subordinated in right of payment of interest (in relation to both pre-acceleration payments of interest and post-acceleration payments of interest) and also principal (in relation to post-acceleration payments of interest and principal) to the Class A Notes, as set out in "*Cashflows – Application of Available Revenue Receipts prior to the service of a Note Acceleration Notice on the Issuer*", "*Cashflow – Application of Available Principal Receipts prior to the service of a Note Acceleration Notice on the Issuer*" and "*Cashflow – Distribution of Available Principal Receipts and Available Revenue Receipts following the Service of a Note Acceleration Notice on the Issuer*". There is no assurance that these subordination rules will protect the holders of Class A Notes from all risk of loss.

Deferral of Interest Payments

If, on any Interest Payment Date whilst any of the Class A Notes remains outstanding, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of the Class Z Notes after having paid or provided for items of higher priority in the Pre-Acceleration Revenue Priority of Payments, then the Issuer will be entitled under Condition 17 (Subordination by Deferral) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date or such earlier date as interest in respect of the Class Z Notes becomes immediately due and repayable in accordance with the Conditions. This will not constitute an Event of Default. If there are no Class A Notes then outstanding, the Issuer will not be entitled, under Condition 17 (Subordination by Deferral), to defer payments of interest in respect of the Class Z Notes.

Failure to pay interest on the Class A Notes (or the Class Z Notes outstanding where the Class A Notes have been redeemed in full) shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

Income and Principal Deficiency

If, on any Interest Payment Date, as a result of shortfalls in Available Revenue Receipts relative to interest due on the Class A Notes and amounts ranking in priority thereto there is an Income Deficit, then subject to certain conditions set out in "*Cashflows — Application of Principal Receipts and Liquidity Reserve Fund amounts to cover shortfalls*", the Issuer may apply first Principal Receipts (if

any) and secondly amounts standing to the credit of the Liquidity Reserve Fund (if established) to make up the shortfall. In this event, the consequences set out in the following paragraph may result.

Application, as described above, of any Principal Receipts and/or amounts standing to the credit of the Liquidity Reserve Fund (if established) to meet any Income Deficit will be recorded on the Principal Deficiency Ledger until the balance of the Principal Deficiency Ledger is equal to the aggregate Principal Amount Outstanding of the Class A Notes then outstanding.

It is expected that during the course of the life of the Class A Notes, principal deficiencies will be recouped from Available Revenue Receipts. Available Revenue Receipts will be applied, after meeting prior ranking obligations as set out under the Pre-Acceleration Revenue Priority of Payments, to credit the Principal Deficiency Ledger.

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

- the interest and other net income of the Issuer may not be sufficient, after making the payments to be made in priority thereto, to pay, in full or at all, interest due on the Notes; and
- there may be insufficient funds to repay the Notes on or prior to the Final Maturity Date of the Notes unless the other net income of the Issuer is sufficient, after making other payments to be made in priority thereto, to reduce to nil the balance on the Principal Deficiency Ledger.

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

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

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

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

Ratings of the Notes

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

The ratings of the Class A Notes assigned on the Closing Date are set out in "Ratings", below. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgment,

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

Conflict of Interest between Secured Creditors (including the Noteholders)

The Deed of Charge contains provisions requiring the Security Trustee to have regard to the interest of each of the Secured Creditors as regards all of its powers, trusts, authorities, duties and discretions, but requiring the Security Trustee, in the event of a conflict between the interests of the Noteholders and any other Secured Creditors, to have regard only (except where expressly provided otherwise) to the interests of the Noteholders.

Conflict Between Class A Noteholders and Class Z Noteholders

The Trust Deed and the Deed of Charge each contain provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders and the Class Z Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise). If, in the Note Trustee's opinion, however, there is or may be a conflict between the interests of the Class A Noteholders (for so long as there are any Class A Notes outstanding) on one hand and the interests of the Class Z Noteholders on the other hand, then the Note Trustee or, as the case may be, the Security Trustee is required to have regard only to the interests of the Class A Noteholders.

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

Meetings of Noteholders, Modification and Waivers

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

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

Book-Entry Interests

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

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

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

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

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

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

Interest Rate Risk

The Loans in the Portfolio are subject to tracker and fixed interest rates while the Issuer's liabilities under the Notes are based on the BBR Linked Rate.

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

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

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

Any additional amounts required to be paid by the Issuer following termination of the relevant interest rate swaps if the Issuer cannot immediately enter into a relevant replacement transaction will also rank prior to payments in respect of the Class A Notes. This may affect amounts available to pay interest and principal on all the Notes.

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

Issuer Reliance on Third Parties

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Corporate Services Provider will agree to provide certain corporate services to the Issuer pursuant to the Corporate Services Agreement, the Account Bank will agree to provide the GIC Account and the Transaction Account to the Issuer pursuant to the Bank Account Agreement, the Administrator will agree to administer the Portfolio pursuant to the Administration Agreement and the Paying Agents, the Registrar and the Agent Bank will all agree to provide services with respect to the Notes pursuant to the Agency Agreement. In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, Noteholders may be adversely affected.

Ability to Appoint Substitute Administrator

If the Administrator is removed due to any event other than the occurrence of an Insolvency Event in relation to the Administrator, there is no guarantee that a substitute administrator would be found, which could delay collection of payments on the relevant Loans and ultimately could adversely affect payments of interest and principal on the Notes

The Administrator will be appointed by the Issuer to administer the relevant Loans. If the Administrator breaches the terms of the Administration Agreement, the Issuer and/or the Security Trustee may, having given notice to the Administrator and the Rating Agencies, terminate the appointment of the Administrator and appoint a substitute administrator on substantially the same terms as set out in the Administration Agreement.

There can be no assurance that a substitute administrator 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 Administration Agreement. In addition, as described below, any such substitute administrator will be required to be authorised under the Financial Services and Markets Act 2000 (the **FSMA**) in order to administer Loans that constitute Regulated Mortgage Contracts. The ability any entity acting as a substitute administrator to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute administrator may affect payments on the Loans and hence the Issuer's ability to make payments when due on the Notes.

The Administrator has no obligations itself to advance payments that Borrowers fail to make in a timely fashion.

Withholding Tax Under the Notes

In the event that any withholding or deduction for or on account of any taxes is imposed in respect of payments to Noteholders of any amounts due under the Notes, neither the Issuer nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of such withholding or deduction. However, in such circumstances, the Issuer will in accordance with Condition 7.4 of the Notes use reasonable endeavours to prevent such an imposition.

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

Searches, Investigations and Warranties in Relation to the Loans

The Seller will give certain warranties to each of the Issuer and the Security Trustee regarding the Loans and their Related Security to be sold to the Issuer on the Closing Date (see "*Summary of Key Transaction Documents — Mortgage Sale Agreement*" below for a summary of these).

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

Interest only Loans

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

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

Seller to Initially Retain Legal Title to the Loans

The sale by the Seller to the Issuer of the English Loans and their Related Security (until legal title is conveyed) will take effect in equity only. The sale by the Seller to the Issuer of the Scottish Loans and their Related Security will be given effect to by a Scottish declaration of trust by the Seller by which the beneficial interest in such Scottish Loans and their Related Security is transferred to the Issuer. In each case, this means that legal title to the Loans and their Related Security in the Portfolio will remain with the Seller until certain trigger events occur under the terms of the Mortgage Sale Agreement (see "*Summary of the Key Transaction Documents — Mortgage Sale Agreement*", below). Until such time, the assignment by the Seller to the Issuer of the English Loans and their Related Security takes effect in equity only and the transfer of the Scottish Loans and their Related Security is by way of a Scottish declaration of trust. The Issuer has not and will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the English Mortgages and may not in any event apply to the Registers of Scotland to register or record its beneficial interest in the Scottish Mortgages.

As a consequence of the Issuer not obtaining legal title to the Loans and their Related Security or the Mortgaged Properties secured thereby, a *bona fide* purchaser from the Seller for value of any of such Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such interest. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents. Further, prior to the insolvency of the Seller, unless (i) notice of the assignment was given to a Borrower who is a creditor of the Seller in the context of English Loans and their Related Security and (ii) an assignation of the Scottish Loans and their Related Security is effected by the Seller to the Issuer and notice thereof is then given to a Borrower who is a creditor of the Seller, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under its Loan. Set-off rights may arise in relation to deposits held by Borrowers with the Seller or wages and salaries owing to

Borrowers that are its employees or (depending on the outcome of the current High Court test case against RBS and seven other major UK current account providers) in respect of overdraft charges. These rights may result in the Issuer receiving reduced payments on the Loans. The transfer of the benefit of any Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment is given to the Borrower or an assignation is effected and notice thereof is given, however, some rights of set-off may not arise after the date notice is given. Although set-off rights in relation to certain deposits may be so closely connected with the relevant Loan for such notification not to affect equitable set-off rights available to the relevant Borrower.

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

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

Product Switches and further advances

The Seller or the Administrator (on behalf of the Seller) may in the future offer a Borrower, or a Borrower may request, a Product Switch from time to time. Any Loan which has been the subject of a Product Switch following an application by the Borrower will remain in the Portfolio unless a Notice of Non-Satisfaction of Product Switch Conditions has been given in the circumstances set out in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Product Switches*". If a Notice of Non-Satisfaction of Product Switch Conditions has been given which has yet to be revoked, then the Seller must repurchase the relevant Loan and its Related Security on the relevant Switch Date as set out in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Product Switches*".

The Seller may also be required to repurchase the Loan and its Related Security if it is subsequently determined that any warranty made by the Seller in respect of the Loan which is the subject of a Product Switch and which remains in the Portfolio was materially untrue as at the Switch Date or any Product Switch Condition was in fact not satisfied on the Switch Date.

There can be no assurance that the Seller will have the financial resources to honour its repurchase obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments on the Notes.

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

In addition to any Product Switches, the Seller or the Administrator (on behalf of the Seller) may offer a Borrower, or a Borrower may request, a further advance from time to time. Where a further advance is made by the Seller following an application by the Borrower, the relevant Loan will be redeemed in full and the Borrower will be granted a new loan which includes the further advance. Such new loan will not form part of the Portfolio.

Insurance Policies

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

Denominations

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

If Definitive Notes are required to be issued in respect of the Notes represented by Global Notes, they will only be printed and issued in denominations of £50,000 and any amount in excess thereof in integral multiples of £1,000 up to and including £99,000. No Definitive Notes will be issued with a denomination above £99,000. Accordingly, if Definitive Notes are required to be issued in respect of the Global Notes, a Noteholder holding an interest in a Global Note of less than the minimum authorised denomination at the relevant time may not receive a Definitive Note in respect of such holding and may need to purchase a principal amount of Notes such that their holding amounts to the minimum authorised denomination. If Definitive Notes are issued, Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum authorised denomination or for any amount in excess thereof in integral multiples of £1,000 up to and including £99,000 may be illiquid and difficult to trade.

Change of Law

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

Certain Regulatory Considerations

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

In the United Kingdom, the Office of Fair Trading (the **OFT**) is responsible for the issue of licences under, and the superintendence of the working and enforcement of, the Consumer Credit Act 1974 (the **CCA**), related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take action when necessary with regard to the mortgage market in the United Kingdom (except to the extent that the market is regulated by the FSA under the FSMA, as described below). The CCA regime is different from and in addition to the FSMA regime.

A credit agreement is regulated by the CCA where (a) the borrower is or includes an "individual" as defined in the CCA, (b) if the credit agreement was made before the financial limit was removed (as described below), the amount of "credit" as defined in the CCA does not exceed the financial limit of £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 (for

example, in certain circumstances, a credit agreement to finance the purchase of land is an exempt agreement under the CCA).

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

There is a risk that any credit agreement intended to be a Regulated Mortgage Contract under the FSMA or unregulated might instead be wholly or partly regulated by the CCA or treated as such because of technical rules on (a) determining whether any credit under the CCA arises or whether any applicable financial limit of the CCA is exceeded, (b) determining whether the credit agreement is an exempt agreement under the CCA and (c) changes to credit agreements.

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

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

The Consumer Credit Act 2006 (the **CCA 2006**), which amends and updates the CCA, was enacted on 30 March 2006 and was fully implemented by 31 October 2008.

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

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

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

The financial limit of £25,000 for CCA regulation has been removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements, and except for certain buy-to-let loans made before 31 October 2008. Buy-to-let loans made on or after 31 October 2008 are, irrespective of amount, exempt agreements under the CCA. Regulations define buy-to-let loans for these purposes as being credit agreements secured on land where less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a buy-to-let loan to the extent that the credit agreement would, apart from this exemption, be regulated by the CCA or be treated as such.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) the credit agreement will also be unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower will not be liable to pay interest or, in certain cases, default fees for any period when the lender fails to comply with further requirements as to post-contract disclosure and (c) interest upon default fees will be restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. Charges payable for early repayment in full are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies to credit agreements made on or after 31 May 2005 and applies retrospectively to all existing credit agreements from 31 May 2007 or 31 May 2010, depending on their term.

These changes to the CCA may result in adverse effects on the Issuer's ability to make payment in full on the Notes when due.

The Seller has interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or other dispute resolution authority, then a credit agreement, to the extent that it is regulated by the CCA or treated as such, would be unenforceable as described above. If such interpretation were challenged by a significant number of Borrowers, then this could lead to significant disruption and shortfall in the income of the Issuer. Court decisions have been made on technical rules under the CCA against certain mortgage lenders, but such decisions are very few and are generally county court decisions which are not binding on other courts.

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

In the United Kingdom, regulation of residential mortgage business by the FSA including certain buy-to-let mortgage business under the FSMA came into force on 31 October 2004, the date known as "**N(M)**". Entering into, arranging or advising in respect of, and administering Regulated Mortgage

Contracts, and agreeing to do any of these things, are (subject to applicable exemptions) regulated activities under the FSMA.

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

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

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

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

A borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such set-off may adversely affect the Issuer's ability to make payments on the Notes.

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

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

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

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

The Issuer is not and does not propose to be an authorised person under the FSMA. The Issuer does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The Issuer does not carry on the regulated activity of administering in relation to Regulated Mortgage Contracts by having them administered pursuant to an administration agreement by an entity having the required FSA authorisation and permission. If such administration agreement terminates or the appointment of an administrator thereunder is terminated, however, the Issuer 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 or replacement administrator having the required FSA authorisation and permission. In addition, on and after N(M) no variation has been or will be made to the Loans and no Product Switch has been or will be made in relation to a Loan, where it would result in the Issuer arranging or advising in respect of, administering or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

Prior to N(M), in the United Kingdom, self-regulation of mortgage business existed under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The Seller subscribed to the CML Code and on and from N(M), as an authorised person, has been subject to the FSA requirements in MCOB. Membership of the CML and compliance with the CML Code were voluntary. The CML Code set out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998 lender-subscribers to the CML Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1 November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme.

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

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

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

Distance Marketing

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

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

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

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

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **1999 Regulations**), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the **UTCCR**), apply to agreements made on or after 1 July 1995 and affect all or almost all of the Loans. The UTCCR 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 (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term); and

- the OFT and any "qualifying body" within the 1999 Regulations (such as the FSA) may seek to enjoin (or in Scotland interdict) a business from relying on unfair terms.

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

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

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

Under concordats agreed between the FSA and the OFT in 2001, 2006 and 2008, the division of responsibility for the enforcement of the UTCCR in mortgage loan agreements was agreed to be allocated by them, generally, to the FSA in relation to Regulated Mortgage Contracts under the FSMA in respect of the activities of firms authorised by the FSA and to the OFT in relation to other mortgages. In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers, a lender may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In April 2006, in the context of the OFT's investigation into credit card default charges, the OFT publicly announced that the principles the OFT considers should be applied in assessing the fairness of credit card default charges shall apply (or are likely to apply) also to analogous default charges in other agreements, including those for mortgages.

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

The broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a court would find a term to be unfair. It is

therefore possible that any Loans which have been made or may be made to Borrowers covered by the UTCCR may contain unfair terms, which may result in the possible unenforceability of the terms of such Loans.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission published a joint consultation on proposals to rationalise the UK Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair terms, was published in February 2005. The 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, would affect the Loans.

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

Financial Ombudsman Service

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

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

Unfair Commercial Practices Directive 2005

In May 2005, the European Parliament and the Council adopted a Directive on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, the Unfair Practices Directive applies full harmonisation, which means that member states may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, the Unfair Practices Directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

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

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

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

EU Savings Directive

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

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

European Monetary Union

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

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

English law security and insolvency considerations

The Issuer will enter into the Deed of Charge pursuant to which it will grant the Security in respect of certain of its obligations, including its obligations under the Notes (as to which, see "*Summary of Key*

Transaction Documents – Deed of Charge"). If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the Security impaired.

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

- (a) in general, an administrator may not be appointed in respect of a company if an administrative receiver is in office. Amendments were made to the Insolvency Act 1986 in September 2003 which restrict the right of the holder of a floating charge to appoint an administrative receiver, unless an exception applies. Significantly, one of the exceptions allows for the appointment of an administrative receiver in relation to certain transactions in the capital market. While it is anticipated that the requirements of this exception will be met in respect of the Deed of Charge, it should be noted that the Secretary of State for Business, Enterprise and Regulatory Reform may by regulation modify the capital market exception and/or provide that the exception shall cease to have effect; and
- (b) under the Insolvency Act 1986 (as amended by the Insolvency Act 2002), certain "small" companies (which are defined by reference to certain financial and other tests) are entitled to seek protection from their creditors for a limited period for the purposes of putting together a company voluntary arrangement. The position as to whether or not a company is a small company may change from time to time and consequently no assurance can be given that the Issuer will not, at any given time, be determined to be a small company. However, certain companies are excluded from the optional moratorium provisions, including a company which is party to certain transactions in the capital market and/or which has a liability in excess of a certain amount. While the Issuer should fall within the current exceptions, it should be noted that the Secretary of State for Business, Enterprise and Regulatory Reform may by regulation modify these exceptions.

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

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

Liquidation expenses

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, section 176ZA of the Insolvency Act, which came into force on 6 April 2008, effectively reversed by statute the House of

Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986. In general, the reversal of *Re Leyland Daf* applies in respect of all liquidations commenced on or after 6 April 2008.

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

UK Banking (Special Provisions) Act 2008

Under the Banking (Special Provisions) Act 2008, the UK Treasury (the **treasury**) has been given certain powers in relation to authorised UK deposit-taking institutions and their UK subsidiary undertakings such as RBS. These powers last until 21 February 2009 and are capable of having retrospective effect. The powers conferred on the treasury are wide-ranging and include the ability, in limited circumstances, to take various confiscatory, appropriative and similar measures in relation to property, rights and liabilities of an authorised UK deposit-taking institutions. Given the extent of the treasury's powers, were such powers to be exercised in relation to RBS it is difficult to predict what effect their exercise might have on the amounts received by the Noteholders.

On 7 October 2008, the Banking Bill 2008 (the **Banking Bill**) was published which, if enacted, would in large part implement on a permanent basis the temporary power granted to the treasury under the Banking (Special Provisions) Act 2008. The Banking Bill, if enacted in its current form, would provide the Bank of England with two stabilisation options in respect of UK-incorporated deposit-taking institutions (such as RBS) which are (i) private sale and (ii) transfer to a government owned "bridge bank". There is a third stabilisation option which entails the treasury being given the option to implement a temporary nationalisation of an institution. Were such powers exercised in relation to RBS it is difficult to determine to what extent the enactment of the Banking Bill and any exercise of any powers granted thereunder might impact the amounts received by the Noteholders.

Homeowner Mortgage Support Scheme

On 3 December 2008 the UK Government released a preliminary announcement on the Homeowner Mortgage Support Scheme (the **HMSS**). Further details on the HMSS were published on 10 December 2008. RBS is one of the 8 largest lenders together covering 70% of the mortgage market that has indicated it will work with the Government to implement the HMSS. It is expected that deferral of payments will be allowed under mortgages of borrowers benefiting from the HMSS. However, it is uncertain what the terms of the HMSS will be and what impact the HMSS if implemented might have on the amounts received by the Noteholders.

SUMMARY OF THE KEY TRANSACTION DOCUMENTS

Mortgage Sale Agreement

The parties to the Mortgage Sale Agreement to be entered into on or about the Closing Date will be the Issuer, the Seller, the Administrator and the Security Trustee.

Pursuant to the terms of the Mortgage Sale Agreement, the Seller will sell its interest in a portfolio of certain eligible residential mortgage loans (the **Loans**) and their associated mortgages (the **Mortgages** and, together with the other security for the Loans, the **Related Security**) and all moneys derived therefrom from time to time (collectively referred to herein as the **Initial Portfolio**) to the Issuer on the Closing Date. The sale by the Seller to the Issuer of the relevant Loans in the Initial Portfolio will be given effect to by (a) as regards English Loans, an equitable assignment and (b) as regards Scottish Loans, a Scottish declaration of trust. Until the Issuer has confirmed that it has received the requisite licence under the CCA, the Seller will hold such Loans and their Related Security comprising the Initial Portfolio (and any Product Switches in respect thereof) on trust pursuant to the terms of the Mortgage Sale Agreement (the **CCA Trust**) absolutely for the Issuer (and all references herein to the sale of the Initial Portfolio shall be construed accordingly) and, following the receipt of such confirmation from the Issuer, such Loans and their Related Security will be assigned to the Issuer. The consideration due to the Seller will be the aggregate of:

- (a) £6,388,768,760.62 (the **Initial Consideration**); and
- (b) the Deferred Consideration.

The Seller will be paid the Initial Consideration in an amount equal to the aggregate outstanding principal balance of the Loans comprising the Actual Provisional Portfolio.

Any Deferred Consideration will be paid to the Seller in accordance with the Pre-Acceleration Revenue Priority of Payments or, if applicable, the Post-Acceleration Priority of Payments.

Title to the Mortgages, Registration and Notifications

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

The legal transfers to the Issuer of all the Loans and their Related Security will be completed by the 20th Business Day after the earliest to occur of the following:

- (a) the Seller, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in paragraph (c) below, ceases or, through an authorised action of the board of directors of the Seller, threatens to cease to carry on all or substantially all of its business or its mortgage administration business or is deemed unable to pay its debts as and when they fall due within the meaning of Section 123(1)(a) of the Insolvency Act 1986 (on the basis that the reference in such section to £750 was read as a reference to £10 million), Section 123(1)(b), (d) and (e), 123(1)(c) (on the basis that the words "for a sum exceeding £10 million" were inserted after the words "extract registered bond" and "extract registered protest") or 123(2) of the Insolvency Act 1986 (as that Section may be amended); or

- (b) an order is made or an effective resolution is passed for the winding-up of the Seller, except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction (a) with or by RBSG or any of its subsidiaries or (b) the terms of which have previously been approved by the Security Trustee in writing (such approval not to be unreasonably withheld or delayed); or
- (c) proceedings shall be initiated against the Seller under any applicable liquidation, insolvency, bankruptcy, composition, reorganisation (other than a reorganisation where the Seller is solvent) or other similar laws (including, but not limited to, presentation of a petition for an administration order, the filing of documents with the court for the appointment of an administrator, the service of a notice of intention to appoint an administrator or the taking of any steps to appoint an administrator) and (except in the case of presentation of a petition for an administration order, the filing of documents with the court for the appointment of an administrator, the service of a notice of intention to appoint an administrator or the taking of any steps to appoint an administrator) such proceedings are not being disputed in good faith with a reasonable prospect of success or an administration order shall be granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator, trustee in sequestration or other similar official shall be appointed in relation to the Seller or in relation to the whole or any substantial part of the undertaking or assets of the Seller, or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Seller, or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Seller and such possession or process (as the case may be) shall not be discharged or otherwise ceases to apply within 30 days of its commencement, or the Seller (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, bankruptcy, composition, reorganisation or other similar laws or makes a conveyance or assignment or assignation for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness, each of (a), (b) and (c) being a **Seller Insolvency Event**; or
- (d) RBS ceases to be assigned a long term unsecured, unsubordinated debt obligation rating from Moody's of at least "Baa2" or from Fitch of at least "BBB" or a short-term rating from S&P of at least "A-2" (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency) (a **RBS Downgrade Event**).

The title information documents and customer files relating to the Portfolio are currently held by or to the order of the Seller. The Seller has undertaken that, until perfection of the assignments contemplated by the Mortgage Sale Agreement, all the title information documents and customer files relating to the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Issuer or as the Issuer directs.

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

Representations and Warranties

Except as stated otherwise, the Seller will represent and warrant in the Mortgage Sale Agreement, with respect to itself, the Loans originated by it and their Related Security comprising the Initial Portfolio, to the Issuer and the Security Trustee to the effect that, as at the Closing Date or, in the case of (x) below only, at the date (if applicable) of termination of RBS as Administrator, *inter alia*:

- (a) no Loan has an outstanding principal balance of more than £4,500,000;

- (b) each Loan sold by it was made not earlier than 1 November 2004 and each Loan in the Portfolio matures for repayment not later than two years prior to the latest Final Maturity Date for the Notes;
- (c) no lien or right of set-off or counterclaim or other right of deduction has been created or arisen between any Borrower and the Seller or any other party which would entitle such Borrower to reduce the amount of any payment otherwise due under the Loan;
- (d) No Loan in the Portfolio is a right-to-buy loan or a flexible loan;
- (e) prior to the making of the advance of each Loan prior to the Closing Date, the Lending Criteria of the Seller and all preconditions to the making of any loan were satisfied in all material respects subject only to such exceptions as made on a case by case basis as would be acceptable to a reasonable, prudent mortgage lender;
- (f) each Borrower has made at least one monthly payment;
- (g) other than with respect to monthly payments, no Borrower is, or has been, since the date of the relevant Mortgage, in material breach of any obligation owed in respect of the relevant Loan or under the Related Security and accordingly no steps have been taken by it to enforce any Related Security and it is not aware of any fraud in relation to any Loan or Related Security;
- (h) the total amount of arrears of interest or principal, together with any fees, commissions and premiums payable at the same time as such interest payment or principal repayment, on any Loan is not as at the Closing Date in respect of such Loan more than three times the monthly payment payable in respect of such Loan in respect of the month in which such date falls save to the extent that where the outstanding principal balance of such Loan when aggregated with the outstanding principal balance of all other Loans which would otherwise breach this warranty does not exceed £30,000,000 (as calculated at the Closing Date) such Loan shall be deemed as not being in breach of this warranty;
- (i) the outstanding principal balance on each Loan and its Related Security constitutes a valid debt due to it from the relevant Borrower and the terms of each Loan and its Related Security constitute legal, valid and binding obligations of the Borrower enforceable in accordance with their terms and each Loan and its Related Security is non-cancellable (except that the Seller makes no representation as to the fairness or otherwise of terms which relate to its ability to vary the rate of interest or its right to unilaterally revoke its consent to letting);
- (j) no agreement for any Loan gives rise (whether on its own or taken together with any related agreement) to an unfair relationship under Sections 140A to 140D of the CCA;
- (k) the whole of the outstanding principal balance on each Loan and interest, fees, costs, expenses and any other amounts payable under or in respect of such Loan are secured by a Mortgage over a residential property;
- (l) each Mortgage constitutes a valid and subsisting first ranking charge by way of legal mortgage (in relation to the English Loans) or first priority standard security (in relation to the Scottish Loans) over the relevant Mortgaged Property
- (m) each Mortgage has first priority for the whole of the outstanding principal balance of the Loan and interest on such outstanding principal balance and all fees, costs, expenses and other amounts payable under or in respect of such Loan or Mortgage;

- (n) in relation to buy-to-let loans, the relevant tenancy, at the point of origination and, after that, as far as the Seller is reasonably aware, in respect of each Mortgaged Property (in England and Wales) is an assured shorthold tenancy or would be an assured shorthold or short assured tenancy but for the rent payable under such tenancy exceeding the maximum amount prescribed by statute in respect of such tenancies or (in Scotland) a short assured tenancy and each tenancy agreement as at the time of origination of the relevant Loan is on terms which would be acceptable to a reasonable, prudent mortgage lender and the Seller is not aware of any material breach of such agreement;
- (o) all of the Mortgaged Properties are residential properties situated in England, Wales or Scotland;
- (p) not more than 12 months prior to the granting of each Mortgage (or two years in the case of a remortgage or further advance made prior to the Closing Date), it received a valuation report from a valuer on the relevant property (or such other form of valuation 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 (save that in relation to newly built properties, where no such valuation was received, it received confirmation of the purchase price of the relevant property from the solicitor responsible for registering the Mortgages in relation to such property);
- (q) prior to the inception of each Mortgage, it:
 - (i) 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 such other searches, investigation, enquiries and other actions on its behalf as are set out in the instructions which it issued to the relevant solicitor, licensed conveyancer or qualified conveyancer as are set out, in the case of English Loans, in the CML's Lenders' Handbook for England and Wales and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland (or such comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place), subject only to such variations as would have been acceptable to a reasonable, prudent mortgage lender at the relevant time; and
 - (ii) received a report on the title from the solicitor or licensed conveyancer or (in Scotland) qualified conveyancer referred to in paragraph (i) above, relating to such Mortgaged Property the contents of which were such as would have been acceptable to a reasonable, prudent mortgage lender at that time;
- (r) the benefit of all valuation reports, any other valuations referred to in paragraph (p) and all reports on the title can be validly assigned to the Issuer without obtaining the consent of the relevant valuer, solicitor, licensed conveyancer or qualified conveyancer;
- (s) each Mortgaged Property was at the time of inception of the Mortgage insured under:
 - (i) a buildings insurance policy arranged by the Borrower in accordance with the relevant terms and conditions applicable to the relevant Loan and/or Mortgage (the **Mortgage Conditions**); or
 - (ii) a buildings insurance policy arranged by it; or
 - (iii) with respect to leasehold Mortgaged Properties, a buildings insurance policy arranged by the relevant landlord,

and in all cases: (A) against risks usually covered by a comprehensive buildings insurance policy; (B) with its interest noted thereon with effect from the origination of the relevant Loan in the event that it exceeds £500,000; and (C) it has received no notice from the Borrower that any Mortgaged Property has ceased to be insured at all;

- (t) it has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by it to the Issuer free and clear of all security interests, claims and equities (including, without limitation, rights of set-off or counterclaim) and, other than pursuant to the Mortgage Sale Agreement, it has not charged or dealt with the benefit of any Loans or their Related Security, any of the other rights relating thereto or any of the property, rights, titles, interests or benefits to be sold or assigned to the Issuer nor is it in breach of any covenant or warrandice implied by reason of its selling any Loans and their Related Security in the Portfolio with full title guarantee or absolute warrandice or as beneficial owner (or which would be implied if the registered transfers, unregistered transfers, as applicable, were completed);
- (u) there are no authorisations, approvals, licences or consents required as appropriate for it to enter into or perform its obligations under the Mortgage Sale Agreement to render the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence and, with the exception of sending notification of assignment to its Borrowers, all formal approvals, consents and other steps necessary to permit a legal transfer of its Loans and their Related Security to be sold under the Mortgage Sale Agreement have been obtained or taken;
- (v) none of the terms in any of its Loans or its Related Security is not binding by virtue of it being unfair within the meaning of the UTCCR (except that the Seller makes no representation as to the fairness or otherwise of terms which relate to its ability to vary the rate of interest or its right to unilaterally revoke its consent to letting);
- (w) each Loan included in the Portfolio has been originated by it as principal; and
- (x) (in respect of each Loan subject to the Standard Documentation referred to as the "House Loan Agreements") RBS is the agent of the Issuer for handling of arrears and notifying the relevant Borrowers of the Mortgage Interest Rates (as defined therein) for the purposes of the provision of such House Loan relating to the transfer of such House Loans and will apply no less favourable policy in respect thereof to that which RBS applies to loans beneficially owned by it outside the Portfolio.

Repurchase by the Seller

The Seller has agreed in the Mortgage Sale Agreement to repurchase any of the Loans together with their Related Security sold by it to the Issuer in the circumstances described below.

If any of the representations or warranties given by the Seller are materially breached in respect of any Loan and/or its Related Security or any representation or warranty proves to be materially untrue as at the Closing Date (and, with respect to representation and warranty (x), on the date that the appointment of RBS as administrator is terminated pursuant to the Administration Agreement) and this (where capable of remedy) has not been remedied within 20 Business Days of receipt by the Seller of notice from the Issuer in relation thereto, the Seller will, upon receipt of a further notice from the Issuer, purchase such Loan and its Related Security from the Issuer on the next Business Day after receipt of such notice by the Seller (or such other date as the Issuer may direct in the notice (provided that the date so specified by the Issuer shall not be later than 15 days after receipt by the Seller of such notice)) for a consideration equal to its outstanding principal balance, together with arrears of interest and accrued interest and uncapitalised charges and expenses thereon to the date of repurchase.

In addition, the Seller must repurchase any Loans that have been subject to Product Switches during the immediately preceding Collection Period that do not satisfy the Minimum Yield Test (i.e. where the inclusions of such Loans in the Portfolio causes the yield of the Portfolio to fall below the Required Yield) and (in such case) the Maximum Yield Shortfall Advance Amount that is available to be drawn under the Subordinated Loan Agreement is less than the relevant Minimum Yield Amount.

A Loan and its Related Security may also be repurchased in certain circumstances where a Product Switch is made. See "*Product Switches*" below.

The Seller must, pursuant to the terms of the Mortgage Sale Agreement, notify the Issuer and the Security Trustee of any breach of a warranty as soon as the Seller becomes aware of such breach.

Product Switches

The Seller or the Administrator (on behalf of the Seller) may in the future offer a Borrower (and the Borrower may accept), or a Borrower may request, a Product Switch from time to time. Any Loan which has been subject to a Product Switch will remain in the Portfolio unless a Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the Issuer and such notice has not been revoked by the Seller no later than the Business Day prior to the date that the Product Switch is made (the **Switch Date**).

A Notice of Non-Satisfaction of Product Switch Conditions will be given by the Seller to the Issuer if any of the following conditions (the **Product Switch Conditions**) are not satisfied:

- (a) no Event of Default has occurred and is continuing;
- (b) no RBS Downgrade Event or Seller Insolvency Event has occurred;
- (c) the Administrator has not been notified that the retention of the Loan subject to the Product Switch within the Portfolio, as at the Switch Date, would adversely affect the then current ratings of the Notes by S&P or Fitch;
- (d) any debit balance on the Principal Deficiency Ledger on the immediately preceding Collection Period End Date was or will be reduced to nil on the immediately following Interest Payment Date;
- (e) as at the Switch Date, the aggregate outstanding principal balance of those Loans which are three months or more in arrears will not exceed 5% of the aggregate outstanding principal balance of all of the Loans in the Portfolio;
- (f) (other than during the period from the Closing Date to (and including) the Interest Payment Date falling in January 2011 to the extent that the amount paid into the General Reserve Fund on the most recent Interest Payment Date is not less than the aggregate of (a) the amount paid into the General Reserve Fund on the previous Interest Payment Date and (b) the additional amounts (if any) paid into the General Reserve Fund since such Interest Payment Date and credited to the General Reserve Fund) the balance of the General Reserve Fund will not be less than the General Reserve Required Amount as at the Switch Date;
- (g) making the Product Switch on the Switch Date will not result in the product of the WAFF and WALs for the Loans after such Product Switch is made (calculated on the Switch Date and in the same way as for the Loans in the Portfolio as at the Closing Date (or as otherwise determined by the Administrator with S&P confirmation from time to time)) exceeding the product of the WAFF and WALs for the Loans in the Portfolio calculated on the Closing Date plus 0.25%;

- (h) if the Product Switch does not correspond to a type of loan product offered by the Seller on the Closing Date and such new loan product does not form part of the Portfolio (excluding, for the avoidance of doubt, the relevant Product Switch) on the Switch Date, the Administrator has received written confirmation from each of S&P and Fitch that the inclusion of that new loan product would not have an adverse effect on the then current ratings of the Notes;
- (i) if required, the Interest Rate Swap Agreement will be appropriately varied or, if appropriate, the Issuer and the Security Trustee will enter into a new interest rate swap in order to hedge against the interest rate payable on the Loan subject to the Product Switch and the floating rate of interest payable on the Notes;
- (j) the Product Switch will be effected by such means as would be adopted by the Seller, for the purpose of ensuring the validity and priority of the Loan, were such switch in respect of a loan advanced by the Seller which is not part of the Portfolio;
- (k) the Product Switch will be similar to switches offered to the Seller's mortgage borrowers whose mortgages do not form part of the Portfolio; and
- (l) as at the Switch Date, the aggregate outstanding principal balance of Interest Only Loans in the Portfolio (including, for the avoidance of doubt, the relevant Product Switch) will not exceed 50% of the aggregate outstanding principal balance of the Loans in the Portfolio.

If no Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the Issuer, or has been so given and subsequently revoked by the Seller no later than the Business Day prior to the relevant Switch Date, and the Loan which is the subject of a Product Switch remains in the Portfolio, the Seller must, in relation to the relevant Loan, give the representations and warranties in respect of Product Switches set out in the Mortgage Sale Agreement as at the relevant Switch Date.

If a Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the Issuer and has yet to be revoked by the Seller no later than the Business Day prior to the relevant Switch Date, then the Seller must repurchase the relevant Loan and its Related Security from the Issuer on the date of the Notice of Non-Satisfaction of Product Switch Conditions for a consideration equal to the outstanding principal balance of such Loan together with arrears of interest and accrued interest and any uncapitalised expenses or charges thereon to the relevant Switch Date and must pay such amount to the Issuer no later than the fifth Business Day following the relevant Switch Date.

In addition, the Seller has agreed in the Mortgage Sale Agreement that, if it is subsequently determined that:

- (a) any representation or warranty made by it in respect of any of its Loans which is subject to a Product Switch was materially untrue as at the Switch Date; or
- (b) any Product Switch Condition was in fact not satisfied on the Switch Date for a Product Switch:
 - (i) despite no Notice of Non-Satisfaction of Product Switch Conditions being given by the Seller to the Issuer no later than one Business Day prior to the relevant Switch Date; or
 - (ii) where a Notice of Non-Satisfaction of Product Switch Conditions was given but was revoked by the Seller by the Business Day prior to the relevant Switch Date,

and, in either case, this (where capable of remedy) has not been remedied within 20 Business Days of receipt by the Seller of notice from the Issuer, the Seller will, upon receipt of a further

notice from the Issuer, repurchase the entire Loan and its Related Security from the Issuer on the next Business Day after receipt of such further notice by the Seller (or such other date as the Issuer may direct in the notice (provided that the date so specified by the Issuer shall not be later than 15 days after receipt by the Seller of such further notice)) for a consideration equal to its outstanding principal balance, together with any arrears of interest, accrued interest and uncapitalised expenses or charges thereon to the date of repurchase.

A Loan will be subject to a **Product Switch** if there is any variation of the financial terms and conditions of the Loan other than:

- (a) an addition or a release of a party to the Loan;
- (b) any variation agreed with a Borrower to control or manage arrears on the Loan;
- (c) any variation which extends the maturity date of the Loan up to October 2066;
- (d) any substitution of the Mortgaged Property secured by the Related Security for that Loan; and
- (e) any variation imposed by statute.

The Seller must, pursuant to the terms of the Mortgage Sale Agreement, notify the Issuer and the Security Trustee of any breach of warranty in respect of any of the relevant Loans subject to Product Switches as soon as it becomes aware of such breach.

Governing Law

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

Issuer Declaration of Trusts

Under the Mortgage Sale Agreement, RBS (in its capacity as the Seller) transferred the rights to payment under its All Moneys Mortgages to the Issuer by way of equitable assignment (in respect of the All Moneys Mortgages relating to English Loans) and by a Scottish declaration of trust (in respect of the All Moneys Mortgages relating to Scottish Loans) and will procure that the proceeds of enforcement of the All Moneys Mortgages are paid to the Issuer into a non-interest bearing account specified by the Issuer. The Issuer will declare a separate trust in respect of the Trust Property in respect of each All Moneys Mortgage pursuant to the Issuer Declaration of Trusts in favour of itself and RBS (in its capacity as the Seller), absolutely as to both capital and income. The Issuer's share of the Trust Property in respect of each All Moneys Mortgage will be an amount equal to the outstanding principal balance of the relevant Loan plus any accrued interest thereon and other amounts due in respect thereof. RBS's share of the Trust Property in respect of each All Moneys Mortgage will be an amount equal to the outstanding balance of any Associated Debt of the relevant Borrower plus any accrued interest thereon and other amounts due in respect thereof. RBS's share of the Trust Property in respect of each All Moneys Mortgage will be subordinate to the Issuer's share of the Trust Property in respect of each All Moneys Mortgage. An All Moneys Mortgage will become enforceable on the occurrence of a default under either the relevant Loan or any Associated Debt of the relevant Borrower.

Governing Law

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

Administration Agreement

The parties to the Administration Agreement to be entered into on or about the Closing Date will be the Issuer, the Security Trustee, the Seller and the Administrator.

On the Closing Date, RBS (in such capacity, the **Administrator**) will be appointed by the Issuer under the Administration Agreement as its agent to administer the Loans and their Related Security that it will sell to the Issuer in its capacity as Seller. The Administrator will undertake to comply with any proper directions and instructions that the Issuer and/or the Security Trustee may from time to time give to it in accordance with the provisions of the Administration Agreement. The Administrator will be required to administer the relevant Loans and their Related Security in the following manner:

- (a) in accordance with the Administration Agreement; and
- (b) as if the relevant Loans and Mortgages had not been sold to the Issuer but remained with the Seller and in accordance with the Seller's procedures and administration and enforcement policies as they apply to the relevant Loans from time to time.

The Administrator's actions in administration of the relevant Loans in accordance with its procedures and the Administration Agreement will be binding on the Issuer. The Administrator will also be appointed by the Seller under the Administration Agreement to be its agent to administer the relevant Loans and their Related Security in the making of any Product Switches. For instance, the Administrator shall, on behalf of the Seller, make offers to Borrowers and accept applications from Borrowers.

The Administrator may, in some circumstances, delegate or subcontract some or all of its responsibilities and obligations under the Administration Agreement. However, the Administrator will remain liable at all times for the administration of the relevant Loans and for the acts or omissions of any delegate or subcontractor.

Powers

Subject to the guidelines for administration set forth above, the Administrator will have the power, *inter alia*:

- (a) to exercise the rights, powers and discretions of the Issuer in relation to the relevant Loans and their Related Security and to perform its duties in relation to the relevant Loans and their Related Security; and
- (b) 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 relevant Loans and their Related Security or the exercise of such rights, powers and discretions.

Undertakings by the Administrator

The Administrator will undertake, in relation to the Loans and their Related Security that the Seller has sold to the Issuer, among other things, to maintain all approvals, authorisations, permissions, consents and licences required by it in order to properly administer the Loans and their Related Security and to perform or comply with its obligations under the Administration Agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, consents and licences required in connection with the Administration Services, and in particular any necessary notification under the Data Protection Act, authorisation and permissions under the FSMA and licence under the CCA.

The Issuer and the Security Trustee may terminate the authority of the Administrator on or after the occurrence of an Administrator Termination Event (as defined under — "*Removal or resignation of the Administrator*" below), in which case the Issuer will administer the Loans itself in accordance with this paragraph;

- (a) to the extent so required by the relevant Mortgage Terms and applicable law, to notify the relevant Borrowers of any change in interest rates, whether due to a change in the Long Term Rate or the BoE Base Rate (as applicable) or as a consequence of any provisions of the Mortgage Conditions or the offer conditions, and to notify the Issuer and the Security Trustee of any such changes;
- (b) use all reasonable endeavours to procure that the Seller makes payments in respect of the relevant Loans into the GIC Account not later than one Business Day following receipt of the same by the Seller;
- (c) to execute all documents on behalf of the Issuer and/or the Seller which are necessary or desirable for the efficient provision of the relevant Administration Services, including (but not limited to) documents relating to the discharge of relevant Mortgages comprised in the Portfolio;
- (d) to keep records and accounts on behalf of the Issuer in relation to the relevant Loans and their Related Security;
- (e) to keep the customer files and title information documents in safe custody (including electronic records) and maintain records necessary to enforce each relevant Loan and its Related Security, to ensure that each title information document is capable of identification and retrieval and that each title information document is distinguishable from information held by the Administrator for other persons, and (if RBS's short-term, unsecured, unsubordinated and unguaranteed debt is rated less than "A-2" by S&P, "P-1" by Moody's or "F1" by Fitch (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency)), to use reasonable endeavours to ensure the customer files and title information documents are identified as distinct from customer files and title information documents which relate to loans of the Seller held outside the Portfolio;
- (f) to provide the Issuer and the Security Trustee (and their auditors) with access to the title information documents and other records relating to the administration of the relevant Loans and Related Security;
- (g) to prepare a report on a quarterly basis about all the Loans in the Portfolio substantially in the form set out in the Administration Agreement;
- (h) to take all reasonable steps, in accordance with the arrears procedures undertaken by a reasonable, prudent mortgage lender, to recover all sums due to the Issuer, including instituting proceedings and enforcing any relevant Loan or Related Security;
- (i) to enforce any relevant Loan which is in arrears in accordance with its usual arrears procedures or, to the extent that the arrears 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 Issuer; and
- (j) not knowingly fail to comply with any legal requirements in the performance of its obligations under the Administration Agreement.

The requirement for any action to be taken according to the standards of a **reasonable, prudent mortgage lender** means a reasonable prudent prime residential mortgage lender lending to borrowers in England, Wales and/or Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital.

Without prejudice to the foregoing, in the event RBS (in the capacity as the Administrator) becomes aware that the short-term, unsecured, unsubordinated and unguaranteed debt of RBS ceases to be rated at least "P-1" by Moody's (or such other short term or long term rating which is otherwise acceptable to Moody's) (such rating, the **Moody's Reporting Rating**) RBS (in its capacity as the Administrator) shall report to Moody's an assessment (to a level of statistical confidence to be agreed as between Moody's and the Administrator at that such time) of the set-off risk arising from Borrowers with RBS Loans also having deposits with RBS within a period of 90 days unless such rating is reinstated to at least the Moody's Reporting Rating within such period.

Compensation of the Administrator

The Administrator will receive an Administration Fee for servicing the relevant Loans. The Issuer will pay the Administrator its Administration Fee (inclusive of VAT) of 0.10% per annum on the aggregate outstanding principal balance of the Loans which the Seller has sold to the Issuer comprising the Portfolio as at the opening of business on the preceding Collection Period. The Administration Fee is payable quarterly in arrear on each Interest Payment Date only to the extent that the Issuer has sufficient funds in accordance with the Pre-Acceleration Revenue Priority of Payments to pay them. Any unpaid balance will be carried forward until the next Interest Payment Date and, if not paid earlier, will be payable in full on the Interest Payment Date falling in October 2068 or on any earlier date on which a Note Acceleration Notice is served by the Note Trustee on the Issuer.

Removal or Resignation of the Administrator

The Issuer may (with the written consent of the Security Trustee), or the Security Trustee itself may, (in the case of (a) to (c) below) at once or at any time thereafter, upon written notice to the Administrator, terminate the Administrator's rights and obligations immediately if any of the following events (each an **Administrator Termination Event**) occurs:

- (a) the Administrator defaults in the payment of any amount due under the Administration Agreement or any other Transaction Documents to which it is party and fails to remedy that default for a period of 10 Business Days after the earlier of becoming aware of the default and receipt of written notice from the Issuer or the Security Trustee requiring the default to be remedied; or
- (b) the Administrator fails to comply with any of its other covenants or obligations under the Administration Agreement or any other Transaction Document to which it is party which in the opinion of the Security Trustee is materially prejudicial to the Noteholders and does not remedy that failure within 20 Business Days after the earlier of becoming aware of the failure and receipt of written notice from the Issuer or the Security Trustee requiring the failure to be remedied; or
- (c) an Administrator Insolvency Event occurs in relation to the Administrator (In this context, **Administrator Insolvency Event** has the same meaning as Seller Insolvency Event (as defined in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Title to the Mortgages, Registration and Notifications*" above) but any reference to the Seller shall be deemed to be replaced with a reference to the Administrator).

Subject to the fulfilment of a number of conditions (including the appointment of a substitute administrator), an Administrator may voluntarily resign by giving not less than 12 months' notice to the

Issuer and the Security Trustee. The substitute administrator is required to have experience of administering mortgages in the United Kingdom and to enter into an administration agreement with the Issuer and the Security Trustee substantially on the same terms as the relevant provisions of the Administration Agreement. It is a further condition precedent to the resignation of an Administrator that the Issuer and the Security Trustee have received confirmation from S&P that the current ratings of the Class A Notes would not be adversely affected as a result of the resignation and each of Fitch and Moody's have been notified of the Administrator's intended termination, unless the Class A Noteholders (or, if there are no Class A Notes outstanding, the Class Z Noteholders) otherwise agree by an Extraordinary Resolution, and Moody's has been notified of the Administrator's intended resignation and has acknowledged receipt of such notification.

If the appointment of the Administrator is terminated, the Administrator must deliver the title information documents and customer files relating to the relevant Loans and Related Security to, or at the direction of, the Issuer.

Where a substitute administrator is appointed following the occurrence of an Administrator Termination Event, or the voluntary resignation by an Administrator, the Issuer's costs and expenses associated with the transfer of administration to the substitute administrator (the **Transfer Costs**) will be paid by the Seller. Where the Seller fails to pay such Transfer Costs, the Issuer shall pay such Transfer Costs in accordance with the Pre-Acceleration Revenue Priority of Payments.

The administration fee payable to a substitute administrator will be agreed by the Issuer, the Security Trustee and the substitute administrator prior to its appointment.

Right of Delegation by the Administrator

The Administrator may subcontract or delegate the performance of its duties under the Administration Agreement, provided that it meets particular conditions, including that:

- (a) the Security Trustee consents to the proposed subcontracting or delegation;
- (b) written notification has been given to each of the Rating Agencies;
- (c) where the arrangements involve the custody or control of any customer files and/or title information documents, the subcontractor or delegate has executed a written acknowledgement that those customer files and/or title information documents are and will be held to the order of the Issuer and the Security Trustee;
- (d) where the arrangements involve or may involve the receipt by the subcontractor or delegate of moneys belonging to the Issuer which are to be paid into the GIC Account, the subcontractor or delegate has executed a declaration that any such moneys are held on trust for the Issuer and will be paid forthwith into the GIC Account in accordance with the terms of the Administration Agreement;
- (e) the subcontractor or delegate has executed a written waiver of any security interest arising in connection with the delegated services;
- (f) the Issuer and the Security Trustee have no liability for any costs, charges or expenses in relation to the proposed subcontracting or delegation; and
- (g) the subcontractor or delegate has confirmed that it has and will maintain all approvals required for itself in connection with the fulfilment of its obligations under the agreement with the Administrator.

The provisos set out in paragraphs (a) and (b) above (among others) will not be required in respect of any delegation to (i) RBSG, (ii) a wholly-owned subsidiary of RBSG from time to time or (iii) persons such as receivers, lawyers or other relevant professionals.

Liability of the Administrator

The Administrator has agreed to indemnify each of the Issuer and the Security Trustee on an after-tax basis against all losses, liabilities, claims, expenses or damages incurred as a result of negligence, fraud or wilful default by the Administrator in carrying out its functions as administrator under the Administration Agreement or any other Transaction Document to which it is party or as a result of a breach by the Administrator of the terms of the Administration Agreement or the other Transaction Documents to which it is party (in such capacity).

Governing Law

English law (other than certain terms of the Administration Agreement which are particular to the laws of Scotland, which shall be construed in accordance with Scots law).

Deed of Charge

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

Security

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

- (a) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit in and to the Transaction Documents;
- (b) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's interest in the English Loans and their Related Security and other related rights comprised in the Portfolio;
- (c) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit to and under insurance policies sold to the Issuer pursuant to the Mortgage Sale Agreement;
- (d) an assignment in security of the Issuer's interest in the Scottish Loans and their Related Security (comprising the Issuer's beneficial interest under the trusts declared by the Seller pursuant to the Scottish declarations of trust);
- (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof;
- (f) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Authorised Investments permitted to be made by the Issuer; and
- (g) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge.

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

Authorised Investments means:

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

provided that in all cases either such investments (i) have a maturity date of 90 days or less and mature on or before the next following Interest Payment Date or (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Interest Payment Date, and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least "A-1" by S&P, "P-1" by Moody's and "F1+" by Fitch (and AA- by Fitch (long-term) if the issuing or guaranteeing entity has a long-term rating) (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency) and (iii) have a yield equal to or exceeding the interest rate on the GIC Account.

Transaction Documents means the Administration Agreement, the Agency Agreement, the Bank Account Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge, the Interest Rate Swap Agreement, the Issuer Declaration of Trusts, the Holdings Declaration of Trust, the Issuer Nominee Declaration of Trust, the Issuer Power of Attorney, the Master Definitions and Construction Schedule, the Mortgage Sale Agreement, the Post-Enforcement Call Option Agreement, the Seller Collection Accounts Declarations of Trust, the Seller Power of Attorney, the Subordinated Loan Agreement, the Subscription Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes and any other documents designated as such by the Issuer and the Security Trustee.

Whether a fixed security interest expressed to be created by the Deed of Charge will be upheld as a fixed security interest rather than floating security will depend, among other things, on whether the Security Trustee has the requisite degree of control under the Transaction Documents over the Issuer's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Security Trustee in practice. In particular, it is likely that the 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 as a floating charge if the proceeds thereof are paid into a bank account over which the Security Trustee is not deemed to have sufficient control as may be the case in this transaction.

Unlike the fixed charges, the floating charge does not attach to specific assets but instead "floats" over a class of assets which may change from time to time, allowing the Issuer to deal with those assets and to give third parties title to those assets free from any encumbrance in the event of sale, discharge or modification, provided those dealings and transfers of title are in the ordinary course of the Issuer's business. Any assets acquired by the Issuer after the Closing Date (including assets acquired as a result of the disposition of any other assets of the Issuer) will also be subject to the floating charge unless they are subject to the fixed charges mentioned in this section.

The floating charge created by the Deed of Charge allows the Security Trustee to appoint an administrative receiver of the Issuer and thereby prevent the appointment of an administrator of the Issuer by one of the Issuer's other creditors. An appointment of an administrative receiver by the

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

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

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

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

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

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

Post-Acceleration Priority of Payments

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

The Security will become enforceable following the service of a Note Acceleration Notice on the Issuer pursuant to Condition 10 (Events of Default) of the Notes provided that, if the Security has

become enforceable otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Security Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders (and all persons ranking in priority to the Class A Noteholders as set out in the order of priority of payment below) or the Security Trustee is of the opinion that the cashflow expected to be received by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders (and all persons ranking in priority to the Class A Noteholders as set out in the order of priority below).

Governing Law

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

Cash Management Agreement

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

Cash Management Services to be Provided to the Issuer

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

- (a) apply, or cause to be applied Available Revenue Receipts (together with amounts referred to in paragraph (e) of the definition of Available Principal Receipts) in accordance with the Pre-Acceleration Revenue Priority of Payments and Available Principal Receipts in accordance with the applicable Pre-Acceleration Principal Priority of Payments; and
- (b) make withdrawals from the General Reserve Fund and/or the Liquidity Reserve Fund (if established) as and when required.

In addition, the Cash Manager will:

- (a) maintain the following ledgers (the **Ledgers**) on behalf of the Issuer:
 - (i) the **Principal Ledger**, which records all Principal Receipts received by the Issuer and the distribution of the Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
 - (ii) the **Revenue Ledger**, which records all Revenue Receipts received by the Issuer and distribution of the same in accordance with the Pre-Acceleration Revenue Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
 - (iii) the **General Reserve Ledger**, which records amounts credited to the general reserve fund (the **General Reserve Fund**) from the proceeds of issue of the Class Z Notes and from Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments and withdrawals from the General Reserve Fund on each Interest Payment Date (see "*Credit Structure — General Reserve Fund*" below);

- (iv) the **Liquidity Reserve Ledger**, which (if the Liquidity Reserve Fund is required to be established) records amounts credited to the Liquidity Reserve Fund in accordance with the Pre-Acceleration Principal Priority of Payments and amounts debited from the Liquidity Reserve Fund with respect to Income Deficits (see "*Credit Structure — Liquidity Reserve Fund*" below);
 - (v) the **Principal Deficiency Ledger**, which records deficiencies arising from Losses on the Portfolio or the application of Principal Receipts and/or the application of amounts standing to the credit of the Liquidity Reserve Fund (if established) to cover Income Deficits as described in "*Credit Structure — Principal Deficiency Ledger*" below. The Principal Deficiency Ledger will record as a credit Available Revenue Receipts applied pursuant to item (f) of the Pre-Acceleration Revenue Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, thereupon become Available Principal Receipts); and
 - (vi) the **Subordinated Loan Ledger**, which records the principal amount of all drawings under the Subordinated Loan (as a credit) and the principal amount of all repayments under the Subordinated Loan (as a debit);
 - (vii) the **Swap Collateral Ledger**, which records the swap collateral (if, any) standing to the credit of the Swap Collateral Account;
- (b) calculate on the date which is 4 Business Days prior to the Interest Payment Date (the **Calculation Date**, the amount of the Available Revenue Receipts and the Available Principal Receipts to be applied on the relevant Interest Payment Date;
 - (c) provide the Issuer, the Seller, the Security Trustee and the Rating Agencies with quarterly reports in relation to the Portfolio; and
 - (d) invest moneys standing from time to time to the credit of a Bank Account in Authorised Investments as determined by the Issuer or by the Administrator, subject to the following provisions:
 - (i) any such Authorised Investment shall be made in the name of the Issuer;
 - (ii) any costs properly and reasonably incurred in making and changing Authorised Investments will be reimbursed to the Cash Manager by the Issuer; and
 - (iii) all income and other distributions arising on, or proceeds following the disposal or maturity of, Authorised Investments shall be credited to the relevant Bank Account.

Remuneration of Cash Manager

The Cash Manager shall be paid a fee (inclusive of any VAT) for its cash management services under the Cash Management Agreement quarterly in arrear on each Interest Payment Date to the extent that the Issuer has sufficient funds in accordance with the Pre-Acceleration Revenue Priority of Payments to pay them. Any unpaid balance will be carried forward until the next Interest Payment Date and, if not paid earlier, will be payable in full on the Interest Payment Date falling in October 2068 or on any earlier date on which a Note Acceleration Notice is served by the Note Trustee on the Issuer.

Termination of Appointment of Cash Manager

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

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

- (a) a substitute cash manager has been appointed and a new cash management agreement is entered into on terms satisfactory to the Security Trustee and the Issuer (and the Cash Manager shall not be released from its appointment under the Cash Management Agreement until such an appointment has been made and such new agreement has been entered into); and
- (b) the Issuer and Security Trustee have received confirmation from S&P that the then current ratings of the existing Notes would not be adversely affected as a result thereof and each of Fitch and Moody's has been notified of the Cash Manager's intended termination, unless the Class A Noteholders (or, if there are no Class A Notes outstanding, the Class Z Noteholders) otherwise agree by an Extraordinary Resolution and Moody's has been notified of the Cash Manager's intended resignation and has acknowledged receipt of such notification.

Liability of the Cash Manager

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

Governing Law

English.

Other Agreements

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

CREDIT STRUCTURE

The Notes are obligations of the Issuer only. The Notes are not obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes are not obligations of, or the responsibility of, or guaranteed by the Seller, the Interest Rate Swap Provider, the Lead Manager, the Administrator, the Cash Manager, the Account Bank, the Seller Collection Account Bank, the Note Trustee, the Security Trustee, any company in the same group of companies as any such entities or any other party to the Transaction Documents. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by the Seller, the Interest Rate Swap Provider, the Lead Manager, the Administrator, the Cash Manager, the Account Bank, the Seller Collection Account Bank, the Note Trustee, the Security Trustee or by any other person other than the Issuer.

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

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

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

Interest Rate on the Portfolio

To hedge against the possible variance between (a) the fixed rate of interest payable on certain of the Loans in the Portfolio and (b) the BBR Linked Rate, the Issuer entered into an Interest Rate Swap with the Interest Rate Swap Provider as described in paragraph 9 below.

Performance of the Portfolio

Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre-Acceleration Revenue Priority of Payments) on each Interest Payment Date towards reducing any Principal Deficiency Ledger entries which may arise from Losses on the Portfolio or the application of Principal Receipts and/or the application of amounts standing to the credit of the Liquidity Reserve Fund (if established) to cover previous Income Deficits.

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

2. Income Deficiency

On each Calculation Date, the Cash Manager, pursuant to the terms of the Cash Management Agreement, will determine whether Available Revenue Receipts are sufficient to pay or provide for payment of the items described in (a) to (e) of the Pre-Acceleration Revenue Priority of Payments. To the extent that Available Revenue Receipts are insufficient for this purpose (the amount of any deficit being an **Income Deficit**), the Cash Manager on behalf of the Issuer shall, on the relevant Interest Payment Date, pay or provide for such Income Deficit subject to the conditions set out in "*Cashflows — Application of Principal*

Receipts and Liquidity Reserve Fund amounts to cover shortfalls" by applying firstly, Principal Receipts and secondly, amounts standing to the credit of the Liquidity Reserve Fund (if established), and the Cash Manager shall make a corresponding entry in the Principal Deficiency Ledger as described in paragraph 5 below.

3. **General Reserve Fund**

On the Closing Date, the Issuer established a fund called the **General Reserve Fund**. The General Reserve Fund was funded on the Closing Date by the proceeds of issue of the Class Z Notes in the sum of £478,000,000 (being an amount equal to 7.47% of the Principal Amount Outstanding of the Class A Notes as at the Closing Date). The General Reserve Fund was credited to the GIC Account (with a corresponding credit to the General Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments.

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

On each Calculation Date, the amount of the General Reserve Fund as at the immediately preceding Collection Period End Date (excluding, until the Class Z Noteholders have been repaid in full, any amounts standing to the credit of the General Reserve Fund in excess of the General Reserve Required Amount (the **General Reserve Fund Excess**), which will be used to repay the Class Z Noteholders) will be added to the other income of the Issuer to determine the amount of Available Revenue Receipts (see "*Cashflows — Definition of Available Revenue Receipts*", below).

After the Closing Date, the General Reserve Fund will be funded up to the General Reserve Required Amount from Available Revenue Receipts and will be replenished from Available Revenue Receipts in accordance with the provisions of the Pre-Acceleration Revenue Priority of Payments. The Issuer will from time to time use the proceeds of any Further Class Z Notes and Further Subordinated Loan Advances by way of a Yield Shortfall Advance to increase the General Reserve Fund.

The **General Reserve Required Amount** will be the aggregate of (a) the General Amount, (b) the Additional Amount and (c) the aggregate Minimum Yield Amounts.

The **General Amount** will be an amount equal to (A) £448,000,000 (being an amount equal to 7% of the Principal Amount Outstanding of the Class A Notes as at the Closing Date) as at the Closing Date plus £30,000,000 and (B) £576,000,000 (being an amount equal to 9% of the Principal Amount Outstanding of the Class A Notes as at the Closing Date) on each Interest Payment Date thereafter plus £30,000,000 provided that on the Interest Payment Date on which X (expressed as a percentage) is greater than or equal to two times 9% plus £30,000,000 where:

X = the General Amount on the immediately preceding Collection Period End Date, divided by the aggregate Principal Amount Outstanding of the Class A Notes as at the immediately preceding Collection Period End Date and:

- (a) the balance recorded on the Principal Deficiency Ledger on such Interest Payment Date is zero;
- (b) the aggregate outstanding principal balance of all Loans in the Portfolio as at the immediately preceding Collection Period End Date which are 90 days or more in

arrears does not exceed 3% of the total outstanding principal balance of all the Loans in the Portfolio as at such Collection Period End Date (excluding for the purposes of this paragraph (b) such Loans with an aggregate outstanding principal balance which does not exceed £30,000,000);

- (c) the aggregate balance of all Losses on the Portfolio as at the immediately preceding Collection Period End Date does not exceed 0.35% of the original outstanding principal balance of the Loans as at the Closing Date (excluding for the purposes of this paragraph (c) such Loans with an aggregate principal balance which does not exceed £30,000,000);
- (d) the aggregate outstanding principal balance of the Loans foreclosed in the Portfolio as at the immediately preceding Collection Period End Date does not exceed 1.5% of the original outstanding principal balance of the Loans as at the Closing Date (excluding for the purposes of this paragraph (d) such Loans with an aggregate outstanding principal balance which does not exceed £30,000,000); and
- (e) the amount in the General Reserve Fund on the immediately preceding Interest Payment Date is not less than the General Reserve Required Amount as of such Interest Payment Date,

then the General Amount will be reduced on such Interest Payment Date and each Interest Payment Date thereafter to an amount equal to 18% of the then Principal Amount Outstanding of the Class A Notes, provided that the General Reserve Required Amount shall not be less than an amount equal to 0.5% of the Principal Amount Outstanding of the Class A Notes as at the Closing Date or any Interest Payment Date whilst the Class A Notes remaining outstanding plus £30,000,000.

The **Additional Amount** means the aggregate amount of the proceeds of issue of any Further Class Z Notes.

The **Minimum Yield Amount** means on any Interest Payment Date, in respect of each Loan that has not satisfied the Minimum Yield Test, an amount calculated by reference to such yield shortfall in order to ensure that then current ratings by Fitch of the Notes are not adversely affected, which amount shall be paid into the GIC Account and credited to the General Reserve Fund. For the avoidance of doubt the Minimum Yield Amount will only become due and payable where the inclusion of a Loan which has been subject of a Product Switch in the Portfolio causes the yield on the Portfolio to fall below the Required Yield.

The **Minimum Yield Test** means, on any Interest Payment Date in respect of any Loans which have been subject of a Product Switch during the immediately preceding Collection Period, the inclusion of such Loans in the Portfolio does not cause the yield on the Portfolio to fall below the Required Yield.

Required Yield means, in relation to the Minimum Yield Test for an Interest Payment Date, a yield that is at least 0.35% greater than the BBR Linked Rate as at the Interest Payment Date immediately preceding such Interest Payment Date for the Minimum Yield Test, taking into account the average yield on the Loans which are Long Term Rate Loans, Stepped Rate Loans, Tracker Rate Loans, Discounted Rate Loans and Fixed Rate Loans and the margin on the Interest Rate Swap and any new interest rate swap, in each case, in respect of the immediately preceding Collection Period (and for which purpose, any subsidy paid to the Issuer by RBS shall be taken into account for the purpose of determining the yield in respect of any Staff Loan).

After a reduction to the General Amount (and accordingly the General Reserve Required Amount), the General Reserve Fund Excess will be applied on the immediately following Interest Payment Date to repay the Class Z Noteholders only until such Class Z Noteholders have been repaid in full and, if the Class A Notes will be redeemed in full on such Interest Payment Date, such part of the General Reserve Fund not exceeding the Principal Amount Outstanding of the Class Z Notes on such Interest Payment Date, shall be applied towards the redemption of the Class Z Notes. For the avoidance of doubt, once the Class Z Noteholders have been repaid in full, any General Reserve Fund Excess will form part of Available Revenue Receipts on that Interest Payment Date.

On any Interest Payment Date on which the Class A Notes are redeemed in full, the General Reserve Fund will be applied to redeem the Class Z Notes; if there are still amounts held in the General Reserve Fund once the Class Z Notes have been redeemed in full and, if the Class Z Notes are redeemed in full, any remaining General Reserve Fund Excess will then form part of Available Revenue Receipts on that Interest Payment Date.

4. **Liquidity Reserve Fund**

The Issuer will be required to establish a liquidity reserve fund (the **Liquidity Reserve Fund**) if (a) the long-term, unsecured, unsubordinated and unguaranteed debt obligations of RBS cease to be rated at least "A3" by Moody's or if the short-term, unsecured, unsubordinated and unguaranteed debt obligations of RBS cease to be rated at least "P-1" by Moody's (or such other short term or long term rating which is otherwise acceptable to Moody's) or (b) if RBSG ceases to be the ultimate parent company of the Seller.

Prior to service of a Note Acceleration Notice by the Note Trustee on the Issuer, the Liquidity Reserve Fund may be applied as part of Available Principal Receipts or used to meet any Income Deficit as described in paragraph 2 (Income Deficiency) above. Use of amounts for the Liquidity Reserve Fund to cover Income Deficits is subject to the conditions set out in "*Cashflows — Application of Principal Receipts and Liquidity Reserve Fund amounts to cover shortfalls*".

The Liquidity Reserve Fund, if any, will be initially funded from the Available Principal Receipts. The Liquidity Reserve Fund will be funded up to the **Liquidity Reserve Required Amount**, being an amount as at any Interest Payment Date equal to 3% of the aggregate Principal Amount Outstanding of the Class A Notes on that Interest Payment Date (taking into account any principal payments to be made by the Issuer on that Interest Payment Date).

The Liquidity Reserve Fund will be deposited in the GIC Account. The Cash Manager will maintain a separate Liquidity Reserve Ledger to record the balance from time to time of the Liquidity Reserve Fund.

Once it has been initially funded, the Liquidity Reserve Fund will be replenished from Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments.

5. **Principal Deficiency Ledger**

A principal deficiency ledger (the **Principal Deficiency Ledger**), was established on the Closing Date in order to record any Losses on the Portfolio and the application of any Principal Receipts and/or amounts standing to the credit of the Liquidity Reserve Fund (if established) to meet any Income Deficit as described in paragraph 2 above (Income Deficiency) above and paragraph 4 (Liquidity Reserve Fund) above.

The application of any Principal Receipts and/or the application of amounts standing to the credit of the Liquidity Reserve Fund (if established) to meet any Income Deficit will be recorded on the Principal Deficiency Ledger until the balance of the Principal Deficiency Ledger is equal to the then aggregate Principal Amount Outstanding of the Class A Notes.

On each Interest Payment Date, Available Revenue Receipts shall, after making the payments or provisions required to be met in priority to item (f) of the Pre-Acceleration Revenue Priority of Payments, be applied in an amount necessary to reduce to nil the balance on the Principal Deficiency Ledger.

6. Available Funds

To the extent that the Available Revenue Receipts and Available Principal Receipts are sufficient on any Calculation Date, they shall be paid on the immediately following Interest Payment Date to the persons entitled thereto (or a relevant provision made) in accordance with the relevant Pre-Acceleration Priority of Payments. It is not intended that any surplus will be accumulated in the Issuer (other than amounts standing to the credit of the Reserve Funds).

If, on any Interest Payment Date when there are Class A Notes outstanding, the Issuer has insufficient Available Revenue Receipts (and insufficient Principal Receipts and Liquidity Reserve Fund amounts to make good an Income Deficit), to pay the interest otherwise due on the Class Z Notes, then the Issuer will be entitled under Condition 17 (Subordination by Deferral) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date. This will not constitute an Event of Default. If there are no Class A Notes then outstanding, the Issuer will not be entitled to defer payments of interest in respect of the Class Z Notes.

Failure to pay interest on the Class A Notes (or the Class Z Notes where the Class A Notes have been redeemed in full) shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

7. GIC Account

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

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

If, at any time short term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of "P-1" by Moody's, "A-2" by S&P or "F1" by Fitch (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency), the Issuer will be required (within 30 days) to transfer (at its own cost) transfer the amounts standing to the credit of the Bank Accounts (except, in the case of S&P only, the GIC Account, which would already have been transferred) to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement, in order to maintain the ratings of the Notes at their then current ratings.

8. Subordinated Loan

The Subordinated Loan Provider will make a subordinated loan facility available to the Issuer on the Closing Date pursuant to the Subordinated Loan Agreement in an amount up to £23,000,000 (the **Commitment**). On the Closing Date the Subordinated Loan Provider will make an advance of £4,400,000 (the **Initial Subordinated Loan Advance**) to the Issuer to be used to meet (a) the costs and expenses of the Issuer arising in connection with the issue of the Notes and (b) the up front payments to the Interest Rate Swap Provider under the Interest Rate Swap Agreement. From time to time after the Closing Date, the Issuer may request that the Subordinated Loan Provider make further advances (each a **Further Subordinated Loan Advance** and together with the Initial Subordinated Loan Advance the **Subordinated Loan**) to the Issuer by way of advance (each a Yield Shortfall Advance) on any Interest Payment Date (in respect of any Product Switches made during the immediately preceding Collection Period), in an amount equal to the lesser of (a) the Minimum Yield Amount and (b) the Maximum Yield Shortfall Advance Amount.

The **Maximum Yield Shortfall Advance Amount** means the amount of the undrawn Commitment under the Subordinated Loan less an amount representing the re-draw capacity of the Loans in the Portfolio.

The Subordinated Loan Provider is not obliged to make a Further Subordinated Loan if, as a result of that Further Subordinated Loan, the advance then outstanding would exceed the Commitment.

In addition, the Subordinated Loan Provider shall make a loan to the Issuer in an amount equal to the undrawn portion of the Commitment under the Subordinated Loan Agreement to be placed on deposit in a standby account within 30 days of the short-term ratings of the Subordinated Loan Provider ceasing to be rated at least "F2" by Fitch, "P-1" by Moody's and "A-2" by S&P (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency). The Subordinated Loan Provider will have the right to assign or novate its rights and/or obligations under the Subordinated Loan to a third party at any time.

The Subordinated Loan Agreement is governed by English law.

9. Interest Rate Risk for the Notes

The interest rate on some of the Loans in the Portfolio is payable by reference, or linked, to certain fixed rates. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to the BBR Linked Rate.

To hedge against the possible variance between:

- (a) the fixed rates of interest payable on certain of the Loans in the Portfolio; and
- (b) the BBR Linked Rate,

the Issuer, on or about the Closing Date, will enter into the Interest Rate Swap Agreement with the Interest Rate Swap Provider.

The Interest Rate Swap Agreement will govern the terms of one interest rate swap transaction (the **Interest Rate Swap Transaction**), relating to the Fixed Rate Loans (known as the **Fixed Rate Loan Transaction**).

On each Calculation Date, the following amounts in relation to the Fixed Rate Loan Transaction will be calculated in respect of the Interest Period ending on the Interest Payment Date following that Calculation Date:

- (a) the amount produced by applying the BBR Linked Rate plus a spread for the relevant Interest Period ending on that Interest Payment Date to the relevant Fixed Notional Amount (known as the **Fixed Interest Period Swap Provider Amount**); and
- (b) the amount (known as the **Fixed Interest Period Issuer Amount**) produced by applying the fixed rate (as set out in the relevant confirmation) to the relevant Fixed Notional Amount.

After these amounts are calculated in respect of the Interest Rate Swap Transaction and in relation to an Interest Payment Date, the following payments will be made on that Interest Payment Date:

- (a) if the Fixed Interest Period Swap Provider Amount is greater than the Fixed Interest Period Issuer Amount, then the Interest Rate Swap Provider will pay the difference to the Issuer;
- (b) if the Fixed Interest Period Issuer Amount is greater than the Fixed Interest Period Swap Provider Amount, then the Issuer will pay the difference to the Interest Rate Swap Provider; and
- (c) if the Fixed Interest Period Swap Provider Amount and the Fixed Interest Period Issuer Amount are equal, neither party will make a payment to the other.

If a payment is to be made by the Interest Rate Swap Provider, that payment will be included in the Available Revenue Receipts and will be applied on the relevant Interest Payment Date according to the Pre-Acceleration Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable). If a payment is to be made by the Issuer, it will be made according to the Pre-Acceleration Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable) on the relevant Interest Payment Date.

The notional amount of the Fixed Rate Loan Transaction in respect of an Interest Period or, as the case may be, a Collection Period will be the principal amount outstanding in the Portfolio calculated at the start of the Collection Period ending immediately prior to the relevant Interest Payment Date of the performing Fixed Rate Loans (or, in the case of the first Interest Period or, as the case may be, the first Collection Period, the principal amount outstanding of the performing Fixed Rate Loans in the Actual Provisional Portfolio) (known as the **Fixed Notional Amount**).

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

The Interest Rate Swap may be terminated in certain circumstances, including the following, each as will be more specifically defined in the Interest Rate Swap Agreement:

- (a) if there is a failure by a party to pay amounts due under the Interest Rate Swap Agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to a party;
- (c) if a breach of a provision of the Interest Rate Swap Agreement by the Interest Rate Swap Provider is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;
- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under the Interest Rate Swap;
- (f) if the Interest Rate Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Interest Rate Swap Agreement and described above;
- (g) if the Note Trustee serves a Note Acceleration Notice on the Issuer pursuant to Condition 10 (Events of Default) of the Notes; and
- (h) if there is a redemption of the Notes pursuant to Condition 7.4 (Optional Redemption for Taxation or Other Reasons).

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

The Interest Rate Swap Provider may, subject to certain conditions to be specified in the Interest Rate Swap Agreement, transfer its obligations under the Interest Rate Swap Agreement to another entity with the Required Swap Rating.

If a withholding or deduction for or on account of taxes is imposed on payments made by the Interest Rate Swap Provider under an Interest Rate Swap, the Interest Rate Swap Provider may be obliged to gross up payments made by it to the Issuer. The relevant Interest Rate Swap may be terminated in such circumstances.

For the purposes of the above provisions, **Required Swap Rating** means that the unsecured and unsubordinated debt obligations of the relevant entity is no lower than:

- (a) "A2" by Moody's (long term) and "P-1" by Moody's (short term) (or if the relevant entity has no short term Moody's rating, "A1" by Moody's (long term));

- (b) "A" by Fitch (long term) and "F1" by Fitch (short term); and
- (c) "A-1" by S&P (short-term) (or, if the relevant entity has no short-term S&P rating, "A+" by S&P (long-term)),

or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency.

CASHFLOWS

Definition of Revenue Receipts

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

- (a) payments of interest on the Loans (including arrears of interest and accrued interest but excluding capitalised interest, capitalised expenses and capitalised arrears) and fees paid from time to time under the Loans and other amounts received by the Issuer in respect of the Loans other than the Principal Receipts;
- (b) recoveries of interest and outstanding fees (excluding capitalised interest, capitalised expenses and capitalised arrears, if any) from defaulting Borrowers under Loans being enforced;
- (c) recoveries of interest and outstanding fees (excluding capitalised interest, capitalised expenses and capitalised arrears, if any) and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;
- (d) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement to the extent such proceeds are attributable to accrued interest, arrears of interest and uncapitalised charges and expenses in respect of the Loans (excluding, for the avoidance of doubt, capitalised interest, capitalised expenses and capitalised arrears) as at the relevant repurchase date;
- (e) any early repayment charges which have been paid by the Borrower in respect of the Loans;
- (f) any payment pursuant to an insurance policy assigned to the Issuer (in respect of which the Issuer has a beneficial interest) in respect of a Mortgaged Property in connection with a Loan in the Portfolio to the extent applied towards all sums of the type referred to in paragraphs (a), (b), (c) and (e) above;
- (g) any amount received by the Issuer from the Seller in payment of any subsidy paid to the Seller by RBSG (or any subsidiary thereof) in accordance with the Mortgage Sale Agreement; and
- (h) part of the Pre-Closing Loan Amount equal to all sums of the type referred to in paragraphs (a) and (f) above received by the Seller in respect of the loans that comprised the Actual Provisional Portfolio but do not comprise the Initial Portfolio credited to the Seller Collection Accounts from (and including) 2 January 2009 to (but excluding) the Closing Date.

Definition of Available Revenue Receipts

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

- (a) Revenue Receipts received during the immediately preceding Collection Period, less amounts applied during such Collection Period in making payment of certain moneys which properly belong to third parties such as (but not limited to):
 - (i) payments of certain insurance premiums;

- (ii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
 - (iii) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,
- (items within paragraphs (i), (ii) and (iii) being collectively referred to herein as **Third Party Amounts**), which amounts may be deducted by the Cash Manager on a daily basis from the GIC Account to make payment to the persons entitled thereto;
- (b) interest payable to the Issuer on the Bank Accounts and income from any Authorised Investments in each case received during the immediately preceding Collection Period;
 - (c) amounts received by the Issuer under the Interest Rate Swap Agreement (other than (i) any early termination amount received by the Issuer under the Interest Rate Swap Agreement which is to be applied in acquiring a replacement interest swap, (ii) the return or transfer of any collateral, as set out under the Interest Rate Swap Agreement and (iii) any Replacement Swap Premium but only to the extent applied to pay any termination payment due and payable by the Issuer to the Interest Rate Swap Provider) on such Interest Payment Date;
 - (d) the amounts standing to the credit of the General Reserve Fund as at the immediately preceding Collection Period End Date (excluding, until the Class Z Noteholders are repaid in full, any General Reserve Fund Excess and, if the Class A Notes will be redeemed in full on a Interest Payment Date, such part of the General Reserve Fund not exceeding the Principal Amount Outstanding of the Class Z Notes on such Interest Payment Date, which shall be applied to redeem the Class Z Notes);
 - (e) other net income of the Issuer received during the immediately preceding Collection Period, excluding any Principal Receipts (and without double-counting the amounts described in paragraphs (a) to (d) above); and
 - (f) (following redemption of the Class A Notes) excess Available Principal Receipts (if applicable).

Application of Principal Receipts and Liquidity Reserve Fund Amounts to Cover Shortfalls

On each Calculation Date, the Cash Manager shall calculate whether the Available Revenue Receipts (as calculated above) will be sufficient to pay on the relevant Interest Payment Date items (a) to (e) of the Pre-Acceleration Revenue Priority of Payments.

If the Cash Manager determines that there would be an Income Deficit on an Interest Payment Date to pay those items, then the Issuer shall pay or provide for that Income Deficit by applying Principal Receipts (if any) and, thereafter, amounts standing to the credit of the Liquidity Reserve Fund (if established), and the Cash Manager shall make a corresponding entry on the relevant Principal Deficiency Ledger as described in "*Credit Structure — Principal Deficiency Ledger*" above.

Application of Moneys Released from the General Reserve Fund

If the General Reserve Required Amount is reduced or cancelled at any time (see "*Credit Structure — General Reserve Fund*" for a description of when the General Reserve Required Amount may be reduced), then the General Reserve Fund Excess shall be applied to repay the Class Z Noteholders only and shall not form part of the Available Revenue Receipts. For the avoidance of doubt, once the Class Z Noteholders have been repaid in full, any General Reserve Fund Excess will form part of Available Revenue Receipts.

Application of Available Revenue Receipts prior to the service of a Note Acceleration Notice by the Note Trustee on the Issuer

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

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any costs, charges, liabilities, expenses and all other amounts then due and payable or to become due and payable in the immediately succeeding Interest Period to the Note Trustee or any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) value added tax (**VAT**) thereon as provided therein;
 - (ii) any costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Security Trustee or any Appointee under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer for corporation tax on any income or chargeable gain of the Issuer (which cannot be met out of amounts retained previously by the Issuer as profit under item (i) below);
 - (iii) any amounts then due and payable to the Corporate Services Provider and any costs, charges, liabilities and expenses then due and payable or to become due and payable in the immediately succeeding Interest Period to the Corporate Services Provider under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein; and
 - (iv) any Transfer Costs which the Seller has failed to pay;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

- (i) any amounts due and payable to the Administrator and any costs, charges, liabilities and expenses then due and payable to the Administrator or any such amount to become due and payable to the Administrator in the immediately succeeding Interest Period under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Cash Manager or any such amount to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein; and
 - (iii) any amounts then due and payable to the Account Bank and any costs, charges, liabilities and expenses then due and payable to the Account Bank or any such amount to become due and payable to the Account Bank in the immediately succeeding Interest Period under the provisions of the Bank Account Agreement, together with (if payable) VAT thereon as provided therein;
- (d) *fourth*, to pay amounts due to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer but excluding any related Interest Rate Swap Excluded Termination Amount to the extent it is not satisfied by the payment by the Issuer to the Interest Rate Swap Provider of any Replacement Swap Premium);
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
- (i) interest due and payable on the Class A1 Notes;
 - (ii) interest due and payable on the Class A2 Notes;
 - (iii) interest due and payable on the Class A3 Notes;
 - (iv) interest due and payable on the Class A4 Notes;
 - (v) interest due and payable on the Class A5 Notes;
 - (vi) interest due and payable on the Class A6 Notes;
 - (vii) interest due and payable on the Class A7 Notes;
 - (viii) interest due and payable on the Class A8 Notes;
 - (ix) interest due and payable on the Class A9 Notes;
 - (x) interest due and payable on the Class A10 Notes;
 - (xi) interest due and payable on the Class A11 Notes; and
 - (xii) interest due and payable on the Class A12 Notes;
- (f) *sixth*, to credit the Principal Deficiency Ledger in an amount sufficient to eliminate any debit thereon;

- (g) *seventh*, (so long as the Class A Notes will remain outstanding following such Interest Payment Date) to credit the General Reserve Ledger up to the General Reserve Required Amount;
- (h) *eighth*, to pay the Interest Rate Swap Provider in respect of an Interest Rate Swap Excluded Termination Amount (to the extent not satisfied by payment to it by the Issuer of any Replacement Swap Premium);
- (i) *ninth*, to pay the Issuer an amount equal to £1,250 to be retained by the Issuer in the Transaction Account as profit in respect of the business of the Issuer;
- (j) *tenth*, to pay interest due and payable on the Class Z Notes;
- (k) *eleventh*, to pay principal amounts due and payable on the Class Z Notes;
- (l) *twelfth*, to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (m) *thirteenth*, to pay the principal amounts due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement (except for any principal amounts comprising a Standby Loan, which (if applicable) shall only be repayable in accordance with the Subordinated Loan Agreement using amounts standing to the credit of the Standby Account (as defined therein));
- (n) *fourteenth*, to pay any **Deferred Consideration** due and payable under the Mortgage Sale Agreement to the Seller; and
- (o) *fifteenth*, the excess (if any) to the Issuer.

As used in this Prospectus:

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

Collection Period means each period from (but excluding) the last day in the calendar month immediately preceding a Calculation Date (or, in the case of the first Collection Period, from (and including) 2 January 2009) to (and including) the last day in the calendar month immediately preceding the immediately following Calculation Date (or, in the case of the first Collection Period, the last day in the calendar month immediately preceding the first Calculation Date).

Collection Period End Date means the last day of the calendar month immediately preceding the immediately following Calculation Date;

Deferred Consideration means the consideration due and payable to the Seller pursuant to the Mortgage Sale Agreement in respect of the sale of the Initial Portfolio, which shall be an amount equal to the amount remaining after making payment of (as applicable):

- (a) the items described in (a) to (m) inclusive of the Pre-Acceleration Revenue Priority of Payments on each Interest Payment Date; or
- (b) the items described in (a) to (h) (inclusive) of the Post-Acceleration Priority of Payments.

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

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

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

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

Definition of Principal Receipts

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

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

Definition of Available Principal Receipts

Available Principal Receipts means for any Interest Payment Date:

- (a) all Principal Receipts received by the Issuer during the immediately preceding Collection Period;
- (b) if established, all amounts standing to the credit of the Liquidity Reserve Fund (as recorded on the Liquidity Reserve Ledger) on the immediately preceding Collection Period End Date;
- (c) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to item (f) of the Pre-Acceleration Revenue Priority of Payments on such Interest Payment Date; and
- (d) (in respect of the first Interest Payment Date only) (i) such amount of the Pre-Closing Loan Amount as is equal to all sums of the type referred to in paragraph (a) of the definition of Principal Receipts above received by the Seller in respect of the Loans that comprised the Actual Provisional Portfolio but do not comprise the Initial Portfolio credited to the Seller Collection Accounts from (and including) 2 January 2009 to (but excluding) the Closing Date

and (ii) such amount of the excess issue proceeds of the Class A Notes over the Initial Consideration;

less:

- (e) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period or amounts standing to the credit of the Liquidity Reserve Fund which are to be applied to cover Income Deficits on such Interest Payment Date.

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

Application of Available Principal Receipts prior to service of a Note Acceleration Notice by the Note Trustee on the Issuer

Prior to the service of a Note Acceleration Notice on the Issuer by the Note Trustee, the Issuer is required pursuant to the terms of the Cash Management Agreement to apply Available Principal Receipts on each Interest Payment Date in the following order of priority (the **Pre-Acceleration Principal Priority of Payments**):

- (a) *first*, if the Liquidity Reserve Fund is required to be established, and the balance of the Liquidity Reserve Fund is less than the Liquidity Reserve Required Amount, towards a credit to the Liquidity Reserve Fund up to the Liquidity Reserve Required Amount;
- (b) *second*, to pay in the following order:
 - (i) any principal amounts due and payable on the Class A1 Notes and the Class A7 Notes;
 - (ii) any principal amounts due and payable on the Class A2 Notes and the Class A8 Notes;
 - (iii) any principal amounts due and payable on the Class A3 Notes and the Class A9 Notes;
 - (iv) any principal amounts due and payable on the Class A4 Notes and the Class A10 Notes;
 - (v) any principal amounts due and payable on the Class A5 Notes and the Class A11 Notes;
 - (vi) any principal amounts due and payable on the Class A6 Notes and the Class A12 Notes;
- (c) *third*, the excess (if any) to be applied as Available Revenue Receipts.

Distribution of Available Principal Receipts and Available Revenue Receipts following the service of a Note Acceleration Notice by the Note Trustee on the Issuer

Following the service of a Note Acceleration Notice by the Note Trustee on the Issuer, the Security Trustee (or the Cash Manager on its behalf) will apply amounts (other than amounts representing (a) any excess swap collateral which shall be returned directly to the Interest Rate Swap Provider under the Interest Rate Swap Agreement and (b) in respect of the Interest Rate Swap Provider, prior to the designation of an early termination date under the Interest Rate Swap Agreement and the resulting

application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by the Interest Rate Swap Provider to the Issuer pursuant to the Interest Rate Swap Agreement and any interest or distributions in respect thereof) received or recovered following the service of a Note Acceleration Notice on the Issuer (including, for the avoidance of doubt, on enforcement of the Security) in the following order of priority (the **Post-Acceleration Priority of Payments** and, together with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, the **Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any costs, charges, liabilities, expenses and all other amounts then due and payable to the Note Trustee or any Appointee, under the provisions of the Trust Deed and the other Transaction Documents, together with (if payable) VAT thereon as provided therein; and
 - (ii) any costs, charges, liabilities, expenses and all other amounts then due and payable to the Security Trustee, any Receiver appointed by the Security Trustee or any Appointee under the provisions of the Deed of Charge and the other Transaction Documents, together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due and payable to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein; and
 - (ii) any amounts then due and payable to the Corporate Services Provider and any costs, charges, liabilities and expenses then due and payable to the Corporate Services Provider under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any amounts due and payable to the Administrator and any costs, charges, liabilities and expenses then due and payable to the Administrator under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein; and
 - (iii) any amounts then due and payable to the Account Bank and any costs, charges, liabilities and expenses then due and payable to the Account Bank under the provisions of the Bank Account Agreement, together with (if payable) VAT thereon as provided therein;

- (d) *fourth*, to pay amounts due and payable to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer but excluding any related Interest Rate Swap Excluded Termination Amount);
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
 - (i) interest and principal due and payable on the Class A1 Notes;
 - (ii) interest and principal due and payable on the Class A2 Notes;
 - (iii) interest and principal due and payable on the Class A3 Notes;
 - (iv) interest and principal due and payable on the Class A4 Notes;
 - (v) interest and principal due and payable on the Class A5 Notes;
 - (vi) interest and principal due and payable on the Class A6 Notes;
 - (vii) interest and principal due and payable on the Class A7 Notes;
 - (viii) interest and principal due and payable on the Class A8 Notes;
 - (ix) interest and principal due and payable on the Class A9 Notes;
 - (x) interest and principal due and payable on the Class A10 Notes;
 - (xi) interest and principal due and payable on the Class A11 Notes; and
 - (xii) interest and principal due and payable on the Class A12 Notes;
- (f) *sixth*, to pay the Interest Rate Swap Provider in respect of any Interest Rate Swap Excluded Termination Amount;
- (g) *seventh*, to pay interest and principal due and payable on the Class Z Notes;
- (h) *eighth*, to pay all amounts of interest due and payable or accrued (if any) but unpaid and any capitalised interest and amounts of principal due to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (i) *ninth*, to pay any Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller; and
- (j) *tenth*, the excess (if any) to the Issuer.

DESCRIPTION OF THE GLOBAL NOTES

General

Each sub-class of the Class A Notes, as at the Closing Date, will be represented by a Global Note and will be deposited on or about the Closing Date with the common depository as common depository for both Euroclear and Clearstream, Luxembourg (the **Common Depository**).

The Global Notes will be registered in the name of The Bank of New York Depository (Nominees) Limited, as the nominee for the Common Depository. The Registrar will maintain a register in which The Bank of New York Depository (Nominees) Limited is registered as the owner of the Global Notes.

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

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

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

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

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

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

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

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

Payments on Global Notes

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

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

Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

Information Regarding Euroclear and Clearstream, Luxembourg

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

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

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

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

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

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

Redemption

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

Cancellation

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

Transfers and Transfer Restrictions

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

Issuance of Definitive Notes

Holders of Book-Entry Interests in a Global Note will be entitled to receive Definitive Notes in registered form (**Registered Definitive Notes**) in exchange for their respective holdings of Book-Entry Interests if (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Note Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form. Any Registered Definitive Notes issued in exchange for Book-Entry Interests in a Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Registered Definitive Notes issued in exchange for Book-Entry Interests in Global Notes will not be entitled to exchange such Registered Definitive Note for Book-Entry Interests in a Global Note. Any Notes issued in definitive form will be issued in registered form only and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Notes will not be issued in a denomination that is not an integral multiple of the minimum authorised denomination or for any amount in excess thereof, in integral multiples of £1,000 up to and including £99,000 (See "*Risk Factors – Denominations*" above).

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

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

under "*General*" above, with respect to soliciting instructions from their respective Participants. The Registrar will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Book-Entry Interests or the Global Notes.

Reports

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Notes or the Book-Entry Interests. In addition, notices regarding the Notes will be published in a leading newspaper having a general circulation in London (which so long as the Notes are listed on the London Stock Exchange and the rules of such Stock Exchange shall so require, is expected to be the *Financial Times*); provided that if, at any time, the Issuer procures that the information contained in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee, publication in the *Financial Times* shall not be required with respect to such information so long as the rules of the London Stock Exchange allow. See also Condition 16 of the Notes.

TERMS AND CONDITIONS OF THE NOTES

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

1. GENERAL

The £120,000,000 class A1 asset backed floating rate Notes due October 2068 (the **Class A1 Notes**), the £1,000,000,000 class A2 asset backed floating rate Notes due October 2068 (the **Class A2 Notes**), the £1,000,000,000 class A3 asset backed floating rate Notes due October 2068 (the **Class A3 Notes**), the £1,000,000,000 class A4 asset backed floating rate Notes due October 2068 (the **Class A4 Notes**), the £1,000,000,000 class A5 asset backed floating rate Notes due October 2068 (the **Class A5 Notes**), the £1,000,000,000 class A6 asset backed floating rate Notes due October 2068 (the **Class A6 Notes**), the £30,000,000 class A7 asset backed floating rate Notes due October 2068 (the **Class A7 Notes**), the £250,000,000 class A8 asset backed floating rate Notes due October 2068 (the **Class A8 Notes**), the £250,000,000 class A9 asset backed floating rate Notes due October 2068 (the **Class A9 Notes**), the £250,000,000 class A10 asset backed floating rate Notes due October 2068 (the **Class A10 Notes**), the £250,000,000 class A11 asset backed floating rate Notes due October 2068 (the **Class A11 Notes**) and the £250,000,000 class A12 asset backed floating rate Notes due October 2068 (the **Class A12 Notes**) and, together with the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class A4 Notes, the Class A5 Notes, the Class A6 Notes, the Class A7 Notes, the Class A8 Notes, the Class A9 Notes, the Class A10 Notes and the Class A11 Notes (the **Class A Notes**) and the £478,000,000 Class Z asset backed floating rate Notes due October 2068 (the **Class Z Notes**) and, together with the Class A Notes, the **Notes**, in each case of Greenock Funding No. 4 plc (the **Issuer**) are constituted by a trust deed (the **Trust Deed**) dated on or about 27 January 2009 (the **Closing Date**) and made between the Issuer and BNY Corporate Trustee Services Limited as trustee for the Noteholders (in such capacity, the **Note Trustee**). Any reference in these terms and conditions (the **Conditions**) to a **class** of Notes or of Noteholders shall be a reference to the Class A Notes or the Class Z Notes, as the case may be, or to the respective holders thereof and to a **sub-class** of Notes or of Noteholders shall be a reference to any class of such class of Notes, as the case may be, or to the respective holders thereof. Any reference in these Conditions to the Noteholders means the registered holders for the time being of the Notes, or if preceded by a particular Class or sub-class designation of Notes, the registered holders for the time being of such class or sub-class of Notes.

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

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

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

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

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

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

Each sub-class of Notes will be offered and sold outside the United States to non US persons pursuant to Regulation S (**Reg S**) under the United States Securities Act of 1933, as amended (the **Securities Act**) and (other than in the case of the Class Z Notes) will initially be represented by a separate global note in registered form for each such sub-class (each a **Global Note**). The Class Z Notes will be in definitive registered form (the **Class Z Definitive Notes**).

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

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

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

- (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Note Trustee is available; or
- (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax, or in the interpretation or administration by a revenue authority or a court or in the application of such laws or regulations, which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding for or on account of tax from any payment in

respect of the Notes which would not be required were the Notes in definitive registered form.

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

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

The minimum denominations of the Notes will be as follows:

- (a) Class A1 Notes, £50,000;
- (b) Class A2 Notes, £50,000;
- (c) Class A3 Notes, £50,000;
- (d) Class A4 Notes, £50,000;
- (e) Class A5 Notes, £50,000;
- (f) Class A6 Notes, £50,000;
- (g) Class A7 Notes, £50,000;
- (h) Class A8 Notes, £50,000;
- (i) Class A9 Notes, £50,000;
- (j) Class A10 Notes, £50,000;
- (k) Class A11 Notes, £50,000;
- (l) Class A12 Notes, £50,000; and
- (m) Class Z Notes, £50,000,

and, for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000 and in such other denominations as the Note Trustee shall determine (which must be higher than £50,000) and notify to the relevant Noteholders. Notes in definitive form, if issued, will be printed and issued in minimum denominations of £50,000 and any amount in excess thereof in integral multiples of £1,000 up to and including £99,000. No Definitive Notes will be issued with a denomination above £99,000.

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

2.2 **Title**

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

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

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

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

The Notes are not issuable in bearer form.

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

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

- (a) The Class A Notes constitute direct, secured and unconditional obligations of the Issuer. Each class of the Class A Notes rank *pari passu* without preference or priority among themselves.
- (b) The Class Z Notes constitute direct, secured and, subject as provided in Condition 17 (Subordination by Deferral), unconditional obligations of the Issuer. The Class Z Notes rank *pari passu* without preference or priority amongst themselves but junior to the Class A Notes as provided in these Conditions and the Transaction Documents.
- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Note Trustee and the Security Trustee, respectively, to have regard to the interests of the Class A Noteholders and the Class Z Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee and the Security Trustee (except where expressly provided otherwise), but requiring the Note Trustee and the Security Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Note Trustee's or, as the case may be, the Security Trustee's opinion, there is a conflict between the interests of: (A) the Class A Noteholders; and (B) the Class Z Noteholders. The Security Trustee shall also have regard to the interests of the other Secured Creditors (provided that in the event of any conflict between the interests of the Noteholders and the other Secured Creditors, the interests of the Noteholders will prevail).

- (d) The Trust Deed and the Deed of Charge contain provisions limiting the powers of the Class Z Noteholders to request or direct the Note Trustee or the Security Trustee to take any action or to pass an effective Extraordinary Resolution (as defined in the Trust Deed) according to the effect thereof on the interests of the Class A Noteholders and other Secured Creditors.

Except in certain circumstances set out in the Trust Deed and the Deed of Charge, there is no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class Z Noteholders.

3.2 Security

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

4. COVENANTS

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

- (a) **Negative pledge:** create or permit to subsist any encumbrance (unless arising by operation of law) or other security interest whatsoever over any of its assets or undertaking;
- (b) **Restrictions on activities:** (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities of which the Transaction Documents provide or envisage that the Issuer will engage or (ii) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 1985 and the Companies Act 2006 (as applicable)) or any employees (but shall procure that, at all times, it shall retain at least one independent director) or premises;
- (c) **Disposal of assets:** transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (d) **Equitable Interest:** permit any person, other than itself and the Security Trustee, to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (e) **Dividends or distributions:** pay any dividend or make any other distribution to its shareholders or issue any further shares;
- (f) **Indebtedness:** incur any financial indebtedness or give any guarantee in respect of any financial indebtedness or of any other obligation of any person;
- (g) **Merger:** consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

- (h) **No modification or waiver:** permit any of the Transaction Documents to which it is a party to become invalid or ineffective or permit the priority of the security interests created or evidenced thereby or pursuant thereto to be varied or agree to any modification of, or grant any consent, approval, authorisation or waiver pursuant to, or in connection with, any of the Transaction Documents to which it is a party or permit any party to any of the Transaction Documents to which it is a party to be released from its obligations or exercise any right to terminate any of the Transaction Documents to which it is a party;
- (i) **Bank accounts:** have an interest in any bank account other than the Bank Accounts, unless such account or interest therein is charged to the Security Trustee on terms acceptable to the Security Trustee; or
- (j) **US activities:** engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles.

5. INTEREST

5.1 *Interest Accrual*

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

5.2 *Interest Payment Dates*

Interest on the Notes is payable quarterly in arrear on the 24th day of January, April, July and October in each year (or, if such day is not a Business Day, the next succeeding Business Day) (each such day an **Interest Payment Date**).

The first Interest Payment Date will be the Interest Payment Date falling in April 2009.

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

5.3 *Rate of Interest*

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

- (a) The Rate of Interest payable in respect of the Notes shall be the rate produced by dividing:

- (i) the aggregate of the daily BBR observed on each calendar day of the Collection Period ending during such Interest Period;
by:
 - (ii) the number of calendar days in such Collection Period; and
 - (iii) by adding the Relevant Margin to the rate determined pursuant to (i) and (ii) above.
- (b) There will be no minimum or maximum Rate of Interest.
- (c) In these Conditions (except where otherwise defined), the expression:

- (i) **BBR** means for any day, the rate for deposits in Sterling which appears on the web site located at URL <http://www.bankofengland.co.uk/> and which is referred to as the "Official Bank Rate", or such other reliable source as may be agreed between the Issuer and the Note Trustee in writing from time to time after the Closing Date, at 4:00 pm (London time) on such day (or, if such day is not a Business Day, the immediately preceding Business Day) or such other rate if the Issuer and the Note Trustee agree that the published rate is incorrect, provided that, if such rate is not available on such web site or such other reliable source agreed between the Issuer and the Note Trustee (e.g. Bloomberg page UKBRBASE) or such web site cannot be accessed on such day and the Issuer and the Note Trustee have failed to agree an alternative reliable source, then the rate for such day will be the overnight rate for deposits in Sterling published on the Reuters page SONIA as of 11:00 am (London time) on such day (or, if such day is not a Business Day, the immediately preceding Business Day);
- (ii) **Business Day** means a day (other than a Saturday or a Sunday) on which banks are generally open for business in London;
- (iii) **Interest Determination Date** means the Business Day occurring 4 Business Days prior to the relevant Interest Payment Date;
- (iv) **Relevant Margin** means in respect of each sub-class of the Notes the following per cent. per annum:

Class	Margin (%)
Class A1 Notes	0.10
Class A2 Notes	0.10
Class A3 Notes	0.10
Class A4 Notes	0.10
Class A5 Notes	0.10
Class A6 Notes	0.10
Class A7 Notes	0.10

Class A8 Notes	0.10
Class A9 Notes	0.10
Class A10 Notes	0.10
Class A11 Notes	0.10
Class A12 Notes	0.10
Class Z Notes	1.00

5.4 *Determination of Rate of Interest and Interest Amounts*

The Agent Bank shall, as soon as practicable on or about 12:00 noon (London time) on each Interest Determination Date but in no event later than the second Business Day thereafter, determine the amount (the **Interest Amount**) payable in respect of interest on the Principal Amount Outstanding of each sub-class of the Notes for the relevant Interest Period. The Interest Amounts shall be determined by applying the relevant Rate of Interest to such Principal Amount Outstanding, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of:

- (a) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366; and
- (b) the actual number of days in that portion of the Interest Period falling in a non-leap year by 365),

and rounding the resulting figure downwards to the nearest penny.

5.5 *Publication of Rate of Interest and Interest Amounts*

The Agent Bank shall cause the Rates of Interest and the Interest Amounts for each Interest Period and each Interest Payment Date to be notified to the Issuer, the Cash Manager, the Note Trustee, the Registrar and the Paying Agents (as applicable) and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed and to be published in accordance with Condition 16 (Notice to Noteholders) as soon as possible after their determination and in no event later than the second Business Day thereafter. The Interest Amounts and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

5.6 *Determination by the Note Trustee*

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

expert to do so) and any such determination shall be deemed to be determinations made by the Agent Bank.

5.7 *Notifications, etc. to be Final*

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

5.8 *Agent Bank*

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

6. PAYMENTS

6.1 *Payment of Interest and Principal*

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

6.2 *Laws and Regulations*

Payments of principal and interest in respect of the Notes are subject, in all cases, to any fiscal or other laws and regulations applicable thereto. Noteholders will not be charged commissions or expenses on payments.

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

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

6.4 *Change of Paying Agents*

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

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

Except where otherwise provided in the Trust Deed, the Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or the Registrar or their specified offices to be given in accordance with Condition 16 (Notice to Noteholders) and will notify the Rating Agencies of such change or addition.

6.5 *No Payment on non-Business Day*

If the date for payment of any amount in respect of a Note is not a Business Day, Noteholders shall not be entitled to payment until the next following Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

6.6 *Partial Payment*

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

6.7 *Payment of Interest*

If interest is not paid in respect of a Note of any sub-class on the date when due and payable (other than because the due date is not a Business Day (as defined in Condition 6.5 (No Payment on non-Business Day)) or by reason of non-compliance with Condition 6.1 (Payment of Interest and Principal), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with Condition 16 (Notice to Noteholders).

7. REDEMPTION

7.1 *Redemption at Maturity*

Unless previously redeemed in full or purchased and cancelled as provided below, the Issuer will redeem the Notes at their respective Principal Amounts Outstanding on the Interest Payment Date falling in October 2068 (the **Final Maturity Date**).

7.2 *Mandatory Redemption*

- (a) Subject to Condition 7.3 (Optional Redemption in Full or in Part) and 7.4 (Optional Redemption for Taxation or Other Reasons), the Class A Notes shall be repaid on each Interest Payment Date to the extent of Available Principal Receipts, after payment, or

provision for, amounts ranking in priority to the Class A Notes in accordance with the terms of the Cash Management Agreement or the Deed of Charge (as applicable), applied sequentially in the following order of priority:

- (i) *first, pro rata and pari passu* the Class A1 Notes and the Class A7 Notes until they have been redeemed in full;
 - (ii) *second, pro rata and pari passu* the Class A2 Notes and the Class A8 Notes until they have been redeemed in full;
 - (iii) *third, pro rata and pari passu* the Class A3 Notes and the Class A9 Notes until they have been redeemed in full;
 - (iv) *fourth, pro rata and pari passu* the Class A4 Notes and the Class A10 Notes until they have been redeemed in full;
 - (v) *fifth, pro rata and pari passu* the Class A5 Notes and the Class A11 Notes until they have been redeemed in full;
 - (vi) *sixth, pro rata and pari passu* the Class A6 Notes and the Class A12 Notes until they have been redeemed in full.
- (b) Subject to Condition 7.3 (Optional Redemption in Full or in Part) and 7.4 (Optional Redemption for Taxation or Other Reasons), the Class Z Notes shall be repaid on each Interest Payment Date to the extent of Available Revenue Receipts, after payment, or provision for, amounts ranking in priority to the Class Z Notes in accordance with the terms of the Cash Management Agreement or the Deed of Charge (as applicable). Additionally, the Class Z Notes shall repaid on each Interest Payment Date to the extent of any General Reserve Fund Excess and, if the Class A Notes will be redeemed in full on such Interest Payment Date, such part of the General Reserve Fund not exceeding the Principal Amount Outstanding of the Class Z Notes on such Interest Payment Date, shall be applied to redeem the Class Z Notes.
- (c) It is not intended to maintain surplus Available Revenue Receipts (other than amounts credited to the General Reserve Fund or retained by the Issuer in accordance with item (i) of the Pre-Acceleration Revenue Priority of Payments) or surplus Available Principal Receipts (other than amounts credited to the Liquidity Reserve Fund (if established)) in the Issuer.

7.3 Optional Redemption in Full or in Part

- (a) On giving not more than 60 nor less than 14 days' notice to the Noteholders in accordance with Condition 16 (Notice to Noteholders), the Note Trustee and the Interest Rate Swap Provider, and provided that:
- (i) on or prior to the Interest Payment Date on which such notice expires, no Note Acceleration Notice has been served; and
 - (ii) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the Notes to be redeemed on the relevant Interest Payment Date and to discharge all other amounts required to be paid in priority to or *pari passu* with the Notes on such Interest Payment Date (such certification to be provided by way of certificate signed by two directors of the Issuer); and

- (A) the date of redemption will be the first Interest Payment Date falling in April 2009 or any Interest Payment Date thereafter, provided that:
 - (1) in the case of redemption of the Class A1 Notes, the Class A7 Notes will also be redeemed (*pro rata* and *pari passu*) and vice versa;
 - (2) in the case of redemption of the Class A2 Notes, the Class A8 Notes will also be redeemed (*pro rata* and *pari passu*) and vice versa;
 - (3) in the case of redemption of the Class A3 Notes, the Class A9 Notes will also be redeemed (*pro rata* and *pari passu*) and vice versa;
 - (4) in the case of redemption of the Class A4 Notes, the Class A10 Notes will also be redeemed (*pro rata* and *pari passu*) and vice versa;
 - (5) in the case of redemption of the Class A5 Notes, the Class A11 Notes will also be redeemed (*pro rata* and *pari passu*) and vice versa;
 - (6) in the case of redemption of the Class A6 Notes, the Class A12 Notes will also be redeemed (*pro rata* and *pari passu*) and vice versa;
 - (7) in the case of the redemption of the Class Z Notes, the Class A Notes have been redeemed in full; or
- (B) on any Interest Payment Date following receipt by the Issuer of a notice from the Seller under the Administration Agreement that they intend to exercise their option under the Administration Agreement to repurchase all the relevant Loans and their Related Security from the Issuer on any Interest Payment Date following a date on which the aggregate Equivalent Principal Amount Outstanding of the Class A Notes will be less than 10% of the aggregate Principal Amount Outstanding of the Class A Notes on the Closing Date,

the Issuer may redeem on any Interest Payment Date (in the case of paragraph (a)(ii)(A) all or part of any sub-class of the Notes (but if in part, only in a minimum amount of £50,000 and integral multiples thereof and only on a *pro rata* and *pari passu* basis) and (in the case of paragraph (a)(ii)(B)) all (but not some only) of the Class A Notes.

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

7.4 Optional Redemption for Taxation or Other Reasons

If:

- (a) by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any sub-class of the Notes

(other than because the relevant holder has some connection with the United Kingdom other than the holding of Notes of such sub-class) any amount for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein; or

- (b) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Issuer or the Interest Rate Swap Provider would be required to deduct or withhold from any payment under the Interest Rate Swap Agreement any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature,

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

If the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that one or more of the events described in subparagraph (a) or (b) above is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such a substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 14 days' notice to the Note Trustee, the Interest Rate Swap Provider and Noteholders in accordance with Condition 16 (Notice to Noteholders) redeem all (but not some only) of the Class A Notes and (if the Class A Notes have been redeemed in full) the Class Z Notes on the next following Interest Payment Date at their respective Principal Amount Outstanding together with any interest accrued (and unpaid) thereon up to (but excluding) the date of redemption provided that (in either case), prior to giving any such notice, the Issuer shall have provided to the Note Trustee (a) a certificate signed by two directors of the Issuer stating that one or more of the circumstances referred to in subparagraph (a) or (b) above prevail(s) and setting out details of such circumstances and (b) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer, the Paying Agents or the Interest Rate Swap Provider (as the case may be) has or will become obliged to deduct or withhold amounts as a result of such change or amendment. The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in the paragraph immediately above, in which event they shall be conclusive and binding on the Noteholders.

The Issuer may only redeem the Class A Notes or the Class Z Notes (as the case may be) as described above if the Issuer has certified to the Note Trustee that it will have the necessary funds, not subject to the interest of any other person, required to redeem the Class A Notes or the Class Z Notes (as the case may be) as aforesaid and any amounts required under the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of

Payments to be paid in priority to or *pari passu* with the Class A Notes or the Class Z Notes (as the case may be) outstanding in accordance with the terms and conditions thereof.

7.5 Principal Amount Outstanding

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

- (a) in respect of Class A1 Notes, £120,000,000;
- (b) in respect of Class A2 Notes, £1,000,000,000;
- (c) in respect of Class A3 Notes, £1,000,000,000;
- (d) in respect of Class A4 Notes, £1,000,000,000;
- (e) in respect of Class A5 Notes, £1,000,000,000;
- (f) in respect of Class A6 Notes, £1,000,000,000;
- (g) in respect of Class A7 Notes, £30,000,000;
- (h) in respect of Class A8 Notes, £250,000,000;
- (i) in respect of Class A9 Notes, £250,000,000;
- (j) in respect of Class A10 Notes, £250,000,000;
- (k) in respect of Class A11 Notes, £250,000,000;
- (l) in respect of Class A12 Notes, £250,000,000; and
- (m) in respect of Class Z Notes, £478,000,000;

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

7.6 Notice of Redemption

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

7.7 No Purchase by the Issuer

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

7.8 **Cancellation**

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

8. **TAXATION**

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

9. **PRESCRIPTION**

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

In this Condition 9, the **Relevant Date**, in respect of a payment, is the date on which such payment first becomes due or (if the full amount of the moneys payable on that date has not been duly received by the Principal Paying Agent or the Note Trustee on or prior to such date) the date on which, the full amount of such moneys having been received, notice to that effect is duly given to the relevant Noteholders in accordance with Condition 16 (Notice to Noteholders).

10. **EVENTS OF DEFAULT**

10.1 **Class A Notes**

The Note Trustee at its absolute discretion may, and if so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Class A1 Notes and/or the Class A2 Notes and/or the Class A3 Notes and/or the Class A4 Notes and/or the Class A5 Notes and/or the Class A6 Notes and/or the Class A7 Notes and/or the Class A8 Notes and/or the Class A9 Notes and/or the Class A10 Notes and/or the Class A11 Notes and/or the Class A12 Notes then outstanding or if so directed by an Extraordinary Resolution of the Class A1 Noteholders and/or the Class A2 Noteholders and/or the Class A3 Noteholders and/or the Class A4 Noteholders and/or the Class A5 Noteholders and/or the Class A6 Noteholders and/or the Class A7 Noteholders and/or the Class A8 Noteholders and/or the Class A9 Noteholders and/or the Class A10 Noteholders and/or the Class A11 Noteholders and/or the Class A12 Noteholders, shall (subject, in each case, to being indemnified and/or secured to its satisfaction), (but, in the case of the happening of any of the events described in sub-paragraphs (b), (d), (e) and (f) below, only if the Note Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A1 Noteholders and/or the Class A2 Noteholders and/or the Class A3 Noteholders and/or the Class A4 Noteholders and/or the Class A5 Noteholders and/or the Class A6 Noteholders and/or the Class A7 Noteholders and/or the Class A8 Noteholders and/or the Class A9 Noteholders and/or the Class A10 Noteholders and/or the Class A11 Noteholders and/or the Class A12 Noteholders) give notice (a **Class A Note Acceleration Notice**) to the Issuer that all classes of the Notes are immediately due and repayable at their respective

Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed, if any of the following events (each, an **Event of Default**) occurs:

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

10.2 **Class Z Notes**

This Condition 10.2 shall not apply as long as any Class A Note is outstanding. Subject thereto, for so long as any Class Z Note is outstanding, the Note Trustee at its absolute discretion may, and if so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Class Z Notes then outstanding or if so directed by an Extraordinary Resolution of the Class Z Noteholders, shall (subject, in each case, to being indemnified and/or secured to its satisfaction), (but, in the case of the happening of any of the events referred to in sub-paragraph 10.2(b) below (other than any Event of Default referred to in Condition 10.1(c)), only if the Note Trustee shall have certified in writing to the Issuer that such event is materially prejudicial to the interests of the Class Z Noteholders) give notice (a **Class Z Note Acceleration Notice**) to the Issuer that the Class Z Notes are immediately due and repayable at their Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed, if any of the following events (each, an **Event of Default**) occurs:

- (a) if default is made in the payment of any principal or interest due in respect of the Class Z Notes and the default continues for a period of three days in the case of principal or five days in the case of interest; or
- (b) if any of the Events of Default referred to in Condition 10.1(b) to 10.1(f) occurs.

10.3 **General**

Upon the service of a Class A Note Acceleration Notice or a Class Z Note Acceleration Notice (each, a **Note Acceleration Notice**) by the Note Trustee in accordance with Condition 10.1 (Class A Notes) or 10.2 (Class Z Notes) respectively, all the Notes then outstanding shall thereby immediately become due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed.

11. **ENFORCEMENT**

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

- (a) in the case of the Note Trustee, (subject in all cases to restrictions contained in the Trust Deed to protect the interests of any higher ranking class or classes of Noteholders) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or the Class Z Noteholders or so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Class A Notes or the Class Z Notes then outstanding or, in the case of the Security Trustee, (subject to the restrictions contained in the Deed of Charge to protect the interests of Class A Noteholders whilst the Class A Notes remain outstanding) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or the Class Z Noteholders or so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Class A Notes or the Class Z Notes then outstanding or if so requested in writing by any other Secured Creditor;

(b) in all cases, it shall have been indemnified and/or secured to its satisfaction.

No Noteholder shall be entitled to proceed directly against the Issuer or any other party to any of the Transaction Documents unless the Note Trustee or, as the case may be, the Security Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. In addition, no Class Z Noteholder will be entitled to take proceedings for the winding up or administration of the Issuer unless:

- (i) there are no Class A Notes outstanding; or
- (ii) if Class A Notes are outstanding, there is a consent of holders of at least 25% in aggregate Principal Amount Outstanding of Class A Notes then outstanding.

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

If, upon the Security having been enforced and realised to the maximum possible extent as certified by the Security Trustee to the Note Trustee after payment of all other claims ranking in priority to the Class A Notes and the Class Z Notes (as the case may be) under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class A Notes and the Class Z Notes (as the case may be) and all other claims ranking *pari passu* therewith, then the Class A Noteholders and/or the Class Z Noteholders (as the case may be) shall be forthwith paid their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge). On the date of such payment (the **Option Exercise Date**), the Registrar will, at the request of the Post-Enforcement Call Option Holder on the Register, transfer all (but not some only) of the Class A Notes and/or the Class Z Notes (as the case may be) to the Post-Enforcement Call Option Holder for a nominal amount only pursuant to the option granted to it by the Note Trustee (as agent for the Noteholders) pursuant to the Post-Enforcement Call Option Agreement. Immediately upon such transfer, no such former Class A Noteholder or Class Z Noteholder shall have any further interest in the Class A Notes or the Class Z Notes (as the case may be). Each of the Class A Noteholders and the Class Z 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 Class A Noteholder or Class Z Noteholder (as the case may be), by subscribing for or purchasing the Class A Notes or the Class Z Notes (as the case may be), agrees to be so bound.

12. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

- 12.1 The Trust Deed contains provisions for convening meetings of the Noteholders of each class and, in certain cases, more than one class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Transaction Documents.
- 12.2 An Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on the Class Z Noteholders irrespective of the effect upon them, except that an Extraordinary Resolution to sanction a modification of these Conditions or the provisions of any of the Transaction Documents or a waiver or authorisation of any breach or proposed breach thereof or certain other matters specified in the Trust Deed or, as the case may be, the Deed of Charge will not take effect unless the Note Trustee or, as the case may be, the Security Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class Z Noteholders or it shall have been sanctioned by Extraordinary Resolutions of the Class Z Noteholders.

- 12.3 An Extraordinary Resolution (other than an Extraordinary Resolution referred to in Condition 12.2 immediately above) passed at any meeting of the Class Z Noteholders shall not be effective for any purpose unless either the Note Trustee or, as the case may be, the Security Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or it is sanctioned by an Extraordinary Resolution of the Class A Noteholders, but subject also to the other provisions of this Condition 12.
- 12.4 Subject as provided below, the quorum at any meeting of Noteholders of any class or sub-class for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 50% of the aggregate Principal Amount Outstanding of such class or sub-class of Notes, or, at any adjourned meeting, one or more persons being or representing a Noteholder of the relevant class or sub-class, whatever the aggregate Principal Amount Outstanding of the Notes of such class or sub-class held or represented by it or them.
- 12.5 The quorum at any meeting of Noteholders of any class or sub-class for passing an Extraordinary Resolution to sanction a modification of the date of maturity of any Notes or which would have the effect of postponing any day for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of such Notes, altering the currency of payment of such Notes or altering the quorum or majority required in relation to this exception (each, a Basic Terms Modification) shall be one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, not less than one-quarter of the aggregate Principal Amount Outstanding of the Notes of such class or sub-class.

The Trust Deed and the Deed of Charge provide that:

- (a) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of one sub-class only of the Class A Notes shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Class A Notes of that sub-class so affected;
- (b) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of more than one sub-class of the Class A Notes but does not give rise to a conflict of interest between the holders of any sub-classes of the Class A Notes so affected, shall be deemed to have been duly passed if passed at a single meeting of the holders of the Class A Notes of all sub-classes so affected; and
- (c) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of more than one sub-class of the Class A Notes, and gives or may give rise to a conflict of interest between the holders of one sub-class of the Class A Notes so affected and the holders of another sub-class of the Class A Notes so affected, shall be deemed to have been duly passed only if in lieu of being passed at a single meeting of the holders of the Class A Notes of all sub-classes so affected, it shall be duly passed at separate meetings of the holders of each sub-class of the Class A Notes so affected.

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

- 12.6 The Note Trustee or, as the case may be, the Security Trustee, may agree, without the consent of the Noteholders (but, in the case of the Security Trustee only, with the written consent of the Interest Rate Swap Provider):
- (a) to any modification, or to any waiver or authorisation of any breach or proposed breach, of these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee is not materially prejudicial to the interests of the Noteholders and, in the opinion of the Security Trustee, is not materially prejudicial to the interests of the Noteholders and any other Secured Creditor. If the Security Trustee is unable to determine that any such modification, waiver or authorisation is not materially prejudicial to any Secured Creditor (other than the Noteholders), the Security Trustee will not provide its consent to any such modification, waiver or authorisation without having received the prior written consent of any such Secured Creditor to such modification, waiver or authorisation, provided that in the event of a conflict between the interests of the Noteholders and the interests of the Secured Creditors, the interests of the Noteholders will prevail; or
 - (b) to any modification which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, proven.
- 12.7 The Note Trustee may also, without the consent of the Noteholders, if it is of the opinion that such determination will not be materially prejudicial to the interests of the Noteholders, determine that an Event of Default shall not, or shall not subject to specified conditions, be treated as such.
- 12.8 Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee or, as the case may be, the Security Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16 (Notice to Noteholders).
- 12.9 In connection with any such substitution of principal debtor referred to in Condition 7.4 (Optional Redemption for Taxation or Other Reasons), the Note Trustee and the Security Trustee may also agree, without the consent of the Noteholders, to a change of the laws governing the Notes, these Conditions and/or any of the Transaction Documents, provided that such change would not, in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders or, as the case may be, in the opinion of the Security Trustee, be materially prejudicial to the interests of the Noteholders and any other Secured Creditor. If the Security Trustee is unable to determine that any such change of law is not materially prejudicial to any Secured Creditor (other than the Noteholders), the Security Trustee will not provide its consent to any such change of law without having received the prior written consent of any such Secured Creditor to such change of law, provided that in the event of a conflict between the interests of the Noteholders and the interests of the Secured Creditors, the interests of the Noteholders will prevail.
- 12.10 In determining whether a proposed action will not be materially prejudicial to the Noteholders, the Note Trustee and the Security Trustee may, among other things, have regard to whether S&P and Fitch have confirmed to the Issuer or any other party to the Transaction Documents that any proposed action will not result in the withdrawal or reduction of, or entail any other adverse action with respect to, the then current rating of the Notes, and may notify Moody's of the same.

- 12.11 Where, in connection with the exercise or performance by each of them of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination, substitution or change of laws as referred to above), the Note Trustee or the Security Trustee is required to have regard to the interests of the Noteholders of any class, it shall have regard to the general interests of the Noteholders of such class as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Note Trustee or, as the case may be, the Security Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer, the Note Trustee or the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.
- 12.12 The Trust Deed and the Deed of Charge provide that in determining whether a proposed action will not be materially prejudicial to the Noteholders of any class, the Note Trustee and the Security Trustee respectively will be entitled to assume that any such proposed action will not be materially prejudicial to the interests of the Noteholders of any class if any one or more Rating Agencies have confirmed that the then current ratings of such class of the Notes would not be adversely affected by such proposed action. Notwithstanding that none of the Note Trustee, the Security Trustee and the Noteholders may have any right of recourse against the relevant Rating Agency in respect of any confirmation given by them and relied upon by the Note Trustee pursuant to the Trust Deed or by the Security Trustee pursuant to the Deed of Charge, the Note Trustee and the Security Trustee shall be entitled to assume, for the purposes of exercising any of its trust, duties, rights, powers, authorities and discretions under or in relation to these Conditions and any of the other Transaction Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders (or any class thereof) if any one or more Rating Agencies have confirmed that the then current ratings of the applicable class or classes of Notes (or any class thereof) would not be adversely affected by such proposed exercise. It is agreed and acknowledged by the Note Trustee and the Security Trustee that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to the Noteholders. In being entitled to rely on the fact that one or more Rating Agencies have confirmed that the then current rating of the Notes (or any class thereof) would not be adversely affected, it is agreed and acknowledged by the Note Trustee and the Security Trustee that such reliance does not impose or extend any actual or contingent liability for the relevant Rating Agency to the Security Trustee, the Note Trustee, the Noteholders or any other person or create any legal relations between the Rating Agencies and the Security Trustee, the Note Trustee, the Noteholders or any other person whether by way of contract or otherwise.

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

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

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

14. REPLACEMENT OF NOTES

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

15. FURTHER CLASS Z NOTES

15.1 Further Class Z Notes

The Issuer may, without the consent of the Noteholders, raise further funds, from time to time, on any date by the creation and issue of further Class Z Notes (**Further Class Z Notes**) carrying the same terms and conditions in all respects (except for the first Interest Period) as, and so that the same shall be consolidated and form a single class and rank *pari passu* with the Class Z Notes provided that:

- (a) the aggregate principal amount of all Further Class Z Notes to be issued on such date is not less than £10,000,000;
- (b) the aggregate principal amount of the Class Z Notes and the Further Class Z Notes on such date shall not exceed two times the aggregate principal amount of the Class Z Notes as at the Closing Date; and
- (c) the ratings of each class of Class A Notes at that time outstanding are not downgraded, withdrawn or qualified as a result of such issue of Further Class Z Notes; and
- (d) application will be made, in respect of the Further Class Z Notes, for such notes to be admitted to trading on the London Stock Exchange's Regulated Market and listed on the official list of the UK Listing Authority or, if the Class Z Notes then issued are no longer admitted to trading on that exchange or were admitted to trading on another exchange, such exchange, if any, on which the Class Z Notes then issued are then admitted to trading.

15.2 Supplemental trust deeds and security

Any such Further Notes will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of the security constituted by or pursuant to the Deed of Charge. Any of the Transaction Documents may be amended as provided in Condition 3 (Status and Relationship between the Notes and Security) or otherwise, and further

Transaction Documents may be entered into, in connection with the issue of such Further Class Z Notes.

16. NOTICE TO NOTEHOLDERS

16.1 *Publication of Notice*

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

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

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

16.2 *Note Trustee's Discretion to Select Alternative Method*

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

17. SUBORDINATION BY DEFERRAL

17.1 *Interest*

If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (which shall, for the purposes of this Condition 17, include any interest previously deferred under this Condition 17.1 and accrued interest thereon) payable in respect of the Class Z Notes after having paid or provided for items of higher priority in the Pre-Acceleration Revenue Priority of Payments, then the Issuer shall be entitled (unless there are no Class A Notes then outstanding) to defer to the next Interest Payment Date the payment of interest in respect of the Class Z Notes to the extent only of any insufficiency of funds (only after having paid or provided for all amounts specified as having a higher priority in the Pre-Acceleration Revenue Priority of Payments than interest payable in respect of the Class Z Notes).

17.2 General

Any amounts of interest in respect of the Class Z Notes otherwise payable under these Conditions which are not paid by virtue of this Condition 17 shall accrue interest at the same rate and on the same basis as interest in respect of the Class Z Notes and together with such accrued interest thereon, shall in any event become payable on the next Interest Payment Date (unless and to the extent that Condition 17.1 applies) or on such earlier date as the Class Z Notes become due and repayable in full in accordance with these Conditions.

17.3 Notification

As soon as practicable after becoming aware that any part of a payment of interest on the Class Z Notes will be deferred or that a payment previously deferred will be made in accordance with this Condition 17, the Issuer will give notice thereof to the Class Z Noteholders in accordance with Condition 16 (Notice to Noteholders). Any deferral of interest in accordance with this Condition 17 will not constitute an Event of Default. The provisions of this Condition 17 shall cease to apply on the Final Maturity Date, at which time all deferred interest and accrued interest thereon shall become due and payable.

18. GOVERNING LAW

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

19. RIGHTS OF THIRD PARTIES

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

USE OF PROCEEDS

The Issuer will use the gross proceeds of the Class A Notes towards payment of the Initial Consideration payable by the Issuer for the Initial Portfolio to be acquired from the Seller on the Closing Date (see "*Summary of Key Transaction Documents – Mortgage Sale Agreement*"). The remaining proceeds of the issue of Class A Notes will be deposited into the GIC Account to form part of the Available Principal Receipts in respect of the first Interest Payment Date (see "*Cashflows – Definition of Available Revenue Receipts*" and "*Cashflows – Definition of Available Principal Receipts*"). The Issuer will use the gross proceeds of the Class Z Notes to fund the General Reserve Fund on the Closing Date (see "*Credit Structure – General Reserve Fund*").

FEES

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

<u>Type of Fee</u>	<u>Amount of Fee</u>	<u>Priority in Cashflow</u>	<u>Frequency</u>
Administration Fees	0.10% each year (inclusive of VAT) on the aggregate amount of the Portfolio at the opening of business on the preceding Collection Period	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Cash management fees	£103,450 each year (inclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Other fees and expenses of the Issuer	estimated at £85,000 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
VAT is currently chargeable at 15%			
Expenses related to the admission to trading of the Notes	£14,625 (exclusive of VAT)		

RATINGS

The Class A Notes, on issue, will be assigned the following ratings by Moody's, Fitch and S&P. The Class Z Notes are unrated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgment, circumstances (including, without limitation, a reduction in the credit rating of the Interest Rate Swap Provider and/or the Account Bank in the future) so warrant.

Class of Notes	Moody's	Fitch	Standard & Poor's
Class A1 Notes	Aaa	AAA	AAA
Class A2 Notes	Aaa	AAA	AAA
Class A3 Notes	Aaa	AAA	AAA
Class A4 Notes	Aaa	AAA	AAA
Class A5 Notes	Aaa	AAA	AAA
Class A6 Notes	Aaa	AAA	AAA
Class A7 Notes	Aaa	AAA	AAA
Class A8 Notes	Aaa	AAA	AAA
Class A9 Notes	Aaa	AAA	AAA
Class A10 Notes	Aaa	AAA	AAA
Class A11 Notes	Aaa	AAA	AAA
Class A12 Notes	Aaa	AAA	AAA
Class Z Notes	Unrated	Unrated	Unrated

THE ISSUER

Introduction

The Issuer was incorporated in England and Wales on 21 November 2008 (registered number 6755570) as a public limited company under the Companies Act 1985 (as amended). The registered office of the Issuer is c/o Structured Finance Management Limited, 35 Great St Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is +44(0)20 7398 6300. The authorised share capital of the Issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,998 shares of £1 each; partly-paid up in cash of 25p each and 2 fully paid shares of £1 each all of which are beneficially owned by Holdings (see "*Holdings*" below).

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

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association. The Issuer was established solely for the purpose of issuing the Notes. The activities of the Issuer will be restricted by its Memorandum and Articles of Association and the Transaction Documents and will be limited to the issues of the Notes, the exercise of related rights and powers and other activities referred to herein or reasonably incidental thereto.

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

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

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its registration as a public company under the Companies Act 1985 and to the proposed issues of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer has made a notification under the Data Protection Act 1998 and is applying for a consumer credit licence under the CCA. As at 27 January 2009, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2009.

There is no intention to accumulate surpluses in the Issuer (other than amounts standing to the credit of the General Reserve Fund and (if established) the Liquidity Reserve Fund).

Directors

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No. 2) Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director

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

Name	Function	Business Address	Principal Activities
Robert Berry	Director	35 Great St Helen's, London EC3A 6AP	Provision of Corporate Services
Jonathan Keighley	Director	35 Great St Helen's, London EC3A 6AP	Provision of Corporate Services
James Macdonald	Director	35 Great St Helen's, London EC3A 6AP	Provision of Corporate Services
JP Nowacki	Director	35 Great St Helen's, London EC3A 6AP	Provision of Corporate Services
Claudia Wallace	Director	35 Great St Helen's, London EC3A 6AP	Provision of Corporate Services
Helena Whitaker	Director	35 Great St Helen's, London EC3A 6AP	Provision of Corporate Services
Debra Parsall	Alternate Director to Jonathan Keighley, James Macdonald and Robert Berry	35 Great St Helen's, London EC3A 6AP	Provision of Corporate Services
Cane Pickersgill	Alternate Director to Jonathan Keighley, James Macdonald and Robert Berry	35 Great St Helen's, London EC3A 6AP	Provision of Corporate Services

The business addresses for each of the directors of Structured Finance Management Limited is 35 Great St Helen's, London EC3A 6AP.

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

The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at 27 January 2009. There has been no material change in the capitalisation, indebtedness or contingent liabilities or guarantees since 27 January 2009.

Capitalisation Statement

The following table shows the capitalisation of the Issuer as at 27 January 2009:

	As at 27 January 2007 £
Authorised share capital	
Ordinary shares of £1 each	50,000.00

Issued share capital

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

HOLDINGS

Introduction

Holdings was incorporated in England and Wales on 21 November 2008 (registered number 6755495) as a private limited company under the Companies Act 1985 (as amended). The registered office of Holdings is c/o Structured Finance Management Limited 35 Great St Helen's, London EC3A 6AP. The authorised share capital of Holdings comprises 15,000 ordinary shares of £1 each. The issued share capital of Holdings comprises 12,503 ordinary shares of £1 each. SFM Corporate Services Limited (the **Share Trustee**) holds the entire beneficial interest in the issued shares under a discretionary trust for the benefit of one or more discretionary objects. Neither the Seller nor any company connected with the Seller can direct the Share Trustee and none of such companies has any control, direct or indirect, over Holdings or the Issuer. Holdings holds the entire beneficial interest in the issued share capital of the Issuer and PECO.

The principal objects of Holdings are set out in clause 3 of its Memorandum of Association.

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

Directors

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

Name	Business Address	Business Occupation
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No.2) Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director

The directors of SFM Limited and SFM Directors (No. 2) Limited and their respective business activities are set out under "*The Issuer*".

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

The accounting reference date of Holdings is 31 December.

Holdings has no employees.

THE POST-ENFORCEMENT CALL OPTION HOLDER

Introduction

The Post-Enforcement Call Option Holder was incorporated in England and Wales on 21 November 2008 (registered number 6755550) as a private limited company under the Companies Act 1985 (as amended). The registered office of the Post-Enforcement Call Option Holder is c/o Structured Finance Management Limited, 35 Great St Helen's, London EC3A 6AP.

The authorised share capital of the Post-Enforcement Call Option Holder comprises 100 ordinary shares of £1 each. The issued share capital of the Post-Enforcement Call Option Holder comprises 1 ordinary share of £1. Holdings holds the entire beneficial interest in the issued share capital of PECO. The Post-Enforcement Call Option Holder has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of the Post-Enforcement Call Option Holder. The principal objects of the Post-Enforcement Call Option Holder are set out in clause 3 of its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company. The Post-Enforcement Call Option Holder has not engaged since its incorporation in any material activities other than those activities incidental to the authorising and implementation of the Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

Directors

The directors of the Post-Enforcement Call Option Holder and their respective business addresses and occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No.2) Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director

The directors of SFM Limited and SFM Directors (No. 2) Limited and their respective business activities are set out under "*The Issuer*".

The company secretary of the Post-Enforcement Call Option Holder is SFM Corporate Services Limited whose registered office is at 35 Great St Helen's, London EC3A 6AP.

The accounting reference date of the Post-Enforcement Call Option Holder is 31 December.

The Post-Enforcement Call Option Holder has no employees.

THE ROYAL BANK OF SCOTLAND PLC

General

RBS will perform the following roles in connection with the issuance of the Notes:

- Seller;
- Administrator;
- Seller Collection Account Bank;
- Cash Manager;
- Interest Rate Swap Provider;
- Subordinated Loan Provider;
- Account Bank; and
- Lead Manager.

The registered office of RBS is 36 St. Andrew Square, Edinburgh EH2 2YB.

RBS will be responsible for the selection of the pool of loans to be securitised and for ongoing administration and reporting. RBS will provide cash management services, act as lead manager and be responsible for structuring of the transaction, cashflow modelling, liaison with Rating Agencies, arranging distribution and marketing of the securities, arranging interest rate and other hedging, engaging various third party service providers and advisors, overseeing pricing of the securities as well as overall transaction management.

The Group

The Royal Bank of Scotland Group plc (RBSG, together with its subsidiaries, the Group) is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, The Royal Bank of Scotland plc (RBS) and National Westminster Bank Plc (NatWest). Both RBS and NatWest are major UK clearing banks whose origins go back over 275 years. In the United States, the Group's subsidiary Citizens was ranked the tenth-largest commercial banking organisation by deposits at 30 June 2008. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers in over 50 countries.

The Group had total assets of £1,948.7 billion and owners' equity of £61.6 billion at 30 June 2008. The Group's capital ratios, which included the equity minority interest of Fortis Bank Nederland and Santander in ABN AMRO, were a total capital ratio of 13.2 per cent., a core Tier 1 capital ratio of 6.7 per cent. and a Tier 1 capital ratio of 9.1 per cent., as at 30 June 2008.

On 17 October 2007, RFS Holdings B.V. (RFS Holdings), a company jointly owned by RBSG, Fortis Bank Nederland (Holding) N.V. and Banco Santander S.A. (the Consortium Banks) and controlled by RBSG, completed the acquisition of ABN AMRO Holding N.V. (ABN AMRO). RFS Holdings is in the process of implementing an orderly separation of the business units of ABN AMRO, with RBSG

principally retaining ABN AMRO's global wholesale businesses and international retail businesses in Asia and the Middle East. Certain other assets will continue to be shared by the Consortium Banks.

On 3 October 2008, the Dutch government acquired Fortis Bank Nederland (Holding) N.V. including Fortis' participation in RFS Holdings that represents the acquired activities of ABN AMRO.

Global Markets

Global Markets is focused on the provision of debt and equity financing, risk management and transaction banking services to large businesses and financial institutions in the United Kingdom and around the world. Its activities have been organised into two divisions, Global Banking & Markets (GBM) and Global Transaction Services, in order best to serve RBSG's customers whose financial needs are global.

GBM is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt and equity financing, risk management and investment services to its customers. The expanded division is organised along the following four principal business lines:

- Rate, Currencies and Commodities provides risk management, sales and trading activities in G11 and non-G11 (Local Markets) currencies/jurisdictions across this broad set of asset classes. Key product offerings include spot FX, local markets trading, short-term markets and financing, inflation products, swaps and bonds (G11) and covered bonds, interest rate and currency options and hybrids and prime brokerage and futures. This business line also includes RBS Sempra Commodities LLP, the commodities-marketing joint venture between RBS and Sempra Energy formed on 1 April 2008. Under the joint venture, RBS Sempra Commodities LLP purchased Sempra Commodities. RBSG's initial equity investment in the joint venture was US\$1.7 billion and RBSG will continue to provide any additional funding required for the ongoing operating expenses of the businesses.
- Equities provides a full range of origination, trading and distribution of cash and derivative products. The business provides a multi-product approach operating through a wide range of channels with an emphasis on revenue diversification. Key product offerings include equity origination, corporate broking, core equities sales and trading, equity derivatives sales and trading, equity financing and collateral trading.
- Credit Markets offers a full range of origination, trading and distribution activities on a global basis for clients across all sectors. Key product offerings include corporate and structured debt capital markets, financial institutions debt capital markets, leveraged finance, real estate finance, project finance, financial structuring and credit trading.
- Asset and Portfolio Management manages the lending portfolio and other assets of GBM and some third parties, ensuring efficient management of capital, credit and liquidity via portfolio management and global markets treasury. Key fund product offerings include fund of funds structures, multimanager strategies, private equity and credit funds, other core products are equity finance and asset finance (covering shipping and aviation).

Global Transaction Services ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, as well as trade finance, UK and international merchant acquiring and commercial card products and services. It includes the Group's corporate money transmission activities in the United Kingdom and the United States.

Regional Markets

Regional Markets is organised around the provision of retail and commercial banking to customers in four regions: the United Kingdom, the United States, Europe and the Middle East and Asia. This includes the provision of wealth management services both in the United Kingdom and internationally.

UK Retail & Commercial Banking

This comprises retail, commercial and corporate banking, and wealth management services in the United Kingdom. It supplies financial services through both the RBS and NatWest brands.

UK Retail Banking offers a full range of banking products and related financial services to the personal market. It serves customers through the largest network of branches and ATMs in the United Kingdom, and also through telephone and internet channels. Together, RBS and NatWest hold the joint number one position in personal current accounts. The division also issues credit and charge cards, including through other brands such as MINT.

UK Business & Commercial Banking is the largest provider of banking, finance, and risk management services to the SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance, in which it is the market leader through the Lombard brand.

UK Corporate Banking holds the largest market share in the United Kingdom of relationships with larger companies, offering a full range of banking, finance, and risk management services.

UK Wealth Management provides private banking and investment services through Coutts, Adam & Co., RBS International and NatWest Offshore.

US Retail & Commercial Banking

Citizens Financial Group provides financial services through the Citizens and Charter One brands as well as through Kroger Personal Finance, its credit card joint venture with the second-largest US supermarket group.

Citizens is engaged in retail and corporate banking activities through its branch network in 13 states in the United States and through non-branch offices in other states. Citizens was ranked the tenth-largest commercial banking organisation in the United States based on deposits as at 30 June 2008.

Europe & Middle East Retail & Commercial Banking

This comprises Ulster Bank and the Group's combined retail and commercial businesses in Europe and the Middle East.

Ulster Bank, including First Active, provides a comprehensive range of financial services across the island of Ireland. Its retail banking arm has a network of branches and operates in the personal, commercial and wealth management sectors, while its corporate markets operations provide services in the corporate and institutional markets.

The retail and commercial businesses in Europe and the Middle East offer services in Romania, Kazakhstan and the United Arab Emirates.

Asia Retail & Commercial Banking

Asia Retail & Commercial Banking holds prominent market positions in India, Pakistan, China and Taiwan, as well as presences in Hong Kong, Indonesia, Malaysia and Singapore. It provides financial services across four segments: affluent banking, cards and consumer finance, business banking and international wealth management, which offers private banking and investment services to clients in selected markets through the RBS Coutts brand.

RBS Insurance

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Its brands include Direct Line, Churchill, Privilege, Green Flag and NIG. Direct Line, Churchill and Privilege sell general insurance products direct to the customer. Through its international division, RBS Insurance sells general insurance, mainly motor, in Spain, Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

Group Manufacturing

Group Manufacturing comprises the Group's worldwide manufacturing operations. It supports the Group's customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Global Manufacturing drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and has become the centre of excellence for managing large-scale and complex change.

The Centre

The Centre comprises group and corporate functions, such as capital raising, finance, risk management, legal, communications and human resources. The Centre manages the Group's capital resources and Group-wide regulatory projects and provides services to the Group's operating divisions.

Board changes

On 1 October 2008, Stephen Hester, John McFarlane and Arthur Ryan were appointed non-executive directors of RBSG. Johnny Cameron stepped down from the RBSG Board on 13 October 2008 and Mark Fisher stepped down as a director on 21 November. Sir Fred Goodwin stepped down from the Board on 21 November 2008 and was replaced as Group Chief Executive by Stephen Hester, who also became an executive director. Lawrence Fish retired as a non-executive director on 31 December 2008, and Sir Tom McKillop will retire as Chairman and Charles Koch will retire as a non-executive director at the Annual General Meeting of RBSG to be held in April 2009. Sir Philip Hampton has been appointed as a director and Deputy Chairman with effect from 19 January 2009 and will assume the Chairmanship of the Board at the conclusion of the Annual General Meeting in April 2009.

Recent Events

On 8 October 2008, the UK government announced measures intended, inter alia, to provide sufficient liquidity to the banking sector and to make available new capital to UK banks (including RBS).

Credit Guarantee Scheme

Following its announcement on 8 October 2008 referred to above, on 13 October 2008 the UK government announced a credit guarantee scheme for bank and building society debt issuance (the "Scheme"). RBS applied to take part in the Scheme and was named as an initial eligible institution in the "Rules of the 2008 Credit Guarantee Scheme" issued by The Commissioners of Her Majesty's Treasury ("HM Treasury") on 13 October 2008. Under the Scheme HM Treasury, at the request of RBS, will provide an unconditional and irrevocable direct guarantee which ensures timely payment of non-complex, senior and unsecured debt instruments issued by RBS of a term of not more than three years.

Capital Raising

On 4 November 2008, RBSG announced a Placing and Open Offer of £15 billion at a fixed price of 65.5p per ordinary share. As a result, HM Treasury now own approximately 57.9 per cent. of the enlarged issued ordinary share capital of RBSG.

In addition, HM Treasury subscribed for £5 billion of non-cumulative preference shares in RBSG.

On 19 January 2009, the Group announced that it had reached agreement with HM Treasury and UK Financial Investments to replace the £5 billion of preference shares it holds with new ordinary shares. The offer of the new ordinary shares and the redemption of the preference shares are subject to shareholder approval. The offer is expected to close in late March 2009.

On 15 December 2008 the Group announced that it has exposure through trading and collateralised lending to funds of hedge funds invested with Bernard L Madoff Investment Securities LLC. If as a result of the alleged fraud the value of the assets of these hedge funds is nil, the Group's potential loss could amount to approximately £400 million.

On 19 December 2008, RBSG completed the sale of its 50% shareholding in Tesco Personal Finance ("TPF") to its joint venture partner, Tesco plc.

On 14 January 2009, the Group announced that it had disposed of its 4.26% equity stake in Bank of China for a net consideration of £1.6 billion.

On 19 January 2009, the Group announced that it estimates the full year 2008 results to be an attributable loss, before exceptional goodwill impairments, of between £7 billion and £8 billion. It also reported that preliminary findings indicate that the estimated goodwill impairment charge will be in the region of £15 billion to £20 billion. On a fully consolidated basis, the Group expects that there will be an additional impairment charge of between €17 billion and €19 billion relating to Fortis' investment in ABN AMRO sold to the State of the Netherlands; this has no impact on the Group as it is entirely attributable to minority interests.

THE NOTE TRUSTEE/SECURITY TRUSTEE

BNY Corporate Trustee Services Limited will be appointed on the Closing Date pursuant to the Trust Deed as Note Trustee for the Noteholders. It was also appointed pursuant to the Deed of Charge as Security Trustee for the Secured Creditors.

BNY Corporate Trustee Services Limited's principal place of business is at One Canada Square, London, E14 5AL.

BNY Corporate Trustee Services Limited has served and is currently serving as trustee for numerous securitisation transactions and programmes involving pools of mortgage loans.

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

The Bank of New York Mellon, a wholly owned subsidiary of the Bank of New York Mellon Corporation, is incorporated, with limited liability by Charter, under the Laws of the State of New York by special act of the New York State Legislature, Chapter 616 of the Laws of 1871, with its Head Office situated at One Wall Street, New York, NY 10286, USA and having a branch registered in England and Wales with FC No 005522 and BR No 000818 with its principal office in the United Kingdom situated at One Canada Square, London E14 5AL.

The Bank of New York Mellon's corporate trust business services \$12 trillion in outstanding debt from 55 locations around the world. It services all major debt categories, including corporate and municipal debt, mortgage-backed and asset-backed securities, collateralized debt obligations, derivative securities and international debt offerings. The Bank of New York Mellon's corporate trust and agency services are delivered through The Bank of New York Mellon and The Bank of New York Mellon Trust Company, N.A.

The Bank of New York Mellon Corporation is a global financial services company focused on helping clients manage and service their financial assets, operating in 34 countries and serving more than 100 markets. The company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing asset management and wealth management services, asset servicing, issuer services, clearing services and treasury services through a worldwide team. It has more than \$23 trillion in assets under custody and administration and more than \$1.1 trillion in assets under management. Additional information is available at bnymellon.com.

THE CORPORATE SERVICES PROVIDER

Structured Finance Management Limited (registered number 3853947), having a place of business at 35 Great St Helen's, London EC3A 6AP will be appointed on the Closing Date to provide corporate services to the Issuer, Holdings and the Post-Enforcement Call Option Holder pursuant to the Corporate Services Agreement.

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

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

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

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

THE LOANS

Introduction

The housing market in the UK primarily consists of owner-occupied housing and private landlord ownership, the latter often funded by buy-to-let residential mortgage loans. The remainder of dwellings are in some form of public or social ownership. The mortgage market, in which mortgage loans are provided for the purchase of a property and secured on that property, is the primary source of household borrowings in the UK.

The following is a description of some of the characteristics of the mortgage loans currently or previously offered by the Seller and includes details of mortgage loan types, the underwriting process, Lending Criteria and selected statistical information. Each Loan in the Portfolio incorporates one or more of the features referred to in this section.

RBSG originates residential mortgages using a multi-brand, multi-channel strategy. The Seller offers mortgages under the NatWest and RBS brands in the UK. RBSG also offers residential mortgages under The One Account, First Active, Direct Line, Coutts and Ulster brands. The Portfolio will consist of mortgages sold under the First Active UK brand only.

National Westminster Home Loans Limited (**NWHL**) was established as a dedicated mortgage lender by the then independent National Westminster Bank Group in 1980 to provide residential mortgages on behalf of the National Westminster Bank Group. Subsequent to the acquisition of the National Westminster Bank Group in 2000 by RBSG, RBSG has continued to originate mortgages under the NatWest brand through NWHL, whilst RBS originates RBS brand mortgages directly.

Each mortgage loan offered under the NatWest and RBS brands is currently held on one of four systems:

- Customer Mortgage System (**CMS**) — holding offset flexible mortgages (launched in August 2004) and current account mortgages, where the provider is RBS, together with traditional mortgages offered by First Active UK and Direct Line;
- Group Mortgage System (**GMS**) — holding some traditional mortgages offered before 31 October 2004 in anticipation of the introduction of MCOB and all RBS and NWHL traditional MCOB regulated mortgages offered from 31 October 2004 onwards following the introduction of MCOB, together with non-MCOB regulated buy-to-let mortgages following the transfer of the new buy-to-let mortgage business to GMS during 2005 and First Active UK mortgages from 2008 and referred to throughout as "GMS";
- Mortgage Manager (**MM**) — holding traditional mortgages offered before 31 October 2004 (when MCOB was introduced) and buy-to-let mortgages until the new buy-to-let mortgage business was transferred to the Group Mortgage System in 2005. The NatWest brand mortgages are maintained on a separate copy of the system to the RBS brand mortgages, but both systems are substantially the same;
- Caustic (**Caustic**) — holding current account mortgages originated by RBS until August 2004, a type of flexible mortgage known as "Foundations" originated by NatWest until November 2002 and a small portfolio of staff mortgages.

The Portfolio will consist of residential mortgage loans (including buy-to-let residential mortgage loans but excluding lifetime or equity release mortgages) held on the CMS system only, under the First Active UK brand.

Under the Mortgage Sale Agreement, RBS (in its capacity as the Seller) will transfer its rights under each All Moneys Mortgage to the Issuer. See "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Issuer Declaration of Trusts*" above.

Characteristics of the Loans

Mortgage Loan Products

The Portfolio will comprise traditional buy-to-let residential mortgage loans and residential mortgage loans originated and administered by the Seller through the CMS system, which include fixed rate, variable rate, tracker rate and discounted rate mortgages.

The Seller will assign to the Issuer on the Closing Date the following of its mortgage loan products, which in each case may comprise one or more of the following:

- **Tracker Rate Loans:** Loans subject to a variable rate of interest that is linked to the BoE Base Rate plus (or potentially minus) an additional fixed percentage (the **Tracker Rate**), usually for a fixed period but, in some instances, for the life of the loan (the **Life Tracker Rate Loans**). At the end of any fixed period, generally the loans (excluding the Life Tracker Rate Loans) convert to a Tracker Rate Loan on the Long Term Rate. These loans will not usually attract an early repayment charge. The Long Term Rate is a rate agreed with the borrower at the outset of the loan, at an agreed margin to the BoE Base Rate. Some Tracker Rate Loans sold in 2004/2005 were subject to minimum interest floors of 4% or 4.5% during the five year term prior to reverting to the Long Term Rate. The latest of these floors are due to expire on 30 September 2010.
- **Stepped Rate Loans:** Loans which allow the borrower for a set period of time to pay interest at a specified premium (or discount) to the BoE Base Rate, with the margin charged usually increasing over time. At the end of the Stepped Rate period, generally the mortgages convert to the Long Term Rate. An early repayment charge may be payable in respect of these loans for a set period of time, which generally corresponds with the term of the stepped interest rate.
- **Fixed Rate Loans:** Loans subject to a fixed interest rate for a specified period of time and which at the expiration of that period generally convert to Tracker Rate Loans. An early repayment charge may be payable in respect of these loans for a set period of time, which generally corresponds with the term of the fixed interest rate.
- **Discounted Rate Loans:** Loans which allow the borrower for a set period of time to pay interest at a specified discount or premium to the BoE Base Rate. At the end of the discounted period generally the mortgages convert to a Tracker Rate Loan on the Long Term Rate. An early repayment charge may be payable in respect of these loans for a set period of time, which generally corresponds with the term of the discounted interest rate.
- **Staff Loans:** Loans, for which RBS is the Seller, made available to permanent staff of RBSG where a subsidised staff rate or a subsidy via their salary is made to the individual and identified as such on the CMS system.

Buy-to-let residential mortgage loans

The Portfolio will include buy-to-let residential mortgage loans. Borrowers with buy-to-let residential mortgage loans are only permitted to let their properties (in England and Wales) either by way of an assured shorthold tenancy under the Housing Act 1996 or by way of a tenancy which would be an assured shorthold tenancy but for the rent payable under such tenancy exceeding the maximum

amount prescribed by statute in respect of such tenancies or (in Scotland) a short assured tenancy under the Housing (Scotland) Act 1988. The term of the permitted tenancy must be for at least six months and must not exceed twelve months. The permitted tenancy agreement must be in writing and must be signed by all the tenants. The agreement must not contain a clause extending or conferring an option to extend the term referred to above. The borrower must ensure that the property's insurers are informed of the letting. The borrower must send a copy of the agreement to the Seller if requested.

Each borrower may have more than one mortgage sub-account incorporating different features, but all sub-accounts secured on the same mortgaged property will be incorporated in a single account with the Seller which is called the **Mortgage Account**. Borrowers may hold up to ten buy-to-let Mortgage Accounts with the Seller, secured on separate properties, but this limit may be exceeded in appropriate circumstances, reviewed on a case by case basis.

Repayment Terms

Borrowers typically make payments of interest on, and repay principal of, their loans using one of the following methods:

- **Repayment Loans:** the borrower makes monthly payments of both interest and principal so that, when the loan matures, the borrower will have repaid the full amount of the principal of the loan.
- **Interest Only Loans (with a standard repayment vehicle plan):** the borrower makes monthly payments of interest but not of principal; when the loan matures, the entire principal amount of the loan is still outstanding and the borrower must repay that amount in one lump sum. The borrower may be required to arrange a separate investment plan which will be administered by an organisation other than the Seller, which plan provides for a lump sum payment to coincide with the end of the mortgage term. Although these investment plans were forecast to provide sufficient sums to repay the principal balance of the loan upon its maturity, to the extent that the lump sum payment is insufficient to pay the principal amount owing, the borrower will be liable to make up any shortfall. These types of **Standard Repayment Vehicle Plans** include:

Endowment: the borrower makes regular payments to a life assurance company which invests the premiums; the endowment policy is intended to repay the loan at maturity;

Pension Policy: the borrower makes regular payments to a personal pension plan; upon retirement, or plan maturity, the borrower will receive a tax-free lump sum which is intended to repay the loan;

Individual Savings Accounts or ISAs: the borrower makes contributions to a tax-free ISA account; once the value of the ISA equals or exceeds the outstanding mortgage debt, the borrower may use those amounts to repay the loan at any time thereafter or may wait to repay the loan upon its maturity;

Personal Equity Plans or PEPs: similar to ISAs, the borrower makes contributions to a tax-free PEP account and uses these amounts to repay the loan. Although PEPs have been discontinued in the United Kingdom, some Loans with PEP repayment vehicles may be included in the Portfolio; and

Unit Trusts: the borrower makes regular payments to the trustees of a unit trust, and the accumulated unit trust is used to repay the loan by the end of its term.

The Seller does not verify that a borrower has any such Standard Repayment Vehicle Plan in place although it is a condition of the loan that this is in place and the borrower is reminded on an annual basis to this effect.

Sale of Property: where the loan is no more than 85% of the most recent valuation of the mortgaged property, for buy-to-let residential mortgage loans the borrower may use the proceeds of sale of the property to repay the loan.

- **Interest-Only Loans (without a Standard Repayment Vehicle Plan):** where the borrower makes monthly payments of interest but not of principal and when the loan matures, the entire principal amount of the loan is due. However, the borrower has no formal repayment vehicle in place to repay the loan in full.
- **Combination of Repayment and Interest-Only Loans (Combination Loans):** this situation most often occurs when the borrower had an interest-only loan with a repayment vehicle on a prior mortgaged property, and after selling that mortgaged property the borrower purchased a property with a loan issued by the Seller, where the subsequent home was either more expensive than the prior home or the borrower took out a larger loan or further advance. The borrower used the existing Standard Repayment Vehicle Plan for the new loan or further advance issued by the Seller and made up the difference between the anticipated maturity value of the Standard Repayment Vehicle Plan and the higher loan amount with a repayment mortgage. The Seller do not verify that a borrower has any such Standard Repayment Vehicle Plan in place, although it is a condition of the loan that a Standard Repayment Vehicle Plan is in place and the borrower is reminded on an annual basis of this obligation.

During the life of a loan, a borrower may with the consent of the Seller change the type of the borrower's loan from the repayment type to the interest-only type or vice versa. If a borrower wishes to do so, the borrower must make a request to the Seller and the Seller will give the borrower written notice if it agrees to make such change.

The required monthly payment in connection with any Repayment Loans or Interest-Only Loans which are not Fixed Rate Loans may vary from month to month for various reasons, including changes in interest rates.

The Seller does not now (and in some cases cannot) take security over investment plans. The Seller only took an assignment of life policies as security for any loan at the request of the borrower or as a condition of sanction of the lending unit. See "*Risk Factors — Interest Only Loans*".

Partial Redemptions

Partial redemptions may be subject to early repayment charges, as described under — "*Early Repayment Charges*".

If a borrower under a loan makes a monthly payment which is less than the required monthly payment (an **Unauthorised Underpayment**), those Unauthorised Underpayments are treated by the Seller as arrears. If a borrower pays more than the required monthly payment, this will be credited to the relevant account when it is received and in the first instance set off against any existing arrears on the loan.

Early Repayment Charges

If a borrower wishes to repay the whole of an advance before the time agreed, the borrower may do so. A borrower may repay part of an advance before the time agreed provided such partial repayment is not prohibited under the terms of the loan. In the case of repayment in full, the borrower

must pay to the Seller all sums owing to it in respect of such advance by way of principal, interest and costs (including, if the terms of the advance so provide, an early repayment charge) together with the Seller's expenses reasonably and properly incurred in connection with such repayment. Not all products offered by the Seller carry an early repayment charge.

Repayment charges will be calculated on the basis provided under the relevant offer of advance in relation to a loan. In these cases, the Seller retains absolute discretion to waive or enforce early repayment charges in accordance with the Seller's policy from time to time. The amount of any early repayment charges which may become payable on the Loans that are sold to the Issuer will comprise Revenue Receipts.

Interest Payments and Setting of Interest Rates

Interest on the Loans in the Portfolio is computed on a daily basis. The Portfolio comprises Loans where interest is payable by the Borrower monthly in arrear. The balance on which the monthly interest charge is calculated is reset daily.

Each Loan which will comprise the Portfolio accrues interest at any time at a fixed or a variable rate.

Fixed Rate Loans provide that the Borrower pays interest on such Loan at a fixed rate of interest for the period specified in the offer of advance. At the end of that period, the interest rate generally reverts to the Long Term Rate.

Interest accrues on Long Term Rate Loans at a rate equal to the Long Term Rate applicable to each Loan. As at the date of this Prospectus, the Long Term Rate applicable to the relevant Loans in the Portfolio are between 2.19% to 3.79%.

Interest accrues on Discounted Rate Loans at varying margins (depending upon the product selected at the time) above or below the BoE Base Rate.

Interest accrues on Tracker Rate Loans including those on the Long Term Rate which is charged at varying margins above or below the BoE Base Rate (depending upon the product selected at the time). As at the date of this Prospectus, the BoE Base Rate applicable to the relevant Loans in the Portfolio is 1.5%.

Loans may combine one or more of the features listed in this section. For Loans with an interest rate that lasts for a limited period of time specified in the offer of advance, after the expiration of that period the interest rate adjusts to some other interest rate type or else it reverts to, or remains at, the Long Term Rate. The features that may apply to a particular loan are specified in the offer of advance.

Except in limited circumstances as set out in "*Summary of the Key Transaction Documents — The Administration Agreement — Undertakings by the Administrator*", the Administrator on behalf of the Issuer will be responsible for setting the applicable interest rate and margin on the relevant Loans in the Portfolio in accordance with the terms of each Loan.

Product Switches

From time to time a Borrower may request, or the Seller or the Administrator (on behalf of the Seller) may offer, in limited circumstances, a variation in the financial terms and conditions applicable to the Borrower's Loan. In addition, in order to promote the retention of borrowers, the Seller may periodically contact certain borrowers in respect of the Seller's total portfolio of outstanding residential mortgage loans and buy-to-let residential mortgage loans in order to encourage a borrower to review the Seller's other residential mortgage loans and buy-to-let residential mortgage loan products and to

discuss moving that borrower to an alternative mortgage product. Any such variation (subject to certain exceptions) is called a **Product Switch**.

A Loan which is subject to a Product Switch may remain in the Portfolio subject to the terms contained in the Mortgage Sale Agreement. See "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Product Switches*".

Arrears Capitalisation

From time to time, where a borrower has demonstrated a regular payment history following previous arrears, the Seller may capitalise any outstanding amounts in arrears. In those circumstances, the Seller will set the arrears tracking balance to zero and the related loan will no longer be considered to be in arrears. The outstanding balance will be required to be repaid over the remaining term of such loan although the Seller may agree, in exceptional circumstances, to extend the term of the loan. Where arrears are capitalised in relation to a Loan within the Portfolio, no extension will be made which results in the maturity date for that Loan exceeding the date which falls two years prior to the latest Final Maturity Date for the Notes.

Origination of the Loans

The Mortgages included in the Portfolio were all made not earlier than 1 November 2004 and on or before 28 November 2008 and the Seller derived its mortgage lending business at the relevant times from the following sources:

- intermediaries that included estate agents and independent financial advisors; and
- a centralised telephone-based lending operation (including applications received through the Seller's websites).

As at the date of this Prospectus, the Seller continues to derive their mortgage lending business from the sources outlined above.

Underwriting

The decision to offer a loan to a potential borrower is currently made by the Seller using a combination of credit scoring, which includes credit reference agency data and policy rule guidelines. These are either automated or considered by the Seller's associated underwriters and/or mandate holders located in one of its lending centres. Each associated underwriter and/or mandate holder must pass a formal training programme to gain the authority to approve mortgage loans. Various levels of authority have been established for the underwriters who approve mortgage loan applications. The levels are differentiated on a risk basis by applicant type (for example, employed or self-employed) product type sought and value of the loan. An underwriter wishing to move to the next level of authority must first demonstrate their competency at their current level and also undertake further training. The quality of underwriting decisions is also monitored on a regular basis.

Lending Criteria

Summary

The Loans included in the Initial Portfolio were originated according to the Seller's lending policies at the applicable time the Loan was offered. Whilst earlier policies differed in some detailed respects from the current policies, they were appropriate for a reasonable, prudent mortgage lender at the time.

Subject to the above, the lending criteria in the case of each Loan included in the Initial Portfolio as of the Closing Date were the same as or similar to the criteria described in this section (the **Lending Criteria**). The Seller retains the right to revise its respective Lending Criteria from time to time.

To obtain a loan, each prospective borrower (an **applicant**) completes an application form which includes information about the applicant's income, anticipated rental income (in respect of buy-to-let applications), current employment details, bank account information, current mortgage information, if any, and certain other personal information. Some of this information is then credit scored through the Seller's scorecard system, which process includes a credit reference agency search. The credit reference agency search is completed on applicant(s) in accordance with the Seller's agreed procedures including the searching of their current address and, if necessary, former addresses. This gives details of public information including any county court judgments and details of any bankruptcy as well as performance information on other credit commitments that are shared by other lenders in accordance with the Lending Industry's Principles of Data Reciprocity. Some of the factors currently used in making a lending decision are set out below.

Valuation

All properties have been valued on origination of each Loan in the Initial Portfolio through undertaking a standard valuation by a valuer approved by the Seller or, where appropriate, according to a methodology which would meet the standards of a reasonable, prudent mortgage lender and which has been approved by the Seller.

For buy-to-let applications where a full valuation is obtained, the valuer is asked to confirm what the likely rental income might be, that the property is in a suitable condition to let and in an area with demand for rental accommodation of this type.

In certain low loan-to-value cases, the Seller utilises Automated Valuation Methodology, whereby the property value is assessed utilising statistical data based on other similar properties in the locality.

Property Types

Properties may be either freehold, leasehold or (in Scotland) heritable or held under a long lease. In the case of leasehold properties including properties in Scotland held under a long lease, the unexpired portion of the lease must in most cases be at least 30 years at the maturity of the loan. However, some flexibility is allocated for prime locations in central London. The property must be solely used for residential or (in the case of buy-to-let residential mortgage loans) residential letting purposes (with extremely limited individual case exceptions) and must be in sound structural condition and repair or be capable of being put into such state. House boats, mobile homes and property on which insurance cannot be arranged are not acceptable. All persons who are to be owners or (in Scotland) heritable proprietors of the property on completion of the relevant Mortgage must be applicants.

A centrally controlled list of acceptable and unacceptable property types is held to determine quality.

Term of Loan

The minimum loan term is three years. There is no maximum term but loans normally must be repaid by the age of 70 years, subject to serviceability beyond normal retirement age. Serviceability beyond normal retirement age (65) is considered where the applicant is 60 or above at the time of application, or the term takes the applicant over 70 by final maturity. Serviceability evidence is required via future rental, pension and investment income. As a responsible lender, the Seller endeavours to ensure the repayment of a loan is affordable on a long-term basis. Any further advance will usually be required to be repaid within the existing term of the house purchase loan. If the borrower requests an increase

to this term, the loan must still be normally repaid prior to the age of 70 years subject to affordability and serviceability.

Age of Applicant

All applicants must be aged 18 or over. The maximum age limit is normally 70 years but this is subject to serviceability beyond normal retirement age as outlined in the paragraph above.

Status of Applicant

The maximum amount of aggregate loan(s) under a Mortgage Account is determined by a number of factors, including any rental income and affordability.

Owner occupied

In determining income, the Seller includes basic salary as primary income, along with allowances, mortgage subsidies, pensions, annuities and acceptable state benefits. Overtime, bonus and commissions will not be automatically included in income. In determining affordability, the Seller deducted the proposed mortgage payment (based on the RBS or NatWest Standard Variable Rate (whichever was the higher) on a capital and interest repayment method) existing personal loans, hire purchase agreements, child maintenance payments and 5% of outstanding credit card balances from the applicant(s) net monthly income. The remaining net free income needed to meet predetermined thresholds for loan(s) to be approved. All employed applicants needed to have a minimum employment history of at least six months in an existing job or a continuous period of at least six months within concurrent employment. The Seller currently verifies the applicant's income in all cases.

The Initial Portfolio will contain low loan to value (**LTV**) Loans (less than 75% LTV) which were processed under a "fast track" procedure where income will have been validated by a FSA authorised intermediary, and sample checked by the Seller.

Self-employed applicants must have been trading within that particular business for a minimum period of two years and provide appropriate financial data to support this. On determining this information, the Seller will assess whether or not the income declared is appropriate.

When there are joint applicants, the Seller has the option of using the main applicant's income as the primary income multiple and adding the second applicant's income to the income multiplier or combining both incomes and multiplying these jointly by an agreed policy factor. The Seller may exercise discretion within its Lending Criteria in applying those factors which are used to determine the maximum amount of loan(s). Accordingly, these parameters may vary for some loans. The following may be taken into consideration when exercising discretion: credit score passed, LTV, existing customer relationship, stability of employment, career prospects, affordability, additional income and security being offered.

In the second quarter of 2006, the Seller introduced a new approach for calculating maximum loan amounts based on borrower affordability for business sourced from third party intermediaries pursuant to which the more traditional approach of using salary multipliers (together with the Seller's requirements on minimum free income levels) was replaced with a new affordability calculation.

Buy-to-let

Affordability for buy-to-let lending is currently determined by ensuring that rental income exceeds notional loan interest calculated by using a nominal rate of 6.75% multiplied by 125%. Where this is

not met, personal income was permitted to cover the shortfall within the following parameters for branch originated loans including tele-sales:

Until the second quarter of 2008, gross annual income between £30,000 and £74,999 – minimum rental income 110% of the interest only payment, gross annual income £75,000 or more – minimum rental income 100% of the interest only payment.

From the second quarter of 2008 only the latter parameter applied in branches, all other parameters other than the 125% test were removed. Intermediary introduced business where the LTV was below 75.01% was accepted where rental covered notional interest by 110% and the applicant had an income greater than £40,000 pa.

Until the third quarter of 2007, shortfalls on the buy-to-let rental income test could be subsidised by free personal income. Since the first quarter of 2007 buy-to-let loans have not been marketed under the First Active brand, but the product may be re-introduced in the future.

In determining income, the Seller includes basic salary as primary income, along with allowances, mortgage subsidies, pensions, annuities and acceptable state benefits. Overtime, bonus and commissions will not be automatically included in income. In determining affordability, the Seller deducted existing mortgage and personal loans, hire purchase agreements, child maintenance payments, 5% of outstanding credit card balances and the difference in the rental income between 125% and the actual figure confirmed from the applicant(s) net monthly income. The remaining net free income must be sufficient to meet predetermined thresholds for loan(s) to be approved.

The Portfolio will contain low LTV Loans (less than 75% LTV) which were processed under a “fast track” procedure where income will have been validated by a FSA authorised intermediary, and sample checked by the Seller.

The following may be taken into consideration when exercising discretion: credit score passed, LTV, existing customer relationship, stability of employment, career prospects, affordability, additional income and security being offered.

Credit Search

A credit reference search is carried out as an integral part of credit scoring in respect of all applications. Applications may be declined where an adverse credit history is revealed (e.g., bankruptcy or sequestration, county court judgments, Scottish court decree for payment of defaults).

Other Credit History

Owner occupied income verification

For employed applicants, except where the applicant was permitted to self certify their income (this was withdrawn in third quarter 2004), proof of income is established as follows:

- For applications where (i) the LTV is less than or equal to 85 per cent.; (ii) the total loan amount is less than or equal to £500,000; and (iii) the credit scoring system issues an agreement in principle to the customer (Agreement In Principle), the customer is required to provide a bank statement, payslip or form P60 to verify their income or for existing bank customers bank records are referred to.
- For remaining applicants three months' personal bank statements are required.

- If an applicant's income cannot be easily verified from the bank statements provided, one of the applicant's last three months payslips, P60 or an employer's reference may be requested.

For self-employed applicants, except where the applicant was permitted to self certify their income, the applicant is required to provide proof of income as follows:

- For applications where (i) the LTV is less than or equal to 85 per cent.; (ii) the total loan amount is less than or equal to £500,000; and (iii) the credit scoring system issues an Agreement In Principle and the applicant is not an existing bank customer, the customer is required to provide either three months' personal bank statements or one year's accounts or one year's HM Revenue and Customs Tax Assessment or an Accountant's Certificate to verify income.
- Other applicants are required to provide three months' business bank statements, three months' personal bank statements and two years' other financial data.

Up until May 2006, the threshold for requiring bank statements was 75 per cent. LTV with the maximum loan amount being £350,000. A policy change was effected at that time raising the thresholds to 85 per cent. and £500,000 respectively.

Buy-to-let income verification

For applicants where rental income does not meet the notional loan interest coverage test referred to above, additional information is requested to verify other income as above.

The Seller retains the right to revise its Lending Criteria from time to time.

Scorecard

The Seller uses some of the above criteria and various other criteria to provide 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, and are consistent with the scorecards used for owner occupied residential mortgage lending. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to publicly available data and customer provided data to assess the likelihood of an account defaulting. In addition, for existing current account customers, behavioural data on their current account is taken into account in the credit score on initial and further lending decisions. The Seller has the discretion to decline an application where the credit score is passed but other adverse information is known. In addition, a declined credit score decision can be appealed by following a centrally determined appeals process. Instances of such appeals are few and monitored closely.

Sellers' Discretion to Lend Outside Lending Criteria

On a case-by-case basis, and within the underwriter levels of authority referred to above, the Seller may have determined that, based upon compensating factors, an applicant that did not strictly qualify under its Lending Criteria at that time warranted an underwriting exception. Compensating factors may be considered including, but not limited to, a low LTV ratio, overall affordability position and track record with the organisation.

Maximum LTV Ratio

For owner occupied loans the maximum current LTV ratio of Loans to be sold by the Seller to the Issuer is 90% (100% until the first quarter of 2008). At the date of this Prospectus, for loans of

£300,000 or less, the Seller may lend up to 95% of the improved valuation of the property (the original valuation plus the increase in value deriving from any improvements). For loans in excess of £300,000, the permissible LTV ratio decreases as the loan increases.

Borrowers normally are required to pay a higher lending charge (the HLC) to the Seller for each Mortgage Account where the aggregate of the outstanding principal balance of the relevant loan(s) at origination (excluding any capitalised HLC or booking fees and/or valuation fees) exceeds certain specified percentages. If the LTV ratio exceeds 90%, the borrower pays a HLC. In a number of cases HLC and/or legal, booking and valuation fees may be added to the loan, thereby increasing the LTV above 100%.

For buy-to-let loans, the maximum current LTV ratio of Loans to be sold by the Seller to the Issuer is normally 85%, but individual exceptions may be made to this, determined on a case by case basis and in appropriate circumstances. This is restricted to 65% for new build flats.

Buildings Insurance Policies

Insurance on the Property

All borrowers are required to have appropriate buildings insurance to cover the recommended reinstatement value of the property (as confirmed by a valuer approved by the Seller). All such buildings insurance policies must be held with a company registered with the Association of British Insurers. Where a loan exceeds £500,000 on an individual property, the Seller has its interest noted on the policy schedule.

When any claim arises or is made under any insurance policy relating to the mortgaged property, the Seller shall have the power and authority to settle and adjust with the insurers any question relating to such insurance. The Seller's receipt for any moneys receivable under any such policy shall be a sufficient discharge to the insurers. The Seller may in its discretion apply any such moneys in or towards the reinstatement of the mortgaged property or the redemption of the mortgage, and shall pay the surplus (if any) to the person entitled thereto.

Whenever any fire, life or other insurance of whatever kind is effected through the Seller's agency, all sums allowed to the Seller by way of commission or otherwise by the insurers shall belong absolutely to the Seller and it shall not be required to account therefor.

A borrower may apply for insurance when they make a mortgage application. If such an application is received, the Seller will pass the application to an affiliate, UK Insurance Limited, who will deal with the borrower and issue cover. UK Insurance Limited's registered number is 1179980 and its address is The Wharf, Neville Street, Leeds LS1 4AZ. The Seller has no involvement in the provision of such insurance other than passing on the borrower's initial application.

Household Contingency Policy

For loan amounts of under £1,500,000, the Seller is insured under a block policy which covers the value of the loan rather than the property (the **Household Contingency Policy**). The Household Contingency Policy provides cover up to £1,500,000 in any one claim and is subject to a maximum total claim of £5,000,000 in any one year. No material claims have been made for some time but it is envisaged that the amounts recovered under the policy would be generally used by the Seller to fund the reinstatement of the property or otherwise paid to the Seller to reduce the amount of the loan. The Seller will assign their rights under this policy to the Issuer for any Loan sold by it which is in the Initial Portfolio.

Selection of the Portfolio

The Seller's selected loans from the CMS system that, as of the Cut-Off Date (as defined in "*Characteristics of the Portfolio*"), had been provisionally identified to comprise the Initial Portfolio (the **Initial Provisional Portfolio**). The Seller sets exclusion criteria corresponding to informational requirements and relevant representations and warranties that the Seller would be required to make in the Mortgage Sale Agreement in relation to the Loans comprising the Initial Portfolio. The Initial Provisional Portfolio comprised all loans in the CMS system that were not excluded by these criteria up to the required amount.

The Seller further selected loans from the CMS system included in the Initial Provisional Portfolio that, as at 2 January 2009, were expected to comprise the Initial Portfolio (the **Actual Provisional Portfolio**), by randomly deselecting loans from the Initial Provisional Portfolio to the extent that the Initial Provisional Portfolio exceeded the target balance for the Actual Provisional Portfolio. The target balance for the Actual Provisional Portfolio was determined by a broad range of factors, including the principal amount of the Notes to be issued on the Closing Date and the prepayment rate of loans comprising the Initial Provisional Portfolio. The deselection was done randomly according to pre-agreed criteria designed to ensure that the characteristics of the Actual Provisional Portfolio did not differ materially from the characteristics of the Initial Provisional Portfolio as described in "*Characteristics of the Portfolio*" below.

A loan included within the Actual Provisional Portfolio will not be included in the Initial Portfolio if during the period from (and including) 2 January 2009 (but excluding) the Closing Date such loan is repaid in full. To compensate for this, the Pre-Closing Loan Amount will include an amount equal to the amounts received in respect of any such loans during the period from (and including) 2 January 2009 to (but excluding) the Closing Date.

CHARACTERISTICS OF THE PORTFOLIO

The statistical and other information contained in this section has been compiled by reference to the Initial Provisional Portfolio of £6,515,024,072 as at 5 December 2008 (the **Cut-off Date**). The Actual Provisional Portfolio of £6,388,768,760.62 as at 2 January 2009 was determined by the Seller in accordance with the procedures as described in "*The Loans – Selection of the Portfolio*" above.

The information contained in this section has not been updated to reflect any decrease in the size of the Actual Provisional Portfolio from that of the Initial Provisional Portfolio.

Except as otherwise indicated, these tables have been prepared using the outstanding principal balance as at the Cut-off Date. Columns may not add up to the total due to rounding.

As of the Cut-off Date, the Initial Provisional Portfolio had the following characteristics:

Aggregate Loan Balance (£)	6,515,024,072
No. of Loans	56,735
Largest Loan (£)	4,401,719
Smallest Loan (£)	1,012
Average Loan Balance (£)	114,833
Weighted Average Current LTV	64.55%
Weighted Average Seasoning (years)	1.9
Weighted Average Remaining Term (years)	19.3

Approximately 2.32 per cent. of the Loans comprising the Initial Provisional Portfolio are buy-to-let residential mortgage loans and approximately 97.68 per cent. of the Loans comprising the Initial Provisional Portfolio are residential mortgage loans.

Outstanding Principal Balances as at the Cut-off Date

The following table shows the range of outstanding balances of mortgage accounts (including capitalised interest, capitalised high LTV fees, booking fees and valuation fees) in the Initial Provisional Portfolio as at the Cut-off Date.

Distribution of Loans by Current Principal Outstanding (£)	Aggregate Outstanding Principal Balance (£)	% of Total Balance	No of Loans	% of Total No Loans
0 - 24,999	21,436,480	0.33	1,265	2.23
25,000 - 49,999	222,932,227	3.42	5,636	9.93
50,000 - 74,999	630,382,244	9.68	9,966	17.57
75,000 - 99,999	988,857,031	15.18	11,329	19.97
100,000 - 124,999	1,061,654,507	16.30	9,471	16.69
125,000 - 149,999	949,891,726	14.58	6,955	12.26
150,000 - 174,999	705,290,731	10.83	4,375	7.71
175,000 - 199,999	492,082,341	7.55	2,642	4.66
200,000 - 224,999	359,771,566	5.52	1,705	3.01
225,000 - 249,999	239,817,258	3.68	1,015	1.79
250,000 - 274,999	185,526,850	2.85	711	1.25
275,000 - 299,999	126,887,576	1.95	443	0.78
300,000 - 324,999	99,814,520	1.53	321	0.57
325,000 - 349,999	75,528,833	1.16	224	0.39
350,000 - 374,999	61,695,143	0.95	171	0.30
375,000 - 399,999	43,534,949	0.67	113	0.20
400,000 - 424,999	30,397,398	0.47	74	0.13
425,000 - 449,999	19,663,274	0.30	45	0.08
450,000 - 474,999	19,301,830	0.30	42	0.07
475,000 - 499,999	16,105,273	0.25	33	0.06
500,000 - 999,999	99,767,482	1.53	158	0.28
>= 1,000,000	64,684,833	0.99	41	0.07
Grand Total	6,515,024,072	100.00%	56,735	100.00%

The maximum, minimum and average outstanding balances of the Loans in the Initial Provisional Portfolio as of the Cut-off Date were:

Maximum Outstanding Balance	£4,401,719
Minimum Outstanding Balance	£1,012
Average Outstanding Balance	£114,833

Original Principal Balances

The following table shows the outstanding balance of mortgage accounts (including capitalised interest, capitalised high LTV fees, booking fees and valuation fees) in the Initial Provisional Portfolio as at the Cut-off Date by range of original balance on such mortgage accounts.

Distribution of Loans by Original Principal Balances (£)	Aggregate Outstanding Principal Balance (£)	% of Total Balance	No of Loans	% of Total No Loans
0 to 24,999	7,781,673	0.12	512	0.90
25,000 to 49,999	148,598,116	2.28	4,246	7.48
50,000 to 74,999	532,108,335	8.17	9,248	16.30
75,000 to 99,999	932,255,559	14.31	11,436	20.16
100,000 to 124,999	1,078,075,593	16.55	10,186	17.95
125,000 to 149,999	977,109,824	15.00	7,498	13.22
150,000 to 174,999	758,291,356	11.64	4,921	8.67
175,000 to 199,999	517,493,610	7.94	2,896	5.10
200,000 to 224,999	390,631,092	6.00	1,939	3.42
225,000 to 249,999	254,058,637	3.90	1,126	1.98
250,000 to 274,999	202,147,989	3.10	813	1.43
275,000 to 299,999	139,725,011	2.14	514	0.91
300,000 to 324,999	111,228,832	1.71	375	0.66
325,000 to 349,999	72,519,957	1.11	224	0.39
350,000 to 374,999	74,294,312	1.14	218	0.38
375,000 to 399,999	47,267,859	0.73	129	0.23
400,000 to 424,999	34,604,432	0.53	89	0.16
425,000 to 449,999	22,648,700	0.35	55	0.10
450,000 to 474,999	20,833,594	0.32	47	0.08
475,000 to 499,999	17,339,113	0.27	37	0.07
500,000 to 999,999	108,454,933	1.66	182	0.32
>= 1,000,000	67,555,545	1.04	44	0.08
Grand Total	6,515,024,072	100.00%	56,735	100.00%

The maximum, minimum and average original balances of the Loans in the Initial Provisional Portfolio as of the Cut-off Date were:

Maximum Original Balance	£4,390,000
Minimum Original Balance	£10,000
Average Original Balance	£120,954

Loan-to-Value Ratios as at the Cut-off Date

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, booking fees and valuation fees) in the Initial Provisional Portfolio as at the Cut-off Date divided by the valuation as at origination of the Loan or the most recent valuation thereof (including indexed valuations where applicable — see "*The Loans — Lending Criteria — Valuations*").

Distribution of Loans by Current Loan-to-Value Ratios	Aggregate Outstanding Principal Balance (£)	% of Total Balance	Number of Loans	% of Total Balance
0.01% - 10%	13,436,615	0.21	684	1.21
10.01% - 20%	89,856,929	1.38	2,057	3.63
20.01% - 30%	245,267,141	3.76	3,823	6.74
30.01% - 40%	477,419,156	7.33	5,777	10.18
40.01% - 50%	720,073,588	11.05	7,344	12.94
50.01% - 60%	930,628,078	14.28	7,994	14.09
60.01% - 70%	1,184,353,727	18.18	8,950	15.78
70.01% - 80%	1,194,117,623	18.33	8,604	15.17
80.01% - 90%	1,122,030,120	17.22	7,798	13.74
90.01% - 95%	340,491,137	5.23	2,325	4.10
95.01% - 100%	176,111,379	2.70	1,224	2.16
>100.01%	21,238,579	0.33	155	0.27
Grand Total	6,515,024,072	100.00%	56,735	100.00%

The maximum, minimum and weighted average LTV ratios as at the Cut-off Date of the aggregate of loans in the mortgage accounts (including capitalised interest, capitalised high LTV fees, booking fees and valuation fees) in the Initial Provisional Portfolio were:

Maximum Current LTV	116.45%
Minimum Current LTV	0.20%
Weighted Average Current LTV	64.55%

Geographical Distribution of Mortgaged Properties

The following table shows the distribution of Mortgaged Properties securing the Loans in the Initial Provisional Portfolio throughout England, Wales and Scotland as at the Cut-off Date. No such properties are situated outside England, Wales or Scotland. The Seller's lending criteria and current credit scoring tests do not take into account the geographical location of the property securing a loan.

Region	Aggregate Outstanding Principal Balance (£)	% of Total Balance	No of Loans	% of Total No Loans
East Anglia	305,723,162	4.69	2,792	4.92
East Midlands	372,421,660	5.72	3,657	6.45
North	282,337,193	4.33	3,082	5.43
North West	644,862,686	9.90	6,477	11.42
Scotland	530,491,975	8.14	5,962	10.51
South East incl. London	2,577,845,621	39.57	17,433	30.73
South West	569,015,993	8.73	4,911	8.66
Wales	225,541,142	3.46	2,362	4.16
West Midlands	490,717,095	7.53	4,694	8.27
Yorks and Humberside	516,067,545	7.92	5,365	9.46
Grand Total	6,515,024,072	100.00%	56,735	100.00%

Seasoning of Loans

The following table shows the number of years since the date of origination of the initial advance in respect of a Loan in the Initial Provisional Portfolio as at the Cut-off Date.

Distribution by Seasoning of Loans (years)	Aggregate Outstanding Principal Balance (£)	% of Total Balance	No of Loans	% of Total No Loans
0.00 - 0.49	79,928,819	1.23	512	0.90
0.50 - 0.99	1,273,185,241	19.54	8,542	15.06
1.00 - 1.49	1,627,234,617	24.98	12,517	22.06
1.50 - 1.99	666,612,314	10.23	5,554	9.79
2.00 - 2.49	1,212,944,220	18.62	10,889	19.19
2.50 - 2.99	517,406,859	7.94	5,494	9.68
3.00 - 3.49	689,883,657	10.59	7,848	13.83
3.50 - 3.99	434,078,957	6.66	5,229	9.22
4.00 - 4.49	13,749,389	0.21	150	0.26
4.50 - 4.99	0	0.00	0	0.00
Grand Total	6,515,024,072	100.00%	56,735	100.00%

The forecast maximum, minimum and weighted average seasoning of the Loans in the Initial Provisional Portfolio as at the Cut-off Date were:

Maximum Seasoning	4.1 years
Minimum Seasoning	0.0 years
Weighted Average Seasoning	1.9 years

Years to maturity of Loans

The following table shows the number of remaining years of the term of the initial loan in a mortgage account in the Initial Provisional Portfolio as at the Cut-off Date.

Distribution by Years to Maturity of Loans (years)	Aggregate Outstanding Principal Balance (£)	% of Total Balance	No of Loans	% of Total No Loans
0 - 4.99	88,508,013	1.36	1,573	2.77
5 - 9.99	428,967,690	6.58	5,333	9.40
10 - 14.99	896,013,976	13.75	9,047	15.95
15 - 19.99	1,834,439,761	28.16	15,965	28.14
20 - 24.99	2,510,230,398	38.53	18,926	33.36
25 - 29.99	560,217,843	8.60	4,357	7.68
30 >	196,646,392	3.02	1,534	2.70
Grand Total	6,515,024,072	100.00%	56,735	100.00%

The maximum, minimum and weighted average remaining years of the term of the initial loans in the mortgage accounts in the Initial Provisional Portfolio as at the Cut-off Date was:

Maximum Remaining Term	47.9 years
Minimum Remaining Term	0.0 years
Weighted Average Remaining Term	19.3 years

Purpose of Loan

The following table shows whether the purpose of the initial loan in a mortgage account in the Initial Provisional Portfolio on origination was to finance the purchase of a property or to remortgage a property already owned by the borrower.

Purpose of Loan	Aggregate Outstanding Principal Balance (£)	% of Total Balance	No of Loans	% of Total No Loans
House Purchase	767,431,903	11.78	6,105	10.76
Remortgage	5,703,923,533	87.55	50,087	88.28
Equity Release	43,668,637	0.67	543	0.96
Grand Total	6,515,024,072	100.00%	56,735	100.00%

As at the Cut-off Date, the average balance of Loans in the Initial Provisional Portfolio used to finance the purchase of a property was £125,705 and the average balance of Loans in the Initial Provisional Portfolio used to remortgage a property already owned by the borrower was £113,880.

Origination Channel

Since September 2006 the First Active UK brand has been focused on remortgages sold through the intermediary channel. During 2008, about 90% of all applications have been sourced through intermediaries, with the remainder primarily sourced via telephone originations.

Principal Payment Type	Aggregate Outstanding Principal Balance (£)	% of Total Balance	No of Loans	% of Total No Loans
Mixed	1,199,982,411	18.42	9,961	17.56
Interest Only	1,330,355,831	20.42	8,364	14.74
Repayment	3,984,685,830	61.16	38,410	67.70
Grand Total	6,515,024,072	100.00%	56,735	100.00%

As at the Cut-off Date, the average balance of Interest Only and Repayment Loans in the Initial Provisional Portfolio was £159,057 and £103,741 respectively.

Distribution of Fixed Rate Loans

As at the Cut-off Date, approximately 60.5% by value of the Loans in the Initial Provisional Portfolio were Fixed Rate Loans. The following tables show the distribution of Fixed Rate Loans by their fixed rate of interest as at such date, and the year in which the Loans cease to bear their current fixed rate of interest.

Fixed Rate Loans remain at the relevant fixed rate for a period of time as specified in the offer conditions, after which they move to a variable rate or some other rate as specified in the offer conditions.

Distribution of Fixed Rate Loans by Interest Rates	Aggregate Outstanding Principal Balance (£)	% of Total Balance	Number of Loans	% of Total No Loans
4.01% - 5.00%	578,083,238	14.66	6,008	17.90
5.01% - 6.00%	3,186,351,367	80.82	25,859	77.06
6.01% - 7.00%	177,749,327	4.51	1,689	5.03
7.01% - 8.00%	344,228	0.01	3	0.01
Grand Total	3,942,528,160	100.00%	33,559	100.00%

Distribution of Loans by Fixed Expiry Year	Aggregate Outstanding Principal Balance (£)	% of Total Balance	Number of Loans	% of Total No Loans
2009	2,222,366,046	56.37	17,503	52.16
2010	758,083,195	19.23	7,042	20.98
2011	554,464,521	14.06	5,525	16.46
2012	183,064,848	4.64	1,800	5.36
2013	224,549,550	5.70	1,689	5.03
Grand Total	3,942,528,160	100.00%	33,559	100.00%

County Court Judgments

The following table shows the Loans in the Initial Provisional Portfolio where a county court judgment has been ordered against the Borrower as at the Cut-off Date.

No. of Judgments	Aggregate Outstanding Principal Balance (£)	% of Total Balance	Number of Loans	% of Total No Loans
0	6,407,241,788	98.35	55,746	98.26
1	12,341,460	0.19	109	0.19
2	5,075,816	0.08	60	0.11
3	74,331	0.00	1	0.00
4	3,136,115	0.05	30	0.05
5	186,627	0.00	4	0.01
6	1,018,946	0.02	12	0.02
7	74,455	0.00	1	0.00
8	38,816	0.00	1	0.00
9	0	0.00	0	0.00
10	19,045	0.00	1	0.00
11	0	0.00	0	0.00
12	123,147	0.00	2	0.00
Not Recorded	85,693,526	1.32	768	1.35
Grand Total	6,515,024,072	100.00%	56,735	100.00%

County Court Judgments in the last 12 months

County Court Judgments in the last 12 months	Balance (£)	% of Balance	No. of Loans	% of Loans
Older than 12 months	6,514,896,012	100.00	56,734	100.00
Within 12 months	128,061	0.00	1	0.00
Total	6,515,024,072	100.00%	56,735	100.00%

Self-Certifieds

Self-Certifieds	Balance (£)	% of Balance	No. of Loans	% of Loans
No	6,515,024,072	100.00	56,735	100.00
Total	6,515,024,072	100.00%	56,735	100.00%

Bankrupt

The following table shows the Loans in the Initial Provisional Portfolio where the Borrower has become Bankrupt prior to the Cut-off Date.

Bankrupt	Aggregate Outstanding Principal Balance (£)	% of Total Balance	Number of Loans	% of Total No Loans
No	6,429,085,063	98.68	55,966	98.64
Yes	456,442	0.01	4	0.01
Not Recorded	85,482,567	1.31	765	1.35
Grand Total	6,515,024,072	100.00%	56,735	100.00%

Interest Rate

The following table shows the current interest rates of the Loans in the Initial Provisional Portfolio.

Current Interest Rate	Balance (£)	% of Balance	No. of Loans	% of Loans
<= 4.00%	2,555,911,366	39.23	22,970	40.49
4.01% - 4.50%	16,517,839	0.25	205	0.36
4.51% - 5.00%	578,083,238	8.87	6,008	10.59
5.01% - 5.50%	758,389,889	11.64	6,977	12.30
5.51% - 6.00%	2,428,028,185	37.27	18,883	33.28
6.01% - 6.50%	171,856,513	2.64	1,635	2.88
6.51% - 7.00%	5,892,814	0.09	54	0.10
7.01% - 7.50%	87,542	0.00	1	0.00
7.51% - 8.00%	256,685	0.00	2	0.00
Grand Total:	6,515,024,072	100.00%	56,735	100.00%

Maximum Current Interest Rate	7.64%
Minimum Current Interest Rate	1.99%
Weighted Average Current Interest Rate	4.51%

Valuation

Valuation	Balance (£)	% of Balance	No. of Loans	% of Loans
£0 - £24,999	62,392	0.00	4	0.01
£25,000 - £49,999	3,461,775	0.05	114	0.20
£50,000 - £74,999	48,129,188	0.74	1,092	1.92
£75,000 - £99,999	230,132,533	3.53	3,921	6.91
£100,000 - £124,999	458,693,157	7.04	6,290	11.09
£125,000 - £149,999	694,499,392	10.66	7,984	14.07
£150,000 - £174,999	792,385,034	12.16	8,093	14.26
£175,000 - £199,999	717,202,871	11.01	6,554	11.55
£200,000 - £224,999	618,629,447	9.50	5,282	9.31
£225,000 - £249,999	506,069,449	7.77	3,872	6.82
£250,000 - £274,999	456,398,672	7.01	3,358	5.92
£275,000 - £299,999	318,797,567	4.89	2,115	3.73
£300,000 - £324,999	287,973,881	4.42	1,855	3.27
£325,000 - £349,999	179,539,916	2.76	1,052	1.85
£350,000 - £374,999	190,973,454	2.93	1,094	1.93
£375,000 - £399,999	124,240,362	1.91	651	1.15
£400,000 - £424,999	143,067,319	2.20	725	1.28
£425,000 - £449,999	81,157,444	1.25	384	0.68
£450,000 - £474,999	90,868,449	1.39	441	0.78
£475,000 - £499,999	56,102,282	0.86	249	0.44
£500,000 - £999,999	386,566,335	5.93	1,432	2.52
£1,000,000 - £1,999,999	79,324,283	1.22	138	0.24
£2,000,000 - £2,999,999	16,276,804	0.25	17	0.03
£3,000,000 - £3,999,999	15,975,507	0.25	11	0.02
£4,000,000 - £4,999,999	6,665,172	0.10	4	0.01
£5,000,000 - £5,999,999	3,433,967	0.05	1	0.00
£6,000,000 - £6,999,999	4,401,719	0.07	1	0.00
>£7,000,000	4,005,704	0.06	1	0.00
Total:	6,515,024,072	100.00%	56,735	100.00%

Maximum Valuation	£8,000,000
Minimum Valuation	£17,000
WA Valuation	£286,924

Interest Rate Type

Interest Rate Type	Balance (£)	% of Balance	No. of Loans	% of Loans
Discounted	1,069,320,391	16.41	8,175	14.41
Fixed (going to Tracker)	3,942,528,160	60.51	33,559	59.15
Tracker	1,503,175,521	23.07	15,001	26.44
Total	6,515,024,072	100.00%	56,735	100.00%

Property Occupancy

Property Occupancy	Balance (£)	% of Balance	No. of Loans	% of Loans
Owner Occupied	6,394,642,341	98.15	55,418	97.68
Buy-To-Let	120,381,732	1.85	1,317	2.32
Total	6,515,024,072	100.00%	56,735	100.00%

Loan Status

Loan Status	Balance (£)	% of Balance	No. of Loans	% of Loans
Current	6,342,634,746	97.35	55,281	97.44
In Arrear	172,389,327	2.65	1,454	2.56
Total	6,515,024,072	100.00%	56,735	100.00%

Pre or Post 2008 Origination

Pre- or Post 2008 Origination	Balance (£)	% of Balance	No. of Loans	% of Loans
Originated pre 2008	5,295,494,954	81.28	48,646	85.74
Originated in 2008	1,219,529,119	18.72	8,089	14.26
Total	6,515,024,072	100.00%	56,735	100.00%

CHARACTERISTICS OF THE RBSG MORTGAGE BOOK

The Loans and Related Security in the Portfolio have been drawn from the First Active UK brand traditional residential and buy-to-let mortgage book held on the CMS system.

At 30 June 2008, RBSG had an estimated 6% market share of the UK mortgage market with the NatWest brand accounting for an estimated 3% market share and the RBS brand an estimated 2%. The total consolidated value of the RBSG Principal Brands Mortgage Book as at 30 June 2008 was £53.8 billion including mortgage loans held on other systems.

The First Active UK Mortgage Book constitutes all Fixed Rate Loans, Long Term Rate Loans, Discounted Rate Loans and Tracker Loans branded as such on the CMS system. All mortgages written on the MM, GMS and Caustic systems are excluded from the First Active UK Mortgage Book.

LOAN ADMINISTRATION

The Administrator

Under the Administration Agreement, RBS will be appointed as the Administrator of the Loans together with their Related Security.

This section describes the Administrator's administration procedures based on the current RBS Mortgage Servicing Policies. The Administrator will administer the relevant Loans and their Related Security in the Portfolio in accordance with its policies applicable from time to time, but subject to the terms of the Administration Agreement. For a description of the Administrator's obligations under the Administration Agreement, see "*Summary of the Key Transaction Documents — The Administration Agreement*".

Administration Procedures

Administration procedures include:

- Managing of Mortgage Accounts in arrears;
- Issuing redemption statements, processing lump sum payments and early redemption fees;
- Collecting and distributing title deeds and any supporting documents as well as storage of deeds;
- Processing transfers of titles, notices of death, forfeitures of leases, sale and exchange of land, account conversions, term amendments, deed amendments, compensation and enforcement notices;
- Dealing with all types of transactions posting and refunding fees, setting up direct debits, payment date changes and payment holidays;
- Dealing with all customer correspondence on other aspects of mortgages once the loan is drawn down, including changes in customer details and changes on the customer mortgage, i.e. product, repayment etc; and
- Notifying borrowers of changes to interest rates applicable to Stepped Rate and Long Term Rate Loans, due to a change in the BoE Base Rate.

Payment of Interest and Principal

Pursuant to the terms and conditions of the loans, borrowers must pay the monthly amount required under the terms and conditions of the loans on or before each monthly instalment due date, within the month they are due. Interest accrues in accordance with the terms and conditions of each loan and is collected from borrowers monthly.

As regards Fixed Rate Loans, the borrower will continue to pay interest at the relevant fixed rate until the relevant fixed rate period ends in accordance with the borrower's offer conditions. After that period ends, and unless the borrower is offered (and it accepts) another option, interest will be payable at the Long Term Rate applicable to that Loan.

Payments are monthly in arrear and payments of all Loans are payable in the month that they are due.

Collections

Payments by Borrowers in respect of amounts due under the Loans will be made into the relevant non-interest bearing collection account held by the Seller (the **Seller Collection Accounts**) at the Seller Collection Account Bank. Amounts credited to the Seller Collection Accounts from (and including) 2 January 2009 to (but excluding) the Closing Date that (a) relate to the Loans comprising the Initial Portfolio and (b) relate to loans that comprised the Actual Provisional Portfolio, but do not comprise the Initial Portfolio (the **Pre-Closing Loan Amount**) will be identified on the Closing Date and the Seller will transfer, from a separate account held by the Seller, an amount equal to the Pre-Closing Loan Amount into the GIC Account on the Closing Date. Amounts credited to the Seller Collection Accounts from (and including) the Closing Date that relate to the Loans will be identified on a daily basis (each such aggregate daily amount, a **Daily Loan Amount**) and the Seller will transfer, from a separate account held by the Seller, an amount equal to the Daily Loan Amount into the GIC Account on the next Business Day after that Daily Loan Amount is identified as received in the Seller Collection Accounts. The Seller will declare a trust over its Seller Collection Accounts (the **Seller Collection Accounts Declaration of Trust** in favour of itself and the Issuer as beneficiaries absolutely. The Issuer's share of the capital of the trust (the **Issuer Trust Share**) on any date shall be in an amount equal to the aggregate of the Pre-Closing Loan Amount and the Daily Loan Amounts paid into the Seller Collection Accounts from (and including) the Closing Date to (and including) such date less an amount equal to the payments made by the Seller into the GIC Account from (and including) the Closing Date to (and including) such date. The Seller's share of the capital of the trust (each, a **Seller's Trust Share**) on any date shall be in an amount equal to the balance of the Seller Collection Accounts less the Issuer Trust Share.

Borrowers are required to make payments by direct debit or cheque unless otherwise agreed. However, direct debits may be returned unpaid up to three Business Days after the due date for payment and, under the Direct Debit Indemnity Scheme, a borrower may make a claim at any time to his or her bank for a refund of direct debit payments. Similarly, cheques may be returned unpaid by the borrower's bank.

In each case, an Administrator will be permitted to reclaim from the GIC Account the corresponding amounts previously credited. In these circumstances, the usual arrears procedures described in "*Characteristics of the RBSG Principal Brand Traditional Mortgage Book — Arrears and default procedures*" will be taken.

Arrears and Default Procedures

Borrowers who become one payment in arrears are subject to collection activity from one of the RBSG's Collections Centres.

Borrowers who are relationship managed are subject to collection activity from one of RBSG's Personal Lending Units or Business Account Centres. RBS customers who are not relationship managed but who maintain a stand alone mortgage or their main banking connection with RBS or NatWest respectively are subject to collection activity by one of RBSG's Collection Centres. Customer communications are via letter and telephone with the aim of agreeing and executing an appropriate arrangement to rectify the arrears position. A loan is identified as being in default when the account is three months in arrears and the management of such account has been transferred to RBSG's recoveries department, Credit Management Services (**Credit MS**). Credit MS endeavours to reach an amicable agreement with the borrower by going through a collections strategy that is best suited to a borrower's circumstances and that will maximise collections and minimise losses.

Attempts will be made to establish an arrangement with the borrower for clearance of the arrears in line with the individual circumstances of the borrower. Such arrangements may include reduced

payments for an agreed short time period, borrowing restructuring or refinancing or assisted voluntary sale.

Changes to collections and recoveries processes were implemented in second quarter 2008. For example, high risk cases are subject to more intense activity with lower risk cases being given more flexibility to establish an arrangement for clearance of arrears. Additionally, new processes have been established in Credit MS for high value cases over £400,000 and Buy to Let cases.

Where it has not been possible to reach an acceptable arrangement with the borrower for the clearance of his or her arrears, the matter is referred to a solicitor to undertake litigation to obtain an order for possession of the mortgaged property. Where appropriate, solicitors may be required to negotiate with borrowers to reach agreement for clearance of outstanding arrears with, or without, the implementation of a court order. No settlement can be agreed by a solicitor without clearing the proposal with the relevant team within the Administrator.

If an order for possession of the mortgaged property is obtained, then a warrant will be obtained to enforce that order. At this stage, an offer from the borrower to clear the arrears may still be accepted.

If there is default of an order suspended upon payments to clear the arrears, a warrant may be obtained to enforce the order and an eviction will be arranged by officers of the court. Credit MS has the authority either to accept or appeal a court order in respect of a defaulted mortgage.

If at any stage a borrower can reach an amicable settlement with the Seller and has made six fully restructured payments, then a new refinance agreement is effected, the mortgage borrowing is capitalised (including remaining arrears) and the mortgage account will no longer be considered to be in arrears.

If a property in possession has been sold and there is a shortfall, there will be on-going action to attempt to recover the amount of any remaining borrowing. In some cases, the shortfall will be written off where it is considered that any further action is unlikely to produce any sums in reduction of the shortfall or is too expensive compared with the amount of the shortfall or where there is no legal right to recover further amounts (e.g. following bankruptcy of the borrower).

On 1 December 2008 RBS announced a six months grace period for customers with mortgage arrears. Pursuant to the announcement RBS will not initiate repossession proceedings for a full six months after a customer first falls into arrears. The commitment not to initiate enforcement proceedings will remain in place until at least the end of 2009.

Loan Documentation

All application forms and supporting documentation are stored either as electronic images or in original form at an off-site storage facility operated by Iron Mountain Limited. All deeds relating to the Properties are currently stored at a secure facility operated by Iron Mountain Limited. These facilities also currently store deeds relating to properties not included in the Portfolio.

English Loans

Prior to 13 October 2003, title to the land in England and Wales was established by a land certificate or, in the case of land which is subject to a mortgage or charge, a charge certificate. 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.

Scottish Loans

Prior to 22 January 2007, title to land in Scotland was evidenced in the case of land registered in the Sasines Register by a prescriptive progress of title deeds or in respect of land registered in the Land Register of Scotland, a land certificate. In the case of land which is registered and subject to a standard security, a charge certificate was issued. Pursuant to the Land Registration (Scotland) Rules 2006, which came into force on 22 January 2007, paper copies of both the land and charge certificates are only issued when there has been a transfer of title to the land. The title sheet held by the Keeper of the Registers of Scotland is now evidence of registered title in Scotland.

UNITED KINGDOM TAXATION

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and HM Revenue and Customs practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. Each prospective purchaser is urged to consult its own tax advisers about the tax consequences under its circumstances of purchasing, holding and selling the Notes under the laws of the United Kingdom its political subdivisions and any other jurisdiction in which the prospective purchaser may be subject to tax.

Interest on the Notes

Payment of Interest on the Notes

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange for such purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax (the **Quoted Eurobond Exemption**).

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Apart from those instances outlined above and any other exceptions in sections 934 to 937 of the Act, in other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member

state or to certain limited types of entities established in that other member state. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

Further United Kingdom Income Tax Issues

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

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable) in which case tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

Other United Kingdom Tax Payers

Taxation of Chargeable Gains

The Notes will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Noteholder of a Note will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

Accrued Income Scheme

On a disposal of Notes by a Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act if that Noteholder is resident or ordinarily resident in the United Kingdom

for tax purposes or carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable.

Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No United Kingdom stamp duty or SDRT will be payable on the issue or transfer of the Notes (whether in global or definitive form).

SUBSCRIPTION AND SALE

RBS (as **Subscriber**) will, pursuant to a subscription agreement dated on or about the Closing Date amongst itself, the Lead Manager, the Seller and the Issuer (the **Subscription Agreement**), agree with the Issuer (subject to certain conditions) to:

- (1) subscribe and pay for (a) the Class A1 Notes at the issue price of 100% of the aggregate principal amount of the Class A1 Notes, (b) the Class A2 Notes at the issue price of 100% of the aggregate principal amount of the Class A2 Notes, (c) the Class A3 Notes at the issue price of 100% of the aggregate principal amount of the Class A3 Notes, (d) the Class A4 Notes at the issue price of 100% of the aggregate principal amount of the Class A4 Notes, (e) the Class A5 Notes at the issue price of 100% of the aggregate principal amount of the Class A5 Notes, (f) the Class A6 Notes at the issue price of 100% of the aggregate principal amount of the Class A6 Notes, (g) the Class A7 Notes at the issue price of 100% of the aggregate principal amount of the Class A7 Notes, (h) the Class A8 Notes at the issue price of 100% of the aggregate principal amount of the Class A8 Notes, (i) the Class A9 Notes at the issue price of 100% of the aggregate principal amount of the Class A9 Notes, (j) the Class A10 Notes at the issue price of 100% of the aggregate principal amount of the Class A10 Notes, (k) the Class A11 Notes at the issue price of 100% of the aggregate principal amount of the Class A11 Notes, and (l) the Class A12 Notes at the issue price of 100% of the aggregate principal amount of the Class A12 Notes; and
- (2) subscribe and pay for the Class Z Notes at the issue price of 100% of the aggregate principal amount of the Class Z Notes.

The Class Z Definitive Notes will be deposited with the Custodian on the Closing Date.

Other than admission of the Notes to the Official List and the admission to trading on the London Stock Exchange's Regulated Market, no action will be taken by the Issuer, the Subscriber or the Lead Manager, which would or is intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

The Subscriber will undertake not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Prospectus or any other material relating to the Notes, in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

The Subscriber will agree that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account

or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. See "*Transfer Restrictions and Investor Representations*", below.

United Kingdom

The Lead Manager and the Subscriber will each represent, warrant and agree with the Issuer, *inter alia*, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General

The Subscriber will undertake that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

Offers and Sales by the Initial Purchasers

The Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to such registration requirements. Accordingly, the Notes are being, offered and sold in offshore transactions pursuant to Regulation S.

Investor Representations and Restrictions on Resale

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed as follows:

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided, that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (c) the Issuer, the Registrar, the Lead Manager and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

The Notes will bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) OTHERWISE PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN

ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES."

Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.

GENERAL INFORMATION

1. It is expected that the admission of the Notes to the Official List and the admission of the Notes to trading on the London Stock Exchange's Regulated Market will be granted on or around 29 January 2009. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in Sterling and for delivery on the third working day after the date of the transaction.
2. None of the Issuer, Holdings or the Post-Enforcement Call Option Holder is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, Holdings or the Post-Enforcement Call Option Holder (respectively) is aware), since 21 November 2008 (being the date of incorporation of the Issuer, Holdings and the Post-Enforcement Call Option Holder) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer, Holdings or the Post-Enforcement Call Option Holder (as the case may be).
3. No statutory or non-statutory accounts within the meaning of Section 434 of the Companies Act 2006 in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the London Stock Exchange's Regulated Market, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.
4. For so long as the Notes are admitted to the Official List and to trading on The London Stock Exchange's Regulated Market, the Issuer shall maintain a Paying Agent in the United Kingdom.
5. Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business other than the Transaction Documents.
6. Since 21 November 2008 (being the date of incorporation of the Issuer, Holdings and the Post-Enforcement Call Option Holder), there has been (a) no material adverse change in the financial position or prospects of the Issuer, Holdings or the Post-Enforcement Call Option Holder and (b) no significant change in the financial or trading position of the Issuer, Holdings or the Post-Enforcement Call Option Holder.
7. The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 21 January 2009.
8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN Numbers and Common Codes:

Sub-class of Notes	ISIN	Common Code
Class A1	XS0409963203	040996320
Class A2	XS0409965323	040996532
Class A3	XS0409974408	040997440
Class A4	XS0409975983	040997598

Sub-class of Notes	ISIN	Common Code
Class A5	XS0409977765	040997776
Class A6	XS0409979118	040997911
Class A7	XS0409980124	040998012
Class A8	XS0409981445	040998144
Class A9	XS0409982849	040998284
Class A10	XS0409983490	040998349
Class A11	XS0409985271	040998527
Class A12	XS0409985438	040998543
Class Z	N/A	N/A

9. From the date of this Prospectus and for so long as the Notes are listed on the London Stock Exchange's Regulated Market, copies of the following documents may be inspected at the offices of the Principal Paying Agent during usual business hours, on any weekday (public holidays excepted):
- (a) the Memorandum and Articles of Association of each of the Issuer, Holdings and the Post-Enforcement Call Option Holder;
 - (b) copies of the following documents:
 - (i) the Trust Deed;
 - (ii) the Agency Agreement;
 - (iii) the Deed of Charge; and
 - (iv) the Master Definitions and Construction Schedule.
10. The Issuer confirms that the assets backing the issue of the Notes, taken together with the other arrangements to be entered into by the Issuer on the Closing Date (including those described in "*Credit Structure*" above), have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However, investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Consequently investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto (if, any). The Issuer does not intend to issue any post issuance transaction information.

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REGISTERED OFFICE OF THE ISSUER

Greenock Funding No. 4 plc
c/o Structured Finance Management Limited
35 Great St Helen's
London
EC3A 6AP

ADMINISTRATOR

The Royal Bank of Scotland plc
280 Bishopsgate
London
EC2M 4RB

NOTE TRUSTEE AND SECURITY TRUSTEE

**AGENT BANK, PRINCIPAL PAYING AGENT,
AND CUSTODIAN**

BNY Corporate Trustee Services Limited
One Canada Square
E14 5AL

The Bank of New York Mellon
One Canada Square
E14 5AL

REGISTRAR

The Bank of New York (Luxembourg) S.A
Aerogolf Center, 1A, Hoehenhof
L-1736 Senningerberg

LEGAL ADVISERS TO THE LEAD MANAGER

(as to English law)
Allen & Overy LLP
One Bishops Square
London E1 6AD

LEGAL ADVISERS TO THE ISSUER, THE SELLER AND THE ADMINISTRATOR

(as to English law)
Linklaters LLP
One Silk Street
London EC2Y 8HQ

LEGAL ADVISERS TO THE NOTE TRUSTEE AND THE SECURITY TRUSTEE

(as to English law)
Allen & Overy LLP
One Bishops Square
London E1 6AD

LEGAL ADVISERS TO THE ISSUER, THE SELLER AND THE ADMINISTRATOR

(as to Scots law)
Dundas and Wilson CS LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN

AUDITORS OF THE ISSUER

Deloitte LLP
2 New Street Square
London EC4A 3BZ